CHAPTER IV

Uncommon Marketplaces

The Concept of the Union

When Americans try to picture the European Union they may imagine a vague outline of a European marketplace, but for most it is easier to recall a favorite city. Some are aware of how and why the EU was created, but there is little public discussion of its political and economic potential. In one form or another, however, the EU is here to stay. This is why American businesses, as well as American government officials, have established working relationships with different EU institutions. Essential to making these relationships work well is knowledge of the forces that motivated creation of the EU. This story neither begins nor ends with the defeat of Nazi Germany. Its roots are buried in the noble loam of the essential difference.

In Europe World War II did not end in 1945. Hostilities, in an unconventional sense, continued until 1989. It was Europe's Fifty Years' War, and one day historians may call it that. As long as the continent remained divided Europe was not whole, but existed as a *provisorium*. The first part of the war was conflict between 1939 and 1945. The second part took place between 1945 and 1989. It was a battle for the hearts and minds of Europeans fought primarily with political and economic weapons. It was baptized the Cold War, but it also had two distinct military elements. One was the nuclear arms race. The other was the protection provided by American military power for the arena in which the battle was being fought. That power preserved both the peace and freedom of Western

Europe, until the war finally ended with the opening of the Berlin Wall in 1989 and with the collapse of communism in 1990.

One of the characteristics of the second part of the war was *how* the Europeans expressed themselves vis-à-vis America on economic, military, and political matters. Their views were often enough straightforward, from time to time argumentative, and in the case of France, sometimes openly confrontational, following creation of the Fifth Republic in 1958. French president Charles de Gaulle withdrew France from NATO in 1966 and alliance headquarters were moved to Brussels. Today NATO's former buildings are part of the University of Paris.

This example of independence was not an isolated one. In the early 1960s, European countries, with France playing a leading role, began to demand redemption of *Eurodollars*—accumulated as a consequence of American postwar European recovery aid under the Marshall Plan—in exchange for American gold. By 1971 the gold supply had dwindled to such a point that the U.S. Treasury was bankrupt, in terms of the amount of bullion left in its vaults as backing for the total amount of paper dollars in circulation. The result was the end of the Bretton Woods agreement of 1944—the postwar international monetary system—which had established convertible currencies, fixed exchange rates, and free trade.[1]

France notwithstanding, there was also always a tone of deference to the primacy and requirements of American military power, if not to American culture. Europeans and Americans understood that as long as the Cold War lasted Western Europe would seek its security under the American nuclear umbrella, and would rely on American armed forces stationed on the continent. There was no other choice. Europe needed America's military protection, and both America and Europe wished to keep the western side of the Iron Curtain free. This conclusion was evident to many, but much less so was an unanswered question of equal importance. Would the eventual outcome of the Cold War change the nature of the European-American relationship, and if so, how?

When the war ended in 1989–1990 it was the indelible mark of a great American-European victory, made possible by the pursuit of common

goals built on a foundation of common values. Communism had lost and, for the moment, socialism in the east was discredited, even though rule from the top down continued in the west. But as the iron fists of dictatorship departed the European stage one by one in the course of 1990, something new, which had not existed during the Cold War, made its entrance. It was the figure of an independent Europe.

For the first time since 1938, when the annexation of Austria marked the beginning of German aggression, all European governments were sovereign. No longer encumbered by the rules and preferences of the two superpowers, the Europeans were free to assert their own economic and political aims, and define the world's problems as they saw them. And this is exactly what they did. European leaders moved forward to create the political centerpiece of a new postwar nation, to be built on the existing economic foundations of the European Economic Community (EEC). They named it the European Union (EU).[2]

Its formation, as we know it today, had been impossible as long as the Fifty Years' War lasted; that is to say as long as the Soviet Union maintained the division of Berlin, the division of Germany, and the division of Europe. But once Germany chose to unite in 1990, so too could Europe. The lead was taken by Western European leaders whose predecessors had begun cultivating the idea of political union in the late 1940s, and who had laid the economic groundwork in the late 1950s. When the Cold War receded into the shadows of history in 1990, they lost no time in moving forward. The next year, in 1991, the European Union was formally born when fifteen Western European leaders met in the town of Maastricht, in the Netherlands, to negotiate a treaty to unify Europe that would come into force in 1993.

Formation of the community was the consequence of a lesson Europeans drew from war; namely, how to preserve peace on their continent. They believed the answer lay in the political and economic union of Europe's countries. Whatever label is attached to integration today—some call it an idea, some a concept, some call it building a nation—original momentum was provided by Winston Churchill, who urged creation of a united

states of Europe in a speech in Zurich in 1946. The rationale was clear enough. European countries, politically and economically interconnected, would become so dependent on one another that a peaceful union would be far more profitable than a warring Europe. It was a shining prospect that seemed to emerge from the darkness of destruction. The transformation of the idea into reality would carry with it all the risks and rewards, some proudly said, of a noble and tremendous experiment.

European supporters of the idea recognized that the effort, if it were to succeed, would have to be the result of a series of steps. It could not be the consequence of a proclamation. In turn, members of the union would have to set aside elements of sovereignty in order to produce consensus that political and economic, and eventually military union, was in the interest of Europe. They would also have to bridge political enmities, swallow portions of national pride, and create supra-national political and economic institutions to govern a union in which its citizens had confidence, and with which they could identify. It was equally clear that overcoming the obstacles and meeting the challenges would take, at the very least, an unpredictable length of time.

In post-1945 Europe, on a continent where political and social contradictions existed everywhere, the logical spot at which to find common ground was the marketplace. An early milestone was creation of the European Coal and Steel Community in 1951, five years after Churchill's speech. The major step was taken just six years later—a remarkably short period of time in a historical context. In 1957 the Treaty of Rome created the first European Economic Community (EEC). Its members were Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands. They called it the Common Market.

A period of thirty-four years, begun with the Treaty of Rome in 1957, witnessed not only gradual expansion of the Common Market's membership to include fifteen Western European countries by 1991, but also creation of the community's principal governing institutions: the European Parliament, the European Commission, and the Council of Ministers. In the mid 1990s two other events took place which represented additional

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milestones on the road to a common marketplace. One was the abolition of customs duties on goods purchased in one EU country and shipped to another. The other, known as the Schengen agreement, ended visa controls on fifteen Western European borders in 1995.[3]

By the end of the 1990s the EU had become daily news for European media, and for European leaders the common goal was clear. It was creation of a single market whose purpose, they declared with pride and fanfare in Lisbon, Portugal, in the spring of 2000, was to make Europe the most "dynamic, knowledge-based economy" in the world by 2010. Their commitment was soon known, variously, as the Lisbon Agenda or Lisbon Strategy. Based on agreements made by the EU's members during the 1990s, the EU marketplace would be governed by the same fiscal and monetary principles, and a common currency would be overseen by a European Central Bank. Within the European Monetary Union (EMU) the new "euro" would be used to pay for the manufacture, production and sale of goods and services. In turn, it was envisioned that the members of the EU would eventually become subject to the same tax and regulatory policies. Thereafter "Europe" would take its place in the global marketplace.

In America, at the end of the 1990s, the European enterprise was viewed with benign neglect. The economic significance of *Maastricht*, as the EU is often called in Europe, was not well understood by most Americans. Their attention was focused on the unfolding revolution in computer and communication technology. The Lisbon Agenda ruffled few feathers, because most Americans paid no attention to it. Those who were watching, however, wondered how realistic the intention really was, given the obstacles which stood in the way. Efforts to overcome them would be filled with political risk.

European leaders were aware of the difficulties as well. Tax and regulatory policies, for example, were not the same in all EU countries. Unless, for example, tax policies all became one—EU leaders referred to this goal as "harmonization"—the dream of a single market would remain just that, a dream. Achieving the goal gave rise to questions whose answers

were far from evident. How could harmonization possibly occur, given that European governments relied on their tax and regulatory policies to generate the revenues needed to meet their obligations as authors and arbiters of the social contract? In fact, why would those European politicians who coveted rule from the top down have any incentive to do so? If revenues declined, and government leaders raised the specter of increasing budget deficits or reducing social benefits—known in French as *les acquis sociaux*—ferment and unrest would follow. These questions represented puzzles of many pieces, and they touched on two critical points.

The first point was the old and essential difference between America and Europe. In the context of the EU it was expressed as the conflict between the advocates of fiscal discipline versus the defenders of fiscal largesse. The significance of the debate is easier to understand when put in historical context. It was set forth in a letter to me from a well-known American businessman, born in Italy, who is a large importer of agricultural products from Europe.

> In 1957, when the Common Market was created not far from where I was born, West Germany was a manufacturing and exporting powerhouse that needed "market access" for its exports, while protecting its home market from import price competition. France was the "low-cost producer" of foodstuffs *in Europe*, and needed to keep out lower-cost competing foodstuffs from America and the rest of the world. France was not a manufacturing threat to Germany; and the Italians were not a threat to either France or Germany in manufacturing or agriculture. So the *real* goal and *real* problem for *economic* union was how to build a customs wall around Europe—a modern incarnation of an old European practice. This was done via the EEC and it was effectively completed by the early 1970s.
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> The economic rationale behind *political* union was simple and logical. In the absence of supra-national, "European" hegemony over the EEC countries, each member would be incapable of managing their respective budget deficits and maintaining the value of their currencies without rupturing the "social contract"—with the exception of West Germany, which was the exporting powerhouse. In other words individual European gov-

ernments, in order to pay the financial costs of the "public sector" and therefore stay in power, would continue to increase government deficits and weaken their currencies.

In fact, periodic currency weakness in various EEC countries, e.g. France, provided these countries a competitive edge over other, more fiscally responsible EEC members, e.g. West Germany, and threatened the goal of a single market inside tariff walls. So, how were they to make the common market work? They needed a greater "European" authority to impose *fiscal discipline* over their respective, individual economic policies in order to hold the EEC together. They agreed on this discipline in the form of a growth and stability pact for their European Union when they negotiated the terms of the Maastricht Treaty between 1991 and 1993. The open question was whether they would follow their own agreement.

The second point, affecting operation of a single market, was about old European balance-of-power rivalries, and also concerned matters of political and economic sovereignty and government control. The complexity of the issues was greater than met the eye, because the European Union meant different things to different people. For Germany, it was a balance-of-power vehicle to overcome national sovereignty, to reassure their neighbors that a unified Germany would not pose a threat to their national security. Thus, during the unification year of 1989–1990 the West German government emphasized, time and again, that a unified country wanted to be regarded as a European Germany, not seen as dominating a German Europe. The French wanted a unified Germany that would be forced to keep itself in political and economic balance vis-à-vis its neighbors, and especially in relation to French economic and political leadership within the European Union.

The British objected neither to balance nor to a European Germany, but in the U.K. "Eurosceptics," as journalists called them, had serious misgivings about abandoning the pound sterling, and their fiscal sovereignty, to adopt a single European currency. And some in Europe, including former prime minister Margaret Thatcher, saw in "Maastricht" an effort by European socialists, led by former French finance minister Jacques Delors, to socialize Europe from the top down.[4] Socialists, so the

objection went, would seek to control the centralized governing structure of the EU in Brussels, where twenty unelected European Commissioners and upward of 20,000 nameless civil servants make and enforce the rules, served by more than 3,500 interpreters translating the EU's twenty-one official languages.[5]

These strongly held and contradictory views meant that the single market was given different interpretations by different participants. The various political parties within the EU—on the left, in the center, and on the right—paid lip service to the Lisbon Agenda, but they did not agree on how to make a "dynamic, knowledge-based economy" a reality. This disagreement assured the emergence of political battles in the future over, as yet, still undefined issues.

Tied to the obstacles was also a challenge which a majority of the EU's members did meet successfully; namely, formation of the European Monetary Union (EMU). The vision of a common currency was far from new. It was widely recognized as indispensable to operation of a single market, and its creation was addressed specifically in the Maastricht Treaty. One of the first references to it had been made shortly after the end of World War II by French monetary expert Jacques Rueff, whom Charles de Gaulle described as the "poet of finance." In commenting on the idea of European unity, Rueff made the now famous statement that, "Europe will come into existence by its money or not at all."[6]

Creation of a single currency, carefully planned, was given life in the mid-1990s with the founding of the European Central Bank (ECB) located in Germany, in Frankfurt on the river Main, a city quickly nicknamed "Mainhattan." In January 1999 the "euro" was declared legal tender for financial transactions within the EMU. Finally, in January 2002, the long-planned and decisive step was taken when coins and paper money were put into official circulation. On January 2, 2002, the price of a euro on international currency exchange markets was $1.12.

Introduction of the new money was a staggering change which can only be appreciated if one imagines the complexity of replacing the dollar in America, from one day to the next. It was the biggest financial transac-

tion in the history of the world, amounting to the equivalent of $580 billion dollars. The European Central Bank put in circulation 50 billion coins in denominations of 1¢, 2¢, 5¢, 10¢, 20¢, 50¢, 1€, and 2€, and 14.5 billion banknotes in the amounts of 5€, 10€, 20€, 50€, 100€, 200€, and 500€.

Enough coins were minted to build twenty-four Eiffel Towers. Banknotes, stretched end to end, would have formed a line reaching to the moon and back, four times. The notes themselves no longer bore national symbols of great European artists, composers, writers, or scientists, but were decorated with architectural drawings of fragments of fictitious bridges and buildings to serve as symbols of unity. The coins had one face bearing the numerical denomination and a map of Europe, and the other side had a national symbol; so, for example, in Germany the verso bears the German Eagle.

On January 1, 2002, the currencies of twelve European countries, for all practical purposes, disappeared. The French franc, in circulation for more than 600 years, was a victim, as were the Belgian and Luxembourg francs, the German mark, the Italian lira, and the Irish punt. And so were Dutch guilders, Spanish pesetas, Portuguese escudos, Greek drachmas, Austrian schillings, and Finnish markka. More than 200,000 automated teller machines had been recoined, and so had many other machines that took coins—including parking meters, cigarette machines, public telephones, and luggage carts at train stations.

European bankers had already been dealing with the euro for three years when January 1, 2002, arrived, and in a manner of speaking they had become accustomed to it. The introduction of the actual coins and currency, however, was an overwhelming event for Europe's citizens. This was especially true for older generations, in all of the twelve countries. For them the value of the euro was far from self-evident, because they had always measured value with their respective national currencies. Deprived of these they no longer had a meaningful reference point. Although frustration would diminish with the passage of time, it would not happen overnight. For many the loss of their national currency was the cause of

anxiety and doubt. For many also the rest of their lives would be spent converting the new euro into the value of their old currency before they could understand if the purchase or selling price of anything was really fair, whether it was a bottle of milk, a newspaper, or a restaurant bill.[7]

In America calculating the value of what the dollar buys is a simple matter. Whether in Florida, North Dakota, Georgia, or California, the customer knows whether the price is fair because the benchmark of measurement is the same. But the disappearance of this respective element of simplicity in 2002 left uncertainty in its wake. In Germany, for example, the euro was far from popular; in the spring more than 50 percent of the population wanted to return to the German mark. They believed that businesses had used the euro's introduction to increase prices. European economists spent a good deal of time emphasizing that, with the inevitable exceptions, it was not true. Thus in May 2002 Otmar Issing, the chief economist of the European Central Bank, reassured an audience in Essen, Germany, that prices had not gone up, and concluded, "I can see from the look on your faces that you don't believe me. My wife doesn't believe me, either."[8]

But there was also another side of the coin, of greater significance. Using a single currency meant that Mr. Issing could put euros in his pocket in Berlin before boarding a plane for Italy and pay for dinner in Rome with the same money. Exchange shops and hotel front desks were no longer in the money-changing business for twelve different currencies. Travelers, and the industry that helps them with hotel reservations, car rentals, and plane tickets, began to find financial arrangements a lot easier too, and the travel itself less expensive. The European Central Bank called this the advantage of transparency, and said so in advertisements leading up to New Year's Day 2002, as in an ad from *Le Figaro Magazine* in Paris in December 2001: "Welcome to a world without borders."

The structure for maintaining peace in Europe was thus given financial shape, from the top down. Confidence in the euro as a currency of stability presumably would grow with development of the single market, to match the symbolic value of a Europe with just one backyard. No cur-

rency had circulated so widely on the continent since the Holy Roman Empire. Without the euro a real union of Europe had no future. But with it the dream of union now became dependent on the will of European leaders to make the single European marketplace a reality.

Just as some American observers had doubted the ability of the EU's members to harmonize tax and regulatory polices, here too there were misgivings. The chairman of the Federal Reserve Bank in Washington, D.C., Alan Greenspan, initially predicted the euro would never come to pass. He was far from alone in his skepticism about the wisdom of introducing a single currency. In 2003, Martin Feldstein, professor of economics at Harvard University, argued that British adoption of the euro would be a long-term mistake, because whenever cyclical unemployment increased, the country's price stability would be put at the mercy of an uncontrollable, supra-national European Central Bank.[9]

For European leaders, however, introduction of the euro was much more than just a unique event. It had been driven by political will and marked by a remarkable continuity of resolve. Each of the EMU's leaders had an enormous investment in assuring the success of the undertaking. If it failed, so, surely, would creation of the dynamic union to which they had pledged themselves with the Lisbon Agenda.

Adoption of the euro committed the EU's members to creation of a single capital marketplace in which they would maintain fiscal stability while promoting growth. In practical terms, however, only twelve members gave up their monetary sovereignty to join the EMU—Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. Three members, for the time being, declined to participate, led by the UK, and followed by Denmark and Sweden.

In a Growth and Stability Pact, which was first and foremost a tool to enforce budgetary discipline, the twelve agreed that, (1) annual government deficits would not exceed 3 percent of GDP, (2) gross debt would not exceed 60 percent of GDP, and (3) the annual rate of inflation would not exceed 1.5 percent of the average of the three best performing states

during the previous year. They, therefore, also established a means to levy heavy fines on those governments which might violate any of the rules in the future, and gave the ECB the power to enforce the agreement.

The pact thus represented endorsement of common fiscal and budgetary principles to protect the value of the euro. The purpose of the tool, created at Germany's urging with strong backing from the Dutch, was to prevent the euro from being weakened by individual countries; the example was Italy, which had exceeded the ceiling for deficit spending for three decades prior to meeting the limit of 3 percent in time to qualify for EMU membership in 1999. In principle, therefore, the governments of the twelve had given up, voluntarily, their power to control the money supply and to set interest rates, and agreed to keep their deficit spending within set parameters.

From the perspective of 2005, the short history of the common European market had progressed quickly; in fact, some Europeans felt, too quickly, when the size of the EU was expanded dramatically from 15 to 27 members in May 2004. The addition of Cyprus (the Greek half), the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, and Slovenia meant that the union to which six western countries had given birth was now truly a European one. Its 450 million citizens, in comparison to a population of about 295 million in America, generated a gross domestic product of about 10.763 trillion dollars, which exceeded America's GDP of more than 10.170 trillion dollars.[10] The size of the enlarged EU stretched from the Atlantic to the Baltic Sea, and from the Arctic in Sweden to the cusp of the Middle East in Cyprus.[11]

On the EU's agenda remained development of a common foreign policy, a common European security and defense policy (ESDP), and eventually creation of combined European defense forces. Achievement of these goals, as had been the case for every objective since 1957, would occur step-by-step. These would be taken slowly and precisely, and the inevitable setbacks would surely receive greater publicity than the accomplishments. But if the history of the EU was a portent of things to come, the movement would continue forward, not backward. So, for example,

under the ESDP initiative the EU's first civilian mission began to work in Bosnia in January 2003, in tandem with an EU police mission to restore the rule of law, and the first EU military mission began operation in Macedonia in April 2003, with the deployment of the European Rapid Reaction Force (EURRF). The steps were modest—some Europeans said exceedingly modest—but they signified a commitment and a beginning.

Americans who are receptive to the simplicity of the *American power versus European weakness* logic scoffed at Europe's talk of developing common and effective foreign and defense policies, and some Europeans did as well. But steps and events contained an unmistakable message. The EU was growing in size and in potential competitive power. Many of its members—although for the moment, not all—fully intended to form a real union, operating within one market, secured by a common defense. It was quite clear, of course, that as the EU pursued its agenda, unforeseen obstacles would appear. But to assert, as some Americans did, that those operating the EU did not know where they were going, and to dismiss the obstacles they faced as insurmountable, ignored the history of the EU.

Yet it was because of this history that both optimism and pessimism held sway. A European foreign policy was absent, and neither a single capital market nor a dynamic marketplace existed. Europe's center of international finance remained London, not Frankfurt. Indeed, making compromises to form a Growth and Stability Pact was one thing, but replacing economic rule from the top down was quite another. If the Europeans succeeded, however, the result would be greater European cohesion. A stronger European voice would become more credible if backed by economic and military power. With such a voice the EU could contribute a forceful and balancing hand to the management of international affairs in concert with America. The vision of "Europe" represented a historic opportunity the Europeans would be foolish to squander. But if they failed the result would be European irrelevance. There would be little of value to be found in the middle.[12]

Either way it was certain that the future would be full of surprises. Reminders were everywhere: such as the continuing debate on the harmo-

nization of tax and regulatory policies, the sharp division of opinion in Europe on the issue of Iraq, and, in the late spring of 2005, the French and Dutch rejection of the proposed European Constitution (a subject addressed in chapter five). Indeed, unpredictable behavior on both sides of the Atlantic recalled Disraeli's observation that, "we moralise when it is too late; nor is there anything more silly than to regret. One event makes another; what we anticipate seldom occurs; what we least expected generally happens." But surprises and moralizing notwithstanding, Europe was embarked on the road to union. And it was entirely possible that vocal political and economic debates would continue to drive integration forward in ways neither expected nor imagined.[13]

The end of Europe's Fifty Years' War created the conditions for establishment of Europe's centerpiece, the European Union. But it was also here that an unresolved set of issues beckoned which were best described by two questions: Could the EU work, and if so, what would be the consequences for Europe and America? How these questions would be answered would highlight the differences between European and American economic and political cultures, just as it would affect our relationship.

When Realities Are Trump

A knowledge of American and European history places in relief the problems the Europeans face. How Europe was built weighs on the efforts to make the European Union succeed.

Europeans are heavily divided between those who, over decades, have become dependent on the social contract as a source of economic security and political freedom, and those who prefer a single, free and competitive market as an arena in which individual liberty and entrepreneurial ability are rewarded. If the EU becomes the world's most dynamic marketplace there will be winners—those who believe in rule from the bottom up. Success will also produce clear losers. The logical consequence of the Lisbon Agenda would be the death knell for European socialism. It would surely weaken, if not break completely, the power monopoly of Europe's

professional political classes who rule from the top down. The stakes in the outcome are historic in magnitude. Which realities will trump?

The Growth and Stability Pact limits government spending to a certain percentage of the annual gross domestic product. By doing so the members of the EU agree to make government expenditures dependent on growth in the marketplace; that is to say, to exercise restraint in their spending policies. The reality of the pact is that if EU leaders observe the limits they have set on the size of their respective budget deficits they will have to reform the terms of the "social contract" and reduce social benefits; otherwise they will be unable to finance them. This reality thus also becomes the acid test. Will Europe's leaders be able to follow the Lisbon Agenda and keep their political lives?

Although top-down politicians do not say so publicly, privately they recognize that growth will be significant *only* if they deregulate their marketplaces for products and services, break the lock held by labor unions on artificially high wages, increase labor mobility, and reform their tax codes. Dealing with these four issues is a daunting prospect all by itself, and it is complicated by a fifth. Even though the EU's members have agreed to establish a common market, they are still without common rules of competition for the production and sale of goods and services.

All of these unresolved issues, individually and together, slow growth, impede productivity, generate unemployment, and prevent creation of a free market. The issue of job protection and regulation of labor markets is a good example. A February 2003 analysis of Germany, where wages are the highest in the world, made the case in point: "Before eliminating jobs, companies usually have to justify their plans in talks with employee representatives, and then give workers months of notice and substantial severance packages. Job cuts are often so time-consuming and costly that companies find other ways to save money. But they also avoid hiring in Germany by expanding operations abroad or using more machinery to automate production."[14]

This kind of response to the problems of labor rigidity always has unhappy economic consequences. In the 1990s, for example, Volkswagen

AG, in deference to job protection demands pushed by labor unions, agreed to lay off no one, but cut back to a four-day work week. This was not a business decision dictated by the marketplace. It was a political decision forced on the company by labor, with the tacit concurrence of political leaders. One consequence was job preservation, but less income and slower growth. A second was an agreement in 2006 between the company and its most important union, IG Metall, that permitted Volkswagen to increase working hours without extra pay in exchange for additional corporate investment, on the uncertain assumption that growth and production would significantly increase by 2009.[15]

Justification of antifree and anti–single market policies produces creative explanations. Politicians and labor leaders cite allegedly exploitative American "hire and fire" practices as the reason for their opposition to reform and in so doing perpetuate the life of the straw man, *the American model*. The practice has been to criticize America's labor market as both morally insensitive and socially unjust. Labor unions, together with most of Europe's socialist leaders—with the notable exception of British prime minister Tony Blair—have opposed less regulation and taxation because they see their hold on political and economic power threatened by free and open competition. European politicians, however, are seldom this direct when justifying such policies, and practice instead the clever turn of phrase. French prime minister Lionel Jospin created a masterpiece during a visit to America in 1998. "Yes to a market economy," he said, "but no to a market society." He did not explain how one was possible without the other.

Jospin's views are not isolated ones. In their public statements most of Europe's leaders have been consistent in their criticism of the American straw man. In 2002, for example, Germany's socialist chancellor Gerhard Schröder condemned America's so-called economic model as wrong for Europe: "Anglo-Saxon, and especially American, standards of job security are different from Germany's because of our history of war and economic upheaval." Three years later, in the spring of 2005, when the Social Democratic Party faced a fierce election campaign in the state of North Rhine-

Westphalia, the old rhetoric of the class struggle reappeared. Party chairman Franz Müntefering attacked American and British corporations for practicing corporate greed, plundering German assets, and arbitrarily laying off workers, and accused them of falling "upon companies like locusts, [to] devour them and move on."[16]

Jospin, Schröder, and Müntefering shared their viewpoint with another practitioner of rule from the top down, the conservative president of France. In what was described as "a highly emotional attack on Anglo-Saxon-style capitalism"—in other words on free market competition—Jacques Chirac condemned it in March 2005 with the phrase, "Ultraliberalism is the new Communism of our age."[17]

These examples are an illustration of what might be called *the rulers' dilemma*—how to create a dynamic marketplace without changing the conditions that prevent it. This dilemma, moreover, is not the sole property of the socialists. It belongs to all of Europe's political parties to one degree or another, with the exception of the continent's classic free market liberal parties. The issue is the same for all the parties of the left, of the center, and of the right, who rule from the top down. The struggle is between whom, as in which political parties, and what, as in competition in a single market, wields political influence and economic power. Those who have it do not want to give it up, so they have introduced policies designed to preserve their control. This logic was what motivated the French socialists just five years after the Maastricht Treaty took effect in 1993.

In 1998 the party passed a labor law in the French National Assembly which abolished the 39-hour work week and replaced it with a 35-hour one, without a corresponding reduction in salary. In practical terms this represented a government imposed salary increase for all municipal and federal government employees (25 percent of the French workforce), to be paid for by French taxpayers. It also meant an increase in salary for most of those employed by private companies, to be paid for by private employers. The government's justification for what represented, indirectly, a new tax, was that less work would create more jobs. The law, which took effect in 2000, allegedly created 350,000 new jobs, according

to French Labor Ministry statistics. Each new position, however, also cost 23,000 euros in government subsidies to business to encourage creation of new jobs, financed by French tax revenues.[18] Government statistics notwithstanding, five years later economic growth had stalled and the French unemployment rate stood at a five-year high.[19]

The law had several unintended consequences. French companies were not obligated to hire new employees. The legal limit on how many hours an individual could work on overtime meant that take-home pay dropped. Employers began compensating overtime hours with additional vacation, but not in money. Doing black market work for cash paid under the table, already practiced for decades, became even more attractive, and violated the law. In addition, working less did not produce significant increases in either productivity or employment, but it did reinforce the socialist myth that "working families" are better off if they work less—an effect confirmed in a public opinion poll in January 2005 which reported that 77 percent of the French wanted to keep the 35-hour week and only 18 percent wanted to work more.[20]

The 35-hour work week, described as a measure to improve the quality of life, was a textbook example of rule from the top down. It redistributed income, abolished freedom of choice, and insulted the dignity of labor. In short, it sent a political and economic message, and a social one as well. The political message was that jobs are created by law and not by productivity and profit. The economic message was that growth does not generate jobs, laws do. The social message was that work is demeaning and without value, and the less you have to do of it the better off you are. The socialist decision, taken for political and not economic reasons, also drew attention to differences within the EU, in which the maximum legal working week is currently 48 and the minimum one is 35 hours.[21]

It is beguiling political rhetoric to proclaim support for a market economy, and to reject the inequalities of a market society. But the gears of the marketplace are not oiled by figures of speech. Tax rates, which can stimulate or retard growth, provide another illustration of how state power may be used to encourage or to restrict competition.

The rates differ widely among EU members, as do the kinds of taxes themselves. While employer taxes and charges vary dramatically, they are so high in many cases that employment is stifled as a result. For example, the costs of employee benefits—that is to say various social contract taxes and charges—relative to wages are enormous in much of the EU. In France and Germany the rate is between 60 and 80 percent, so that if the salary is 100 per month the employer is paying between 160 and 180, depending on the circumstances. In Britain the cost is about 35 percent, thanks in large part to the free market reforms led by Margaret Thatcher, and supported by her socialist successor, Tony Blair.[22] In America, by comparison, it is about 34 percent; in other words about half of that in France and Germany whose economies account for more than 60 percent of the EU's gross domestic product. The effect is predictable. French and German employers do not hire until it is absolutely necessary, or they move their production facilities to such EU countries as Ireland, where the mandated level of taxes and charges is lower, thus reflecting the struggle between government control and free competition.

Another illustration is the wealth tax, which does not exist in America. But, at least for the time being (July 2007), it does in three EU countries; namely, France, Greece, and Spain; it exists also in the non-EU countries of Norway and Lichtenstein, and in November of 2005, Germany's new conservative-socialist coalition government announced it would be reintroduced in 2007.[23] The tax, highly controversial, is egalitarian by design, punitive in nature, and confiscatory in effect. It is not a tax on income, but on the value of assets.

By definition, it is reactionary, and penalizes both financial success and wealth. The tax is levied on the total value of an individual's assets, which includes the value of real estate. In this case the tax can become especially onerous if the value is high but the income from which to pay the tax is low (for example, this is often the case with old houses whose adjoining income-producing lands have been sold off in the course of time). In France, for example, it is levied on personal fortunes above 720,000 euros (in January 2007 the minimum was increased to 760,000 euros). In 2004 this affected about 335,525 tax returns and less than 1 percent of France's population of approximately 61 million. It generates a minute percentage

of total annual tax revenue, and it has had a predictable consequence. French citizens who have left France to avoid the tax—to live in England and Belgium, for example—have taken an estimated 11 billion euros of capital value with them.[24]

The punitive nature of tax policies in the EU is not only directed at the so-called rich; it is visited on everyone. The average EU individual tax burden is 43.1% compared with 30% in America; in Germany, for example, an unmarried worker without children paid 50.7% of his salary in income and social security taxes in 2001. When high income taxes limit disposable income, tax payers seek ways to avoid them. Because most Europeans cannot easily escape onerous taxation by moving their homes and livelihoods from one country to another, they violate tax laws on a large scale.

This occurs most frequently with the value-added tax (VAT) which does not exist in America either. It is applied at every stage that a good moves along on its way to the marketplace.[25] When the good finally gets to the consumer the VAT is called a tax on consumption that takes the place of a sales tax. In the EU the minimum VAT for the consumer is 15 percent (in Cyprus and Luxembourg) and the maximum is 25 percent (in Denmark, Hungary, and Sweden). The tax is so high that circumvention of value-added taxes occurs everywhere; in 2006 it was estimated that VAT fraud ''robbed'' European governments of one euro out of every ten.[26] In France, for example, the VAT, set at 19.6 percent, accounted for 45.5 percent of total tax revenues in 2004, while the tax on personal income amounted to just 20.3 percent.[27]

Politicians seldom discuss this effect, and governments do not give wide publicity to statistics on what is a daily part of European life. In Belgium, for example, the normal value-added tax (VAT) is 21 percent of the price of a good or service; although for certain goods and services it can be lower, as is also the case in other EU member countries. Since the value-added tax is generally high and the likelihood of getting caught for evading the VAT is relatively low, large numbers of Europeans cheat their governments. This is done by paying part of the price, plus the legal VAT, by check or credit card, and the other part in cash without the tax. Thus,

there is a written record of the former, but not of the latter: in Belgium, if my bill is 100 euros I will write the check for 121 euros, but if I pay the same bill in cash I only need a 100 euro note. The result is to encourage black markets in goods and services, and to pay for them, in both urban and rural areas, in cash or in kind.

By the end of 2006 value-added tax fraud on imported items between EU member states was judged to be so serious that the French finance ministry announced an investigation into the practice. It was estimated by a French financial journal, *Les Echos*, that the amount of the loss could exceed more than one-tenth of annual VAT tax receipts (forecast to be 127 billion euros in 2006 and 133 billion in 2007).[28]

An additional and more significant issue, not yet resolved within the EU, are the differences in corporate taxes. These provide powerful incentives for European corporations, but also for American ones, to invest in EU countries with low rates. Thus, for example, corporations with their headquarters in Ireland enjoy a significant competitive advantage vis-à-vis corporations in other EU countries. Of the original fifteen EU members, Ireland has the lowest corporate tax of 12.5 percent. As a result, its economy is booming. By comparison, Germany's economy, where the corporate rate of almost 40 percent is the highest in the EU, is stagnating.[29] This explains why Germany's largest bank, Deutsche Bank, following significant expansion abroad, had less than 44 percent of its workforce in Germany at the end of 2002 in comparison to 67 percent in 1996.

Before the EU was expanded from fifteen to twenty-seven members in May 2004 the average was about 32 percent. Since then the problem has become even more complex because the ten new members had an average rate of about 21 percent, and one of them, Estonia, levied no corporate tax at all. Europe's socialists condemn the result, which is greater competition, as unfair competition, and are therefore calling for creation of one rate for all members. From their perspective, the aim is a logical one and they describe their proposed remedy as "tax harmonization." But this seemingly innocuous phrase contains a hidden objective. The word "harmonization" is used to describe an effort to establish a common corporate tax rate which would be significantly higher than those which currently

exist, for example, in Ireland or Estonia. If the attempt succeeds it will have major consequences: (1) investment, employment, productivity, and growth will be adversely affected, (2) the revenue bases of the high-corporate-taxing countries will be protected, and (3) the income will be used to perpetuate rule from the top down.

How the debate over tax harmonization is resolved will create new realities for the EU marketplace. The outcome will affect everything, which is why the issue is so contentious, and why the answers to the following questions are so important. Does a single market require a single tax code? And, if so, who will write it? If a common set of corporate tax rates is not established how can a single market work?

Transforming the Lisbon Agenda into policy is complicated by a widespread and uniquely European attitude toward money and profit, which offers still another contrast with America. It is not a secret that Europeans, and especially intellectual elites, observe with condescension that America is the quintessence of greed, a materialistic society in which Americans are consumed by thoughts of how much money they can make and preoccupied with how much things cost. There is, of course, some truth to this superficial description, because Americans do talk about money; after all, one of the purposes of a marketplace is to make a profit. But this negative conclusion does not apply to all Americans any more than does the reference to all Germans as "Hitler's willing executioners."

It is also true, however, that there is a difference here between Europeans and Americans. Europeans generally do not talk about money and profit. Seldom do American visitors hear Europeans equating "the best" with "the most expensive." If Europeans do measure the stature of someone or the quality of something according to how much it costs, they seldom say so publicly. This behavior is the other half of the difference; namely, it is what many Europeans do not say, but do think.

The contrast is significant because attitudes about money affect how many Europeans judge the utility of work, and how they measure the importance of the state's social contract vis-à-vis individual freedom to make a fortune. Americans who know Europe well are familiar with the

attitude, but generally little attention has been paid to it. Nonetheless the point is more significant than Americans, as well as some Europeans, may assume. It was made effectively in an unpublished letter from Burkhard Koch, a former member of the East German communist party who today heads an international consulting firm located in Berlin.

> You can take this with a grain of salt if you wish, but I am going to tell you the truth, this is what I believe. We envy the fact that you can make money, because we can't. We don't like to admit it. But it is so much more difficult for us to become rich, even if we work hard and have some luck.
>
> Why? Because our governments don't let us keep very much of the money we earn. You believe that the money you make belongs to you and your family, but in Europe the attitude is opposite. Government needs a lot of our money to pay for all of our public and welfare services, many of which are individual responsibilities in your country. So it has the right to tell us how much of our money we can keep. That is what our governments do. That is why so many of us do business on the black market, why corruption is widespread, and why most of us try to avoid paying taxes by violating the law. This is how we survive. We hide our wealth and preach equality and social justice. We recognize this is dishonest, because we know that by nature people are not equal even though our governments tell us they can make us so.
>
> Unlike you there is no reason for most of us to hope that we can become rich. Unless, of course, we go to America. There aren't very many ''European captains of industry'' in comparison to yours. The rise from rags to riches—''the American success story''—isn't told often in Europe, because it doesn't happen often. We envy those who have money, but we never admit it. Some of us, who get tired of pretending we aren't jealous, leave, and go to America. And others of us say ''no'' to a market economy, but ''yes'' to a market society, and don't understand that you cannot have one without the other.
>
> So what do most of us do? We don't work very hard. A 35-hour work week sounds great for most of us. We depend on the state. Some of us say we prefer our qualities of life, a claim that is often repeated by American journalists. But is that really true? The fact is why should we work 39 or 40 hours a week, if the government can force our employers to pay us the same amount of money for less work? So it shouldn't surprise you that

many people like the 35-hour work week. They work enough to get by, and get the rest from the government. That is not my dream of freedom and independence.[30]

Burkhard's view does not fit very well with the idea that the single market is going to be wonderful. It is one thing to declare in Lisbon the intention to create the most competitive marketplace in the world by 2010, but it is the individuals who labor in the marketplace who must make it succeed. If Burkhard is right Europeans are not given a great deal of incentive to work hard, and without hard work there is no such thing as productivity and growth. So unless they are given a reason to change their attitudes, the future of the single market is not a rosy one.

In my message thanking Burkhard I wondered if the European attitude about money was what prompted the American author, Mary McCarthy, to write, "When an American heiress wants to buy a man, she at once crosses the Atlantic. The only really materialistic people I have ever met have been Europeans." Her sarcastic observation stands in curious juxtaposition to Tocqueville's remark in *Democracy in America*, ". . . I know of no other country where love of money has such a grip on men's hearts or where stronger scorn is expressed for the theory of permanent equality of property."

Tocqueville's comment aside, however, the view of 2010 from the perspective of 2007 is a combination of pessimistic observations and overly optimistic conclusions. In the long run the Europeans may find a way to come to terms with the economic and political realities of a free market. But in the short run existence of the following three problems is the outline of a Lisbon strategy which is more battle than agenda.

The first problem is how European governments will finance their budgets. The old way to satisfy this need was through regulation, taxation, and the printing of money. The new way, within the context of the Lisbon Agenda and the Growth and Stability Pact of the EMU, is to reduce public spending so European governments need less money. Thus far, this problem has not been resolved, which is why the second problem exists.

About half of the EMU member governments are spending more money than they receive. The result is that they have violated the deficit spending limit of 3% set by the Growth and Stability Pact and the EMU has been unwilling to levy fines or enforce sanctions. In 2005, for example, France and Germany did so for the fourth year in a row. They were projected to do so in 2006 and possibly beyond, as well. Rather than adhering to the pact, these two governments of the EU's two largest economies proposed, during the summer of 2003, a temporary suspension of the budget rule, which prompted the Austrian finance minister to comment that merely discussion of the idea "damages the credibility of our finance and economic policy."[31]

By the end of the year, even though Austria, Finland, the Netherlands, and Spain argued that the logic was unsound, France and Germany persuaded the EMU members to suspend the Growth and Stability Pact altogether.[32] At the beginning of 2005 a further step was taken with the decision to renegotiate the terms of the pact. The "coup de grâce" arrived three months later with changes pushed primarily by France and Germany which, in effect, destroyed the pact's efficacy. The "remarkable compromise" allowed the members much greater freedom to run up budget deficits by creating exemptions from the 3 percent rule for such expense categories as "increased aid spending in the third world," "research and development," and the costs of European and German unification.[33] The exceptions, in other words, amounted to a blank check.

Changing the terms is not, in the long term, a viable alternative to reducing expenditures. Weakening the rules of the pact amounted to standing logic on its head, by contending that greater government spending would produce growth rather than free and open competition in a single market. No one recognized this more clearly in the EU than its leaders, but they also understood that cutting budgets and government programs is seldom a popular political choice. The dilemma was easily defined, and Luxembourg's prime minister did so in early 2005: "We all know what we need to do, but we don't know how to win elections after we have done it."[34]

The third problem, of both a short- and a long-term nature, is the old conundrum of rule from the top down. Some Europeans argue that paternalistic Europe is living on borrowed time because the forces of the free marketplace will eventually destroy it. At the beginning of 2003 French social commentator Guy Sorman essentially drew this conclusion, but also acknowledged the continuing duel of the political class versus the individual:

> Europe's free-market liberals have won the intellectual battle but not yet the political war. We still have to demonstrate that the market is not an American invention but a universal concept. We have to explain that individualism is not a social evil but a product of human nature; that the market is not an end in itself but a means to an end called freedom.[35]

The end of the year 2005 marked the halfway point on the road to achieving the Lisbon Agenda, and the ''political war'' described by Sorman was in full swing in the European Union. But small signs of an independent spirit had become evident as well, and one of them had been sighted in France during the summer of 2003.

In opposition to government efforts to reform the generous state pension system and to reduce equally indulgent unemployment benefits for actors, French labor unions carried out a series of disruptive and expensive strikes during the summer, which forced many French music and theatrical festivals to close. By July thousands of French men and women had taken to the streets, but this time in support of change. Marching under the motto, ''Freedom, I write your name''—a choice filled with irony since it comes from the title of a poem written during the German occupation of France by Paul Eluard, who belonged to the French Communist Party—thousands paraded through French towns to oppose the strikes. They were led by a 21-year-old student, Sabine Herold of Reims; as one journalist put it, she sounded more like Margaret Thatcher than Joan of Arc. And, in fact, reform of the pension system, although significantly watered down, was approved by the French National Assembly at the end of July.[36]

Great Expectations

Great expectations have always been associated with the prospect of deliberate change, and this was the case with the Lisbon Agenda of 2000. Americans, in implementing such a program, would more than likely do so directly. They would set forth policy alternatives, develop persuasive arguments, debate which are black and which are white, determine which make sense and which do not, and finally select one. Europeans, in pursuing the goals set in Lisbon, have followed a different path marked by the influences of rule from the top down. This is why the European debate is so contentious.

The expectations are equally great for those who want to regulate competition and impose high taxes on the marketplace to finance Europe's welfare states, as they are for those who want to create greater competition so Europeans can broaden their choices, keep more of the money they earn, and decide themselves how to spend it. The decision to be taken is not between two rational alternatives. In fact, a specific choice will not be made. Whatever emerges will be a result of evolution, which is why the path to the single market is indirect.

The course of European history tells us that the path will continue to take contradictory twists and turns. Thus, the words and actions of French prime minister Lionel Jospin reflected the ebb and flow of political sentiment as well as political opportunism. There was every reason to assume that his derogatory comparison of a market economy with a market society in 1998 meant that his government would retain its ownership in numerous business enterprises. But by early 2002 none other than Jospin, heading a Socialist-Communist-Green coalition, had privatized more than 36 billion euros of state-owned corporations; it was more, some reports assert, than the past six French governments combined. Doing so was not an embrace of free market capitalism. On the contrary, it was a tactical decision. He, as other European leaders, was beginning to sense that the political tide was somehow turning in favor of the marketplace. Parenthetically, they all understood that the sale of government-owned assets could generate large revenues for the state.[37]

It is debatable whether French voters interpreted privatization as a portent of things to come, but they sent the message that they wanted more than the French left was prepared to give. In June 2002 they replaced Jospin in national elections with a new and free market–oriented government headed by Jean-Pierre Raffarin, who thereafter embarked on a path of economic and social reform. The new government began to withdraw and tighten the social safety net; for example, by reviewing the terms of the 35-hour work week and limiting increases in wages and benefits.

This path, as past and future ones, was full of curves. If efforts at reform widened differences of opinion between those who want the jam today and those who want to be able to keep more of the jam they make in the future, labor unions would surely call for strikes and ''manifestations'' in the streets, and in fact did so. Nonetheless, Raffarin's government recognized that French voters had provided a mandate to try, and that success, for better or for worse, would ultimately be measured at the ballot box. In March 2005 the National Assembly, in effect, abolished the 35-hour work week. The response was predictable. French business leaders welcomed the legislation and France's largest labor union, the CFDT, called it ''a political, economic and social mistake.''[38]

The noncommunist CFDT (Confédération Française Démocratique du Travail) subsequently brought a suit against the French government alleging that abolishing the 35-hour work week was illegal. The union won the suit in the autumn of 2006 when the French Conseil d'Etat (the equivalent of the U.S. Supreme Court) ruled that the 35-hour work week in the transport, hotel and restaurant industries must be reinstated with back pay for overtime. The suit was welcomed by French Socialists, some of whom argued that should they win the French presidential elections scheduled for April 2007, the 35-hour week should become mandatory throughout the country.[39]

Another illustration was seen in Germany in the spring of 2003. Socialist chancellor Gerhard Schröder changed course before the voters forced him to do so. With social spending at almost 30% of GDP—larger than any county in the world except Sweden, and twice that of America—he announced labor market, health care, and tax reforms in an effort to stimu-

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late growth and create jobs. With deficit spending far above the limit set by the Growth and Stability Pact, with unemployment at almost 11 percent, and with labor union strength at a postwar low—between 1991 and 2003 blue- and white-collar membership in Germany's labor unions declined from 39 percent to 22 percent—he, like Jospin, was reading the handwriting on the wall.

If Schröder needed confirmation that change was in the wind, it was given to him in June when the most powerful labor union in Germany, IG Metall, called off a strike for a 35-hour work week in the eastern part of Germany. It was the first time since 1954—almost fifty years—that the union had failed to win a strike. His views must have seemed close to revolutionary to the members of his party when he told the German Bundestag in early July 2003 that what Germany needed was "a new mentality—away from protecting what we have and toward creating new chances for the future."[40] But whether it was revolutionary or opportunistic was a moot point for the members of IG Metall. The union accepted an agreement with one of Germany's largest firms, Siemens, to restore the forty-hour work week without an increase in salary.[41]

Was it reasonable to conclude that these examples foreshadowed others, and on balance, pointed in one direction? The question cannot yet be answered because the struggle over having less of the jam today or more of it tomorrow is not yet over. Continental socialists have not given up their political and economic vision of a just society in which equality is first and freedom is second. They have, however, changed their tactics. On the one hand, they have challenged selected sacred cows of the old order, as Schröder did in the German Bundestag in 2003. On the other hand, they are trying to have their ideological cake and eat it too, as German Socialist Party chairman Müntefering demonstrated in 2005 when he accused American and British companies of devouring German assets "like locusts." In May 2007 IG Metall had its cake and ate it too when, following threats of a major strike, it negotiated a significant wage increase on behalf of 800,000 laborers in the southwest state of Baden-Wuerttemberg.

As was the case in France and Germany, so also was the struggle actively waged between the Italian left and the center-right coalition of Prime

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Minister Silvio Berlusconi, who assumed the rotating presidency of the European Union in July of 2003. Berlusconi was publicly attacked in Europe for a variety of alleged business crimes, or successes, depending on how it was interpreted. But criticism of him detracted from the fact that he, as other European leaders of both the left and the right, was very much aware of what was at stake. In a paraphrase of Machiavelli in early July, he told an editor of the *Wall Street Journal* that ''the person who has ideas and carries out reforms is fought by those whose privileges will be threatened by those reforms. But those who will stand to gain from those reforms will sit on the fence.''[42]

Berlusconi understood that to build a single market, equality of opportunity must supersede equality of result, and European economic life must become much less *dirigist*. This explains why European supporters of free markets, such as Berlusconi, want to place strict limits on centralized power. But they also are aware that political survival requires them to pay allegiance to *the European socioeconomic model*. They therefore tout the appeal of equalized social outcomes, even though they understand that such outcomes are not possible.

Some part of the European populace will always believe that the conduct of business in the marketplace must serve, and should serve, political and social purposes. Another part, however, will move closer to the American practice. This means that no matter how the Lisbon Agenda is implemented the effort is full of danger. The intangible allure of future promises is not one all Europeans are prepared to accept, if it means reducing the largesse of the social contract in the present. But those who do recognize what the promise offers can be eloquent in their endorsement of it, in just a few words. This was the case in early 2005 when the EU's Irish commissioner for the internal market and services delivered a speech in London entitled ''The Lisbon Strategy: Why Less Is More.''[43]

In the early spring of 2005 the direction was positive and movement slow. EU governments were continuing to privatize those companies still nationalized, and to reduce significantly their holdings in others. Little by little, everything is or will be affected, such as financial services and finan-

cial markets, the banking and insurance industries, corporate mergers and acquisitions, stock and bond markets, energy and utility markets, health and education, media and telecommunication industries, tourism, trade, transportation, and the aerospace and defense industries.

The EU, however, also remains a landscape of social contrast and potential unrest. Europe's leaders recognize that their political survival depends on avoiding strikes and demonstrations and on winning elections. They also understand that the ferment accompanying the birth of the free market will claim victims and that they, sooner or later, will be among them. They will encounter public protests and they will lose elections, as was the fate of Germany's chancellor Schröder in September 2005. But they are aware that there is no alternative to continuing on the path to union, just as their successors will learn in due course. Out of each lost election will emerge new debate over the future of *the European socioeconomic model.*

In the last analysis Europe's leaders know, as well, that state monopolies, confiscatory taxes, and burdensome regulation must change, because they are obstacles to growth and stability, to efficiency and innovation, and to job creation and wealth. They also understand that the key to the success of the Lisbon Agenda is creation of a single market that works—to permit ''the full force of competition to forge an economy that can compete globally.''[44] Just as Benjamin Disraeli observed that time is the best physician, change in the European Union appears to be gathering, slowly, its own momentum. But if it is too late to turn back the clock, it is not yet clear for whom its bells toll.

Competition

A habit of American life is the game, any game—whether it is athletic, commercial, cultural, economic, legal, political, or social. Americans play their games according to rules which give all competitors an equal opportunity at the starting line and which assure that the game itself is played fairly. When the contest is over, normally there is a winner—an individ-

ual, or a team, or a product, or a political party, as the case may be. The result, in every instance, is a product of competition.

An athletic contest, such as the game of football, is one illustration of the competitive American spirit. If a team is behind at the end of the first half, there is still a chance to win the game in the second half. If the game is lost today, there is another one next Saturday. And if a team has a losing season, it still has the hope for a better one next year. Competition means that there is never a final result. ''Just wait 'til next time,'' Americans say. Or they announce, ''You may have won this one, but you won't beat us again. We'll change our plays, practice harder, and come back with a better team.'' In playing the game, defeat is never permanent. There is always another day; it is part and parcel of being American. The game goes on, uninterrupted, because in America competition takes place in one arena or another, all year long.

American businessmen and -women thrive on competition. They are also very good at it, as long as the game is played by rules which are both fair and followed. This is why the single, free, and open market proposed by the European Union presents a playing field of great expectations, a field for energetic competition between America and Europe.

Healthy competition in an arena of great expectations, however, will not occur soon. Thus far, concludes the French Institut Montaigne, the Lisbon Agenda is ''a great battle plan without an army'' and is likely to remain that way as long as ''vested interests and rivalries . . . among member states and the different European institutions persist.''[45] The idea and spirit of the game, as these are understood in America, are largely absent in European conversations. The essential difference that separates Americans and Europeans in so many ways, also separates them here.

European governments, to varying degrees, view the basic functions of the marketplace to be the generation of revenue for the state, the guarantee of employment, and the maintenance of political stability, but not the arena in which to cultivate a competitive spirit. In turn it is business that is charged with these responsibilities, but not with making the rules. Governments of both the left and the right want to take credit for distribution of the fruits and rewards produced in the marketplace, without taking any of the entrepreneurial risk. Thus, they promote growth, support employ-

ment, praise stability, and extol equality of result via regulation and taxation, but they do not encourage equality of economic opportunity or the creation of wealth.

Americans, in general, do not view competition as a tool of social engineering, but as an instrument of economic good, which is used to make a profit so that companies stay in business and employees keep their jobs.[46] Americans believe, also, that inequitable results from competition in free and open markets and the inequalities in income that are produced, are not, by definition, wrong. On the contrary, if marketplaces are really open and competition operates freely, such differences generate incentives. It is free markets that offer choices to the individual. In the American mind choice means social and economic mobility, the chance to move up, to earn greater economic freedom. It is this dream of the possibility that gives American businessmen and -women their competitive spirit. It embraces hope, risk, incentive, initiative, and invention.

This attitude is not an example of the wish being father to the thought. Observers on farther shores have noticed it as well. In the mid-1970s, apropos of this conclusion, French journalist and politician Jean-Jacques Servan-Schreiber compared Europe with America: "We Europeans continue to suffer progress . . . Americans pursue it, welcome it, adapt to it."[47] Thirty years later a corollary to this observation was drawn, again by a Frenchman—Jacques Chirac, the president of France—who, speaking about France and Germany, concluded that "there is a sort of culture of pessimism in our countries." Noting that America is a land of many contrasts, including poverty and income inequality, he observed in April 2005 that "our American friends speak about their successes but never their difficulties. . . . When you have this cult of pessimism, naturally it does not foster creativity."[48]

The American spirit of competition, in practice, does not include the idea of equality of result because it is impossible to achieve. Americans, as well as Europeans, know that those who have tried to force the result in Europe have always failed. American business practices, served by the common law, serve the purpose of assuring a level playing field for compa-

nies in competition with one another. In real life, of course, it does not always work this way. Some competitors cheat, some lie and some steal, and some profit at the expense of others by tricking them, or by deliberately producing products of inferior quality. For such cases laws exist in America, as they do in Europe, to punish those who violate the rules. But when American businesses encounter problems, like deceptive advertising, predatory pricing and monopoly practices, they are dealt with differently: "instead of regulating business practices up front, the way Europe does—at great cost—the United States cedes much of the work to the legal system, which dangles the threat of financial ruin for companies that fail to protect the consumer."[49]

There is also another consequence which comes from how competition is practiced in Europe and America. In Europe the primary beneficiary is the government, and producers and consumers are secondary. In America the primary beneficiaries of competition are both producers and consumers. Americans create wealth, keep it, and decide how to spend it, which is part of the explanation for widespread philanthropy in America as compared to Europe.

In fact, the practice of philanthropy and volunteering is almost twice as common in America as it is on the continent.[50] In America, both are the exercise of private initiative to benefit the public good, also defined as "the organized expression of the highest of American ideals: the belief that Americans can create wealth, and then use it generously to establish organizations that act in good faith and have the wisdom, compassion and initiative to help others, without undue reliance on government."[51]

Americans decide, individually, how, what and whom they can and wish to help. Much of the achievement of social goals in America is accomplished by Americans helping each other, as a consequence of wealth created in the marketplace. Americans assume that success in the marketplace will give them, individually, the economic freedom to define and set their social priorities themselves. This approach helps explain why philanthropic contributions make up about 1 percent of America's gross domestic product, compared with 0.2 to 0.8 percent in European countries.[52]

As the European Union advanced into the twenty-first century the reaction among those following the progress from America was mixed. Some welcomed the EU as an unqualified opportunity. Those who believed in the inherent strength of free markets recognized that competition would make Europe and America both stronger, and neither weaker. This conviction rested on the assumption that the members of the EU would, in fact, realize their three objectives: (1) an operating single market in all areas of capital, goods, and services, (2) an EU budget that would become ‘‘the most important lever for making national budgets better geared to foster growth and employment,’’[53] and (3) unanimous observance of a growth and stability pact that ‘‘guarantees the cohesion of the single currency area in the absence of a fully-fledged political federation.’’[54]

If these goals were achieved competition with America would intensify. It would involve competition in trade and commerce, competition for productivity and growth, and competition between the euro and the dollar for investment capital. From a European viewpoint a thriving single market would generate jobs and productivity. From an American viewpoint the operation of a free marketplace produces better products, at lower prices, for more people, and in so doing contributes to prosperity and peace. The concerns represented by these two viewpoints were not entirely alike, but creation of a true single market in Europe was welcomed by Americans who had confidence in the principle and practice of competition.

There were also Americans, however, who looked at the EU and saw a potential new rival. Critics called competition between the euro and the dollar an inevitable clash for ‘‘control of the international monetary system.’’ They interpreted the differences between European supporters and opponents of a true single market as irreconcilable. They missed the existence of a strong EU military force and saw no prospect that one would appear in the foreseeable future. They anticipated that the great disparity between American defense expenditures and those of individual European

countries would stir controversy over the purpose of NATO, over the responsibility for peacekeeping operations, and over the appropriate use of military power versus negotiation and diplomacy. In the absence of the Cold War threat to European security, they argued that promises of opportunity alone could not be translated into common interests with which to frame a new economic, political and military relationship. In short, to some Americans, the rancor signaled that ''a once united West appears well on its way to separating into competing halves.''[55]

What received much less attention was whether competition could take the European-American relationship in a positive direction. Creation of the EU, as the centerpiece of post–Cold War Europe, was not inherently divisive, nor was it designed to be used as a weapon against an American rival. Americans who respected the independent spirit of the initiative awaited a strong competitor who understood that the rules of the marketplace had to be the same for everyone, that the game, as it were, had to be played fairly. From the American backyard the single market would represent a positive, competitive challenge that in the long run would sustain Europe and America.

A majority of Americans saw it that way. In a survey published by the German Marshall Fund in November 2004, almost seven out of ten Americans described strong EU leadership in the world as desirable.[56] Their support, however, rested on the tacit assumptions that, (1) strong leadership in both America and in Europe is complementary, and (2) that Europeans and Americans define the practice of competition the same way.

If there is a realistic possibility that European governments will moderate their vested interests, it will only come via the institutions of the European Union. Most European politicians do not have the confidence to attempt the changes by themselves. So they are using the institutions of the EU both as the means to create what amounts to the new *European socioeconomic model* of the Lisbon Agenda, and as the straw man to blame for the changes.

In the mid-1980s Margaret Thatcher considered the EU Commission

a threat to creation of a free market. But just twenty years later, in 2005, it was the un-elected commissioners who were playing the leading roles in the effort to make the Lisbon Agenda a reality. They were attempting to transform the nature and practice of top-down politics and economics in Europe, and to prevent the socialization of Europe via the backdoor. If there is a Lisbon battle plan, it comes from the commissioners, but their influence is limited by national interests. So it was in 2005 during the circuitous course of discussion and debate over creating a single market for services.

The potential impact of this market is enormous because services comprise 70 percent of the EU's economy, and would allow a multitude of blue-collar professions, such as carpentry or plumbing, and hundreds of others, such as architects, management consultants, doctors and nurses, insurance and transportation companies, investment advisers, bankers, caterers, professors and lawyers, to compete in any and all of the EU's twenty-seven member countries. As is already the case with the disappearance of customs duties on goods shipped from one EU country to another—this affects all consumer products, including food and clothing—increased competition will be the result. The beneficiaries will be consumers.

This EU initiative dates from 2003, when the Dutch commissioner for the internal market and services, Frits Bolkestein, proposed eliminating national barriers to services. Bolkestein, who is a member of the Mont Pèlerin Society, was taking another and logical step down the path endorsed in Lisbon by the EU's members, including France and Germany. The directive represented the continuing effort of the European Commission to expand cross-border competition.

Fierce opposition to this measure, however, emerged in 2005, when the president of the European Commission, former prime minister of Portugal Manuel Barroso, recommended implementation of Bolkestein's proposal. While it was welcomed by those Europeans who believed in the single market, it was criticized by selected politicians on the left, the center, and the right within the EU, and particularly by the governments of France and Germany. Were conservative Jean-Pierre Raffarin and socialist Gerhard Schröder opposed in principle? Were they really unwilling to give

up control over "their markets of services"? Or did their opposition reflect the normal conduct of contradictory politics in Europe?[57]

The change in political weather highlighted, once again in the short history of the EU, the attachment of European political leaders to contradictory realities. To make their countries competitive in an expanding world of global trade, they extolled the idea of the free market, but even as they championed reforms, they proclaimed a state responsibility to protect their citizens against the short-term effects.[58] What they feared, or so they said, was "that new rules could allow cheap providers of services from new EU states like Poland and the Czech Republic to undercut local firms, thus destroying jobs."[59] To justify their opposition they invented the specter of "the Polish plumber," lurking about on French and German borders, waiting to seize opportunities for work at below-market wages. What was really at stake, however, were the political jobs of EU leaders.

In March 2005, in response to what had become a quarrelsome political fight, Bolkestein's successor Charlie McCreevy, a strong advocate of the directive, reversed his earlier position and withdrew his support for those providing health care services who wished to work across national borders. Socialists in the EU and in the European Parliament publicly claimed a political victory, while the commissioner announced that a new effort to create an acceptable plan would follow.[60] His overriding concern was that, in his estimation, 600,000 jobs could be created in this single market for services: "If . . . 70 percent of the EU's GDP is tied up in services, you don't have to have a Ph.D. in economics to realize that it is in the services area that you must do something to galvanize Europe's economic activity."[61]

This short episode in a continuing story illustrates the EU's single market paradox. Two, countervailing forces are in constant conflict—opposition to reforms and support for their implementation. As a result the picture we see, as spectators, is full of disorder. But we should be cautious in how we pass judgment, because beneath the surface, supporters of a single market know where they are going. To get there they know they cannot

take a direct path, so they are taking a European one. It is indirect, but it will eventually end at the doors of the European Commission.

Will they arrive? If not, great expectations will remain just a dream, the gossamer of a benevolent fiction called *the European socioeconomic model.* By the same token, is it possible that those Europeans who hear the drumbeat of the single market, have recognized something in *the American model* they admire, and have decided to adopt the rules of the American game? An indication of what the answer may be appeared in March 2004, when EU enterprise commissioner Erkki Liikanen announced an ''Action Plan for Entrepreneurship.'' He pointed out that in America almost three times as many people are involved with new entrepreneurial initiatives as in the EU, and that, therefore, the focus of his plan would be on changing the mind set of Europeans, to encourage them to take risks and ''to see self-employment as a preferred route, rather than a last resort.''[62]

Critics may argue that Liikanen's proposal had all the earmarks of rule from the top down; but if it did, it was one with a difference. The proposal, indeed, came from the top, but the content was all about rule from the bottom up. Liikanen's idea had little in common with French and German *dirigist* rhetoric about creating ''European industrial champions,'' as though champions are made by state decree and clothed in national uniforms rather than by hard work and competition. The EU's commissioner for competition, Neelie Kroes, was well aware of this distinction, and was supported in her skepticism by the president of the European Commission in early 2005: ''There is a tendency in Europe, faced with increased competition from other parts of the world, to go for interventionist policies . . . I'm not against European champions, but they must come out of competition.''[63]

While a glance still finds the path to the single market strewn with economic and political boulders, the nature of the European marketplace is changing. Visa controls are disappearing, customs duties have been abolished, and national telephone monopolies have been privatized, one by one. The result has been the emergence of new companies. Competition

in the telecommunication market has produced broader choice, improved service, and lower prices; the best examples are found in France and Germany. But the decisive change, thus far, has been introduction of the euro. Euro-bonds, coins and paper money have transformed Europe's commercial landscape, and have given as well an enormous symbolic push to the legitimacy of the competitive spirit.

More Europeans own stock today than at any previous time in European history. For the first time since creation of the Common Market in 1957, stifling tax policies and constricting regulation are under major attack by private businessmen and -women, and by some political leaders of both the left and the right. Those who believe in free markets may ultimately get what they wish for, and those who do not may get it in spite of themselves.

For decades Europeans have criticized Americans for being consumed with making money. But today, thanks to the end of Europe's division, to formation of the European Union, and to the Internet revolution, new generations take pride in making a profit, reject the socialist idea that work is bad, and believe that stock options are not the invention of selfish capitalists, but a positive incentive to create wealth while building something productive and progressive. The Old World has begun the laborious task of reinventing itself.

Both the euro and the Lisbon Agenda are stages along that path of reinvention. For members of younger generations, traveling down the path is becoming part of their daily lives. Those born after 1989 do not have a long memory of anything else, nor are their sentiments emotionally touched by a photograph of the president of France and the chancellor of Germany standing side by side at a military graveyard. This generation does not think of the European Union just as an antidote to war. They think of the EU as part of their economic future, and they want it to succeed.

How they will play their roles in making the single market a reality still lies ahead because it is not yet time for them to take the political stage. It is safe to say, however, that when they do—and it will be soon—fewer of

them will share the predilection for rule from the top down as practiced by today's political leaders, who, for the most part, are products of a post-war era that is disappearing.

Members of Europe's younger generations will not be unreserved believers in the old *European socioeconomic model*, because they know that the adversarial concept of the public good versus the private interest is out of step with their modern world. The old approach is living on borrowed time. Class conflict no longer exists in Europe, except in political speeches and history books. European society has become bourgeois, while the size of the so-called working class has relentlessly grown smaller since 1945. Although the social contract is still the common practice and not the exception, continental rule from the top down is under attack everywhere in the European Union.

As Frits Bolkestein asked rhetorically in mid-2005: "How social is an economic model that throws up 12 percent unemployment as in Germany, or 10 percent as in France?"[64] And, as other Europeans have pointed out, it is neither a model nor is it social; and no one wants to emulate it. But if its future is still uncertain, the passage of time tells us that a new generation is preparing to inherit the legacies created by Europe's leaders since 1945. Just as Europe was a very different place at the end of the Fifty Years' War in 1989–1990 from what it had been in 1939, it will be profoundly different fifty years from now. Will Europe's future leaders, now in their twenties and thirties, agree with German chancellor Schröder's prediction, made at the end of June 2005, that "those who want to destroy this model due to national egoism or populist motives do a terrible disservice to the desires and rights of the next generation"?[65] Two years later the verdict was still out: not only had IG Metall forced a substantial wage increase in the spring of 2007, but Germany's unemployment rate had dipped below four million for the first time since 2002; the EU rate as a whole had dropped to its lowest point since 1993. In addition, in May 2007 the Socialist Party of France was soundly defeated in national elections for the French presidency.