The Economics of Marginalization

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LINCOLN—As Thomas Friedman tells us, globalization is flattening our world. Advances in technology, commerce and communication are breaking down national boundaries and leveling the global economic and political playing fields. Alas, Europe is becoming less and less competitive in this flat world.

The numbers tell the story. According to statistics from the OECD and the World Bank, administrative procedures in Germany, Belgium and Holland are over 50 percent more restrictive than in the U.S.; Japan has twice as many top patents as the EU-15; both the United States and Japan spend more on public and private research and development work than the entire EU-15 combined; Italy, France and Germany have some of the most over-regulated markets in the developed world, and some of the lowest female employment rates; and it is twice as difficult to set up a new business in Poland, Greece, Hungary, Slovakia or France than it is in Britain or the United States.

What does all this mean for the EU? The answer is simple. Europe's historically powerful economic position has caused it to become complacent. As a result, the Continent is now completely unprepared for the globalized world. According to the European Commission's own forecasts, by 2050 the EU's share of world GDP will have almost halved. That, moreover, is a conservative estimate; independent reports anticipate that the EU's share will plummet from 35 to just 15 percent in the not-too-distant future—all because of the factors outlined above.

All of which makes sound economic sense. If you make it more difficult to start new businesses, then people will either not start them or, worse still, start them somewhere else. This is happening right now all over Europe; the flat world means that people in Beijing can have access to the same knowledge base and the same information superhighway as people in Brussels, but to much cheaper labor.

A rational person is likely to conclude that the answer to this problem lies in more competitive economic practices. Not so the EU. The majority of Europe's politicians truly believe that Europe is strong enough to resist the onslaught of globalization and can protect its precious "social market" by legislating, regulating, and otherwise attempting to handicap emerging competitors. The EU has raised tariffs, retained agricultural subsidies, and pursued trade wars with the flat world on everything from beef (with the U.S.) to textiles (with China). But there will only be one loser in this economic war.

Nor does Europe appear remotely ready to change course. That trade policy in the EU is still decided in secret by the Orwellian "Article 133 Committee" speaks volumes about Europe's ability to move into the modern age. China is set to become the biggest economy in the world by 2050—the same year that the

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EU's share of GDP hits the new low of 15 percent—and intra-European trade is growing more slowly than the rest of the world economy. If the EU continues to stand still, the world's "largest trading bloc" will soon disappear from the rear-view mirrors of the Chinese, Americans (North and South) and Indians.

Europe, in other words, has to join the flat world if it wants to avoid being flattened by it. Outdated protectionism has to be abandoned in favor of liberalization and free markets. Europe can succeed in this environment; countries like Britain and Germany have historically built their economies on innovation, and the Eastern European countries are now some of the most productive anywhere in the world. If the EU's archaic approach to free trade is jettisoned, then innovation and productivity can be unleashed.

It is hard to envision that this will ever happen, however. The President of the European Commission continues to defend the Common Agricultural Policy, and last year's attempt by French Prime Minister Dominique de Villepin to make the country's employment laws more favorable to businesses was defeated by an ignorant opposition and a brainwashed public. Sensible people talking about the need to accept globalization and free trade are being drowned out by scare-mongering about "outsourcing" or "the rise of China."

Historically, the countries of Europe have always benefited when they have engaged with the world economy. We have absolutely nothing to fear from competition while we are pioneering economically, fiscally, politically and socially. However, when we chose to rest on our laurels, Europe slides backwards and innovation moves on to more ambitious lands. If we don't encourage these entrepreneurs and innovators, they will simply go elsewhere, and Europe will be the poorer for it.

Columbus was right when he sailed for the Far East: Europe is no place to be in a flat world.