

## Summary

*On April 29, on the eve of the European Union's historic enlargement, the New Atlantic Initiative at the American Enterprise Institute and the Konrad Adenauer Foundation convened the European-American Economic Roundtable in Brussels. Preceded by remarks delivered by Erkki Liikanen, EU commissioner for the Enterprise and Information Society; Nicolas Burns, United States ambassador to NATO; Roland Koch, prime minister of the State of Hessen; and James Sanford, deputy assistant U.S. trade representative for Europe, the conference focused on tax competition, restrictions on military technology transfers and protectionism in agriculture, as well as the economic implications of Europe's demographic crisis. Otmar Issing, board member of the European Central Bank, addressed the growing role of the euro over lunch. In a keynote address over the conference's concluding dinner, John Bruton, former prime minister of Ireland, argued that reports of Europe's imminent demise are premature*

### **Panel I**

***The Triumph of Free Trade versus Protectionism:  
Anti-dumping, Safeguards-New Protectionism for Steel, Chemicals and  
Semi-conductors***

**Franz-Josef Reuter, Konrad-Adenauer-Stiftung (chairman)**

**Matthew Baldwin, Cabinet of EU Commissioner Pascal Lamy**

**Claude E. Barfield, AEI**

**Paul Rübigen MEP, Committee on Industry, External Trade, Research and Energy of the European Parliament**

Trade volume between Europe and the United States constitutes over a billion euros a day—20 percent of world trade. This is a normal trade relationship with no structural trade deficit. The notion that there is a trade war is absurd; conflicting interests affect only 1 or 2 percent of U.S.-EU trade. Genetically-modified food remains one of these conflict points because a majority of Europeans are opposed to purchasing these products.

However, at the same time, protectionism is increasing; over the last decade the number of antidumping measures introduced in developed countries has been steadily growing. Sometimes markets need time to adjust, but imposing temporary safeguards is a better solution than antidumping. Members of the World Trade Organization may restrict imports for a limited period of time if domestic industries are injured or threatened by a surge in imports. Safeguard measures were always available under GATT (Article 19) but were infrequently used. Safeguards can be imposed without allegations of unfair trade—there is not a single case against safeguards reviewed by the WTO.

An U.S.-EU market modeled on the EU's own internal market could be advantageous to transatlantic trade. The current system does not always work

for medium and small-sized enterprises. However, it is unlikely that the United States would enter into separate trade agreements with the EU, because this would isolate Asia. America's and Europe's trade problems must be resolved in a global context.

## **Panel II:**

### ***Allies or Rivals? The NATO Defense Concept versus U.S. Export Controls***

**Radek Sikorski, New Atlantic Initiative/AEI (chairman)**

**Thomas Enders, European Aeronautic Defence and Space Company**

**Scott A. Harris, Lockheed Martin Global Inc.**

**Pascal Meunier, Thales International**

**General Joseph W. Ralston, Cohen Group**

Military technology transfers are essential for enabling allies to operate together. During the war in Kosovo, the United States had to abandon components of its fighter-plane communications network—thus risking the planes being shot down by the Serbian army—in order to perform joint operations. Allied technology needs to be compatible, but the EU is unlikely to increase military spending. Additional financial resources can only come from reducing manpower levels and reforming European militaries. The main task of the European Defense Agency should be to introduce unified standards for military technology.

The difficulty with the European approach is that while the EU demands that the United States share its military technology, some EU countries favor the establishment of national military champions. The United States views its advanced military technology as the factor that makes it superior. America spends about \$40 billion annually on military research—more than the defense budget of largest European NATO member. Not surprisingly, the United States is hesitant to share the benefits of its costly innovations. There have been successful joint projects, such as the F-16 or AWACS programs; however, having many partners involved in such projects makes them time-consuming. Europeans lack not only state-of-the-art technologies but even simpler equipment such as military transport planes—the United States has several hundred of them, while the European NATO allies have less than twenty.

## **Panel III:**

### ***European Tax Competition – An Idea Whose Time Has Come?***

**Werner Mussler, Frankfurter Allgemeine Zeitung (chairman)**

**Kevin A. Hassett, AEI**

**Michael Jäger, Taxpayers Association of Europe**

**Jacek Rostowski, Central European University, Budapest**

**Robert Verrue, Directorate General, Taxation & Customs Union, European Commission**

Competition ideally leads to an equilibrium and helps to find the best tax policy. The introduction of “social market” policies to post-communist countries proved to be a disaster; tax competition is one of the very few advantages that their economies continue to have over western European economies. By criticizing “unfair tax competition” in new EU member states, some German politicians from both Left and Right show a defensive mindset. They hope that the accession of new EU members will change as little as possible in the old European Union instead of viewing EU enlargement as an opportunity to bring about reforms. Many West German politicians behaved the same way at the time of re-unification of Germany.

If Gerhard Schroeder succeeds in harmonizing taxes across Europe, it will not only slow down growth in the new EU states but also reduce growth in Western Europe. Europe is not alone in the world. European firms, instead of moving within the EU and contributing to EU wealth, will leave Europe to go elsewhere. Old EU members should be learning from some of the new ones: Estonia, Slovakia, and Russia have a flat tax. The accession of the new EU countries will further decrease the average corporate tax in Europe. Many old EU members regret that any EU decision on harmonizing taxes requires unanimity, but Chancellor Schroeder’s criticism of the new EU members might be a negotiating tactic to decrease Germany’s contribution to the next EU’s budget, which is coming up for debate.

***One Foot in the Grave? The Economic Implications of Demographic, Migration, and Welfare Policies in Europe and in the United States***

**William Drozdiak, German Marshall Fund of the United States (chairman)**  
**Thomas Jansen, Economic and Social Committee of the European Union**  
**Wilfried Prewé, Hannover Chamber of Industry and Commerce**  
**Robert J. Samuelson, Newsweek and Washington Post**  
**Graham R. Watson, European Parliament**

Demography is now the most important context for European policymaking. Europe needs more economic migration and has to increase the number of years of work necessary for retirement—especially for women. About 24 percent of German women do not have children. That number is as high as 44 percent for women with university degrees. Chancellor Schroeder has started talking about reforming the welfare state, but he has no idea of the scale of this challenge. Hopefully, Schroeder will be the Mikhail Gorbachev of the welfare state—he will destroy it through tinkering.

In the United States, the population of the elderly will double by 2030. Eight percent of the GDP and 40 percent of the U.S. budget are now devoted to various benefits. In thirty years time, those numbers will grow to 13 percent of the GDP and 60 percent of the budget. Financing this burden will involve cutting programs

and/or increasing taxes. Demographic changes were totally predictable and fixable, but in democracies such problems can only be tackled when the situation is almost out of control.

### ***Agricultural Protectionism: Protecting Farmers or Feeding the Poor?***

**Tim Evans, Centre for the New Europe (chairman)**

**Corrado Pirzio-Biroli, Cabinet of EU Commissioner Franz Fischler**

**Noël Devisch, Boerenbond Belgium**

**James K. Glassman, AEI**

**Adam Lerrick, Gailliot Center for Public Policy, Carnegie Mellon University**

Food is not a standard commodity to the proponents of agricultural subsidies. They believe that market forces cannot do away with poverty and that the market does not allow poorer farmers to compete fairly. The proponents of subsidies also see agricultural protection as the key to their nations' economic success. According to this view, Africa should develop its own version of the EU's Common Agricultural Policy (CAP).

For opponents of subsidies, food is no different from other goods, and agricultural subsidies are a gigantic waste of money. Right now every cow in the EU is subsidized to the degree of \$2 a day, while in sub-Saharan Africa humans earn only about \$1 a day. It is time for the CAP to be reformed. The EU plans to cut agricultural subsidies by approximately one-third by 2013. The best aid to developing countries is to allow them access to markets in developed countries. Genetically modified food can easily be grown in Africa. If Europe would legalize these imports, Africa could finally lift itself out of poverty. Despite European protectionism, Europe is a net importer of agricultural goods.

### **Dinner Speech**

***The End of Europe? A Response to Niall Ferguson***

**John Bruton, European People's Party**

The European Union is important for three reasons: Firstly, it reconciled Germany and France and thereby put an end to a conflict that led to three European wars. Secondly, it provides a "quality mark" for human-rights-based, democratic, and market-economy-driven states in Europe. Even being accepted as a candidate for EU membership attracts investment. Thirdly, the EU is the biggest market in the world. It is a great advantage to businesses, including American businesses, to operate within a single legal and regulatory order instead of dealing with twenty-five different standard-setting institutions.

Europe is not in decline. In a single hour a French man is as productive as his American counterpart. The difference is that Americans are working more and more hours per week, per year, and per lifetime, while many Europeans are

choosing to spend fewer hours in paid work. That is what freedom is about. Europeans, while working less, have more room in the future to increase the numbers of hours they work. That is a strength—not a weakness. The EU does not impose slow growth. As a member of the EU, Ireland's economy has grown by as much as 9 percent annually in the recent years. New EU members can achieve similar rates of growth. Germany, which is now often considered the "sick man" of Europe is having to transfer 4 percent of its GDP every year from western Germany to eastern Germany. If the former East Germany did not have to be sustained, Germany would have the growth rate which would be at least as high as that of the rest of the European Union.

Europe's demographic problems are serious. But they have not been created by the European Union. If Ireland and France have failed to make adequate provision for their aging populations, that is a political failure by Ireland or France, not a political failure of the European Union. Member states have always insisted that they keep health and social security matters as exclusive responsibilities for themselves.

In general, rather than make adverse comparisons as between European countries and the United States, we should concentrate on the things we have in common. What we have in common are the problems that come from success. Virtually all of our problems—our ageing societies, our low birth rates, our environmental difficulties—arise from our comparative economic success over the last fifty years.

It may be a long time before the European Union becomes a United States of Europe, if it ever does. But Europe is already united in its market, united in its human rights, united in its freedom, united in its democracy, and united in its commitment to peace. Just as Europeans celebrate the United States, Americans should celebrate the European Union.