

# Creative Europeans 4, Anglo-Saxon Cutters 0

The real brains behind economic recovery are on the Continent, not in deficit-obsessed Britain or America

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What poetic justice. Yesterday Barack Obama and David Cameron reaffirmed the “essential relationship”, a meeting of minds across the Atlantic that has shaped the world’s geopolitical and economic thinking since the “special relationship” of Ronald Reagan and Margaret Thatcher. And just as the US and British leaders did this, the main alternative to the Anglo-Saxon worldview — the European federalism of Jacques Delors and Helmut Kohl — fell into its death throes with the imminent bankruptcy of Greece, to be closely followed by Ireland, Portugal and Spain.

Poetic justice indeed, but perhaps of an unexpected kind. Could it be that confidence in the Anglo-Saxon model of governance, which has enjoyed an unexpected revival after the 2008 crisis, is reaching the point where nemesis follows hubris? Is it possible that Europe’s present tribulations are not just the death throes of the old euro but the birth pangs of a new European federation that could be an example to the world?

Last week I chaired a session of the

Munich Economic Summit, organised by Ifo, the leading German economic research institute. The conference title, “The Role of the State in a Globalised World”, drew attention to the widening gulf between European and Anglo-Saxon thinking.

For Europeans of all political persuasions it is clear that redefining a new and more creative relationship between the State and the private sector is the main challenge of the post-crisis period. The belief in constructive state intervention is, if anything, even stronger among the pro-business conservative parties that currently rule Germany, Sweden and other successful northern European economies than among their social democratic oppositions, influenced as they still are by a Marxist worldview.

In Munich, for example, Anders Borg, the brilliant Swedish Finance

There were crowds at Hermès and Armani. Tiffany’s was empty

Minister, focused with laser-like precision on the crucial roles of government in actively managing economic demand, subsidising full employment, financing infrastructure investment and research, improving education and designing intelligent welfare safety nets.

German businessmen spoke with enthusiasm about the opportunities created by state-sponsored investment

in solar energy and the cleverly designed job subsidies that averted a post-Lehman unemployment crisis such as the one in the US. The speakers from America and Britain, by contrast, repeated the mantra of tax cuts, deficits reductions and labour deregulation, with government interference as the root of all economic evil.

As I listened to Mr Borg and to Hans-Werner Sinn, the famously free-market head of Ifo, waxing lyrical about the four indispensable roles of government — stabilisation, regulation, redistribution and public goods provision — I realised that the reinvention of capitalism made necessary by the crisis may happen mostly in Continental Europe, rather than Britain or the US.

There are four broad reasons why the period ahead may surprisingly go down in history as a “decade of Europe”, if not quite a European century. The first is that present financial crisis can only be resolved by a further big step towards economic and political integration among the members of the eurozone. A full-scale European federation will almost certainly be created if the only alternative is a break-up of the euro. But will such a federation be economically successful? This leads to the second reason.

Europe has been much better than America in producing the goods and services demanded by China, India and the other emerging nations that will power growth in the decades ahead. EU exports to China, for

example, are double US exports and are still growing faster, despite the competitive advantage enjoyed by American exporters from the weak dollar. It seems that German machine tools are simply better, while French and Italian luxury goods are far more attractive than American ones to the rising middle class. When I was in Hong Kong this month, the Hermès and Armani boutiques were running queuing systems to restrict the crowds

US gridlock means they need a new crisis bigger than 2008

of Chinese tourists waiting patiently outside. The Tiffany’s boutique, by contrast looked fairly empty. And does anyone outside America really prefer a Cadillac or Hummer to a Mercedes or BMW?

The third reason for optimism is that Europe has become remarkably cost-competitive, not just because of productivity growth and wage restraint in Germany, Sweden and the other now-booming Nordic countries, but because of the integration of low-cost East European workers into the German-led industrial system. Polish, Hungarian and Slovak workers have cut costs for German businesses just as Mexico has cut costs for the US business, but education levels and infrastructure in Eastern Europe are far superior. Another big advantage is that Europe is geographically compact.

The distance from VW’s headquarters in Wolfsburg to Poznan, where the Passat is made, is only one sixth the distance from Detroit to Monterrey.

Finally, and most importantly, Europe is well placed to develop a new model of capitalism because co-operation, rather than confrontation, between business and government accords with European mixed-economy political traditions. In America, the rise of the Tea Party and the political gridlock in Washington suggests that overcoming free-market dogmatism will require another crisis even bigger than 2008. In Europe, by contrast, there are already signs of success for new models of mixed-economy capitalism.

As Mr Borg noted, Sweden stabilised its economy quickly after the crisis by using strong fiscal and monetary stimulus, along with very active labour market policies. Even more impressively, it has contained the long-term costs of a very generous welfare state and stabilised healthcare spending at just over half the US level, while achieving better medical outcomes. Sweden has achieved such apparent miracles by combining state-guaranteed universal access with elements of private enterprise provision, not only in healthcare but also in education and other traditional functions of the State.

Such creative compromises between the market and the State would be impossible in the Anglo-Saxon tradition. Yet on such collaboration the future of capitalism will probably depend.