

A very mixed bag: economics and politics in today's Europe.

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Once you get past the slanting rain under the steel gray sky in July, the Christmas decorations put up by Muslim workers under government contract, the piles of newstand pornography placed at toddler height, the dogs that get into barking duels from under the tables of upscale restaurants, and the fact that a pregnant woman will lend you her lighter to ignite your Cuban cigar, the most surprising thing about Brussels is the abject lack of self confidence.

This strange diffidence colors both the economies of the euro zone and the politics of the European Union.

By the numbers, Europe is probably the most important economic sector in the world. Thanks to decades of agreements stretching back to the Treaty of Rome in 1957, Western Europe is now a giant free trade zone of more than 300 million consumers. This makes it a larger market than the U.S. and Canada combined. Within recent years, consumer choice has improved vastly (Belgian consumers are now pleasantly shocked to find refrigerators with ice cube dispensers), and companies are now able to develop large economies of scale, like their American rivals. The "single market" as the eurocrats refer to it, is actually an historic triumph. Never before have all the European peoples been able to trade so freely across borders. Yet this grand achievement brings only shrugs from high-level bureaucrats and ordinary Europeans.

The other great economic achievement of the E.U. is the euro, the currency now in use from Dublin to Athens. The euro has created price transparency across Europe--people know exactly how much they will save by crossing the border to Luxembourg for gas, Britain for electronics, and Germany for books. This has increased competition and, where allowed by local governments, slashed prices in many places.

Indeed, all prices across the euro zone seem to be converging, as economists predicted. This is good news if you live in overpriced Helsinki, where a beer at a local, unhip bar will cost \$ 16 for an eight-ounce glass. But if you live in Athens, one of the poorest major cities in Europe, the euro is not so welcome. Kathimerini, the Greek daily, recently compared the cost of staples such as coffee and bread in Brussels, Rome, Munich, London, and Athens--and found that prices have soared toward the European average in the Greek capital in the first nine months of the euro's introduction. Meanwhile, the typical Greek earns 30 percent less than the E.U. average. So prices are up and wages are not. Like the Greeks, the Portuguese and the Spanish have seen prices outpace wages, and blame the euro for their troubles.

The euro is causing similar problems in other areas. While the 12 members of the euro zone now share the same central bank and currency, they continue to have very different economies: Ireland is booming, Germany is floundering, and Portugal is sinking. With the euro, those countries can no longer use their national banks to make helpful corrections.

Some say that these sorts of tensions will ultimately tear the euro apart. I don't believe it. The European Central Bank seems to be managing the euro as a stable store of value, not a disposable currency that can be inflated to float over economic troughs. And that is a good thing. The history of the post-World War II currencies of Greece, Italy, France, Spain, Portugal, Belgium, and Luxembourg has been one of repeated devaluations and inflations, which undermined sustainable growth. Now that European politicians no longer have the power to inflate their money supply, all of Western Europe has sound money for the first time in 70 years. That is too great an advantage to throw away.

But again, this triumph inspires no self-esteem among Europeans. They find the euro convenient and necessary, but it strangely doesn't inspire pride.

Why doesn't the vast European economy make Europeans happy? Because they view big corporations as dishonest, vaguely criminal enterprises, and because they know unions and government have made strong future economic growth all but impossible.

European corporations disclose very little to their shareholders, and often pad their payrolls with cousins and cronies. In Germany, Europe's largest economy, most major companies have interlocking boards with their banks and suppliers. It is all very cozy, but doesn't inspire trust. When Belgium's biggest high-tech startup, Lernout & Hauspie, was found by the Wall Street Journal Europe to be cooking the books, American investors were shocked and angry. The Belgians just shrugged at the company's behavior, and suggested an American competitor had paid off the Journal for the expose. A Belgian senator told me that, "It is the way things work everywhere in business." After three years of covering European business as a journalist, I can say it is certainly the way many European businesses seem to operate. And who can be proud of that?

And consider the regulatory restrictions that sap Europe's economic strength. On the Continent, stores must close by 7 p.m. and are not allowed to open at all on Sundays without a special hard-to-get permit. Sales are permitted only twice a year and must be held at the exact same time that all other local competitors are having their sales. The one exception: A store may have an anniversary sale, if the year of the anniversary is evenly divisible by 25. No, I'm not kidding--that is the law.

European labor laws are, if anything, much worse. Firing an employee can take up to two years, so any new job is created with great trepidation. Many positions have been automated away: Parking lot and car wash attendants are now machines--the only people you see are other customers. (Even the emergency number in the parking garage is automated.) In Belgium and France, any employee is entitled to a minimum of 26 paid national holidays--in addition to his vacation. The average German works nine and a half months per year, and, thanks to labor legislation pushed by unions, is paid for 14 and a half months. In Germany, the unemployed are entitled to a Christmas bonus, paid for by the taxpayer.

Here in the capital of Europe, nothing effervesces. Certainly not the political buildings that were intended to capture Europe's grandeur. Sit in a cafe in Place Luxembourg, and the immense glass and steel structure known as the European Parliament stretches toward the horizon in both directions. It looks like a beached ocean liner.

To some American critics, the European Union is dangerous. It is the battleship Bismarck--blunting powerful American corporations, blocking sales of American beef, corn, and bananas, and plotting to demolish American leadership in world affairs. They cite E.U. attacks on the U.S. over the Kyoto Protocol on global warming, repeated attempts to undermine President Bush's missile-defense shield, European stealth efforts to push the U.S. off the U.N. Commission on Human Rights, and European hesitancy about fighting the war on terror. These observers see the E.U. as an emerging superpower to rival the U.S.

While there are elements of truth in these criticisms, they miss the bigger picture. The E.U. is a muddle, a bouillabaisse of various ingredients. Some of what it does should make many Americans cheer: dismantling numerous trade barriers among European nations and forcing the deregulation of many industries. E.U. directives require member states to privatize their post offices and telephone monopolies by the end of the decade. The E.U. recently forced Germany to stop subsidizing its state-run banks, deregulated electricity markets without California-style blackouts, and eliminated border-control posts across the continent. It is now as easy to drive from France to Germany as from Virginia to Maryland. As in the United States, the pulling down of internal European border controls has spurred trade and tourism.

Of course, there are also laughable examples of over-regulation. The E.U. recently issued rules requiring buses to have uniform designs--signs must be exactly so many centimeters above the floor, and the pitch of the passenger seats must be precisely calibrated. Other rules stipulate the speed of toilet-water flow and the temperature of beer. "It could be worse," a German lobbyist told me recently, "in Prussian times, we wrote laws telling people how to use a ladder."

These intrusive regulations weigh down European businesses and raise prices for consumers. Many are written specifically to protect European companies from American and Japanese competition. Many more are written to safeguard the interests of Europe's politically powerful labor unions. Unions are so dominant that members of the European Parliament, who are obliged by treaty to meet for one week per month in a separate building in Strasbourg, France, timidly schedule their meetings around any hint of rail strikes. Blocks of back-up plane tickets are bought months in advance, just in case.

So today's European Union provides plenty of fodder for europhiles and euroskeptics alike. On balance, there is little reason for Washington to fear Brussels. There seems scant threat that the E.U. will become a super-state capable of challenging America any time soon. Aside from support staff and an army of translators, the E.U. employs less than 3,000 mandarins--for a confederation of some 350 million people. The E.U. budget is roughly 1 percent of the E.U.'s combined gross national product (versus the U.S. federal government's more than 20 percent take). And substantial changes in the E.U. are harder to engineer than amendments to the U.S. Constitution. Nor is the euro about to displace the dollar as a world currency.

"The single market and currency increasingly appear not as the first major steps toward a political union, but as the finishing touches on the construction of a European economic zone," argues Andrew Moravesik in *Foreign Affairs*. One hopes he is right. Though boneheaded regulations will continue to cascade, pointless trade disputes will keep simmering, and plenty of leftwing bluster

will still be heard, there are good reasons to think Mr. Moravesik will be right. Consider the E.U.'s history.

It began as the European Coal and Steel Community in 1951, a post-World War II effort to speed up rebuilding. The Treaty of Rome, in 1958 (created the European Economic Community. This ultimately gave rise to the common market, a Europe-wide free-trade zone, and numerous supra-national institutions like the European Commission, the Council of Ministers, and the European Court of Justice. (The European Parliament came much later, in 1978.)

Part of what makes the E.U. confusing to Americans is that each of its institutions seems to do a bit of everything. The Commission, now composed of 20 members selected by 15 national governments, is a hodgepodge of executive, legislative, and judicial functions. It oversees the work of agencies, known as Directorates General (DG), that have much more power than American cabinet departments or regulatory agencies--including the power to write legislation (although it must be approved later by the other institutions), enforce the rules they write (sometimes over the determined opposition of national governments), and interpret the rules (like American courts do).

There are very few checks and balances. Europe's courts cannot overturn these regulations unless they violate a specific treaty provision, which is rare. Individual citizens or businesses cannot bring a case to overturn a regulation, only that rule's application to themselves. Commission employees can't easily be reined in, as they are not appointed by commissioners or elected officials but rather by a Civil Service-like procedure. They can only be transferred, not fired. "Maybe if they sleep with a commissioner's wife. Maybe," says a Dutch Commission staffer. He's not joking.

Nor are there external checks on their authority. Bureaucrats are not required to open their meetings to the public. Reporters have no "Freedom of Information Act"--like powers to force the E.U. departments to release documents. Not that they would use them if they did--many European reporters are funded directly by national governments or indirectly through political parties. In Brussels all journalists must register and have government-issued "press cards," which can be taken away at government discretion. These controls are rarely necessary anyway--the Continental press is a compliant bunch. Attend the daily press briefing at the Commission and you'll hear lots of questions like "When will the quarterly agriculture report be released?" If it gets too tedious, journalists can wander a few steps outside the briefing room to the subsidized bar.

And while the 20 commissioners can kill or rewrite the legislation that is drafted for them by unelected junior staffers, they usually timidly adopt most of what the bureaucrats hand them. "About 95 percent of what the Directorates General write is taken on board by the Commission," estimates Rod Hunter, a lawyer-lobbyist working in Brussels for the past decade.

Tracing a bill through the alphabet soup of the Brussels bureaucracy may be the best way to see how the system works--and why it is unlikely to make Europe a mighty global force.

Say you're 25 and have just passed the E.U.'s demanding civil-service exam. You've landed on the approved-to-hire list and after waiting a few years for a job to open up have been offered a spot at

some humble DG, say "Environment" or "Information Society." (Yes, that's a real agency. Don't ask what it does; it has more unrelated missions than the U.S. Commerce Department.)

You like the huge, tax-free salary and generous benefits. You show up at a brand-new building in central Brussels, brimming with confidence. You now have the power of a U.S. Congressional staffer, a federal regulator, and a judge all rolled into one. Your agency itself is a cross between a Congressional committee and an executive agency.

After a few months, you've tired of helping colleagues develop their regulations. Having learned the ropes, you want to create some of your own rules. Maybe a corporation or union has sent you a binder full of ideas. Maybe you dreamt them up yourself. Perhaps you decide that "Europe" needs common standards on bicycle brakes. Too late; that's already been done. So you focus on bicycle tires instead. Different member-states have different regulations on the width of bicycle tires. That, you say, creates "unfair trade." (No one mentions that tire makers are doing just fine.) So after a few internal meetings and a nod from your "head of unit"--the 40-something bureaucrat in charge of a few dozen junior bureaucrats like you--you draft the legislation.

Next comes "consultation." You send the paperwork to the low-level government workers who regulate bicycle tires in the 15 national governments. They almost invariably support more controls. They have a few ideas of their own, and the draft gets amended. Sometimes a pet idea is inserted that some national regulator couldn't get his own government to pass. Within a year or two, all those unelected administrators sign off.

You send the draft up the chain at your Directorate General. Another set of unelected officials takes a look. Finally, the head of the DG, unelected of course, approves it. Then comes "inter-departmentalism." The unelected guys at the other DGs get a crack. This is often the first instance of political resistance. Different DGs plump for different interest groups and nations. DG Trade wonders if it'll cause problems with Japan or the U.S., DG Legal doesn't want to have to defend it at the World Trade Organization. DG Agriculture, dominated by French interests, frets that the rule may upset Michelin. DG Employment looks it over with one eye on the unions. The draft is adjusted to protect key constituencies, and some DGs sign on in exchange for your DG's support of one of their drafts.

Usually, the five to seven personal staffers of each commissioner--known as their "cabinets"--play dealmaker. They push for the interests of the commissioner, or his home government, or the Directorate General that reports to him (though technically the commissioners represent only the pure interests of "Europe"). Perhaps the best player of this inside game is E.U. Commissioner for Trade Pascal Lamy. A former chief of staff to another commissioner, he knows all the arcane internal rules. He knows when changes can be made on the sly--like when a draft is translated into each of the 12 official E.U. languages. He and other savvy operators know the points where any changes are forbidden, and he uses those junctures to block initiatives he opposes.

Lamy and others like him have mastered the art of dropping friends and allies, often of strategic nationalities, into key posts in the bureaucracy that are technically outside their official control. This allows them to get inside information about key proposals long before the process of formal circulation begins.

Once the Directorates General agree, the new law goes to the Commission itself. It is usually passed unanimously. When anyone balks, he is told to be a "good European." It's kind of like being told not to be such a racist in America.

At this point, the Council of Ministers and the European Parliament take a whack at the new law. The Council is composed of heads of state, so it usually delegates authority to the relevant government ministers (recycling bills go to Environment ministers, for example). These ministers are usually elected to represent a small district in their member country, then appointed by their party to run the agency in question. Their interest is to enlarge the power of that agency and maybe become prime minister one day. If the ministers can't agree, the prime ministers--the Council of Europe--get involved. In most cases, Council support does not have to be unanimous, a "qualified majority" will do.

Meanwhile, the European Parliament is beavering away. The parliament has long been derided as nothing but a "talk shop." That is changing; it recently acquired the power to approve the Commission's budget, amend legislation, and compel Commission staff to testify. Most of the potential power of the legislative branch remains unrealized, however. Its members tend to be either old lawmakers whose careers stalled in their national parliaments, or young party loyalists seeking a stepping stone to political office back home.

When any bill hits the parliament, the various political parties appoint "reporteurs" to study its technical details and recommend how party members should vote. So usually only a handful of 626 members of parliament have actually read the bill. The parties regularly negotiate with other parties to create a block of votes. Party-line and block-line votes are common. There are no filibusters and few other delaying tactics. Most bills pass with the first vote. Bills can be amended at a "second reading"--and that's when the restaurants near the parliament are abuzz with dealmaking. If a bill fails on "third reading," it must go back to the Commission for redrafting.

When a bill passes the European Parliament and the European Council, it is law. A failed initiative means years of negotiating down the drain--something no one wants to take the blame for. So most bills pass, in some form.

This is not exactly a formula for nimbleness. The entire system is primed to produce more and more regulations. Nor does it build popular support; democratically accountable officials only become involved late in the game, and so have little ability to do more than edit the legislation. On any given day, the real influence lies in dozens of secret meetings in Brussels between various unelected bureaucrats. (The Commission staff is aware of this issue and refers to it as the "democratic deficit.")

Watch this process up close for a while, and you may become gloomy about Europe's future vitality. The E.U. often looks like a machine ready-made for cranking out socialist legislation. And it is. But the forces of economic liberalism appear to me to be winning, trimming away barriers to trade, sensibly pushing deregulation and privatization. There is a growing consensus in Brussels that Europe needs freer markets, albeit without upsetting too many home-country interest groups.

Americans should not worry that the European Union might succeed; they should worry that it might fail.

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