

# The New U.S.-European Detente

*Why the  
Europe of 2005  
is nothing like  
the Europe of 2003  
or even 2004.*

BY CRITON M. ZOAKOS

**T**here is more than meets the eye in the pledges—on both sides of the Atlantic—to put behind the recriminations and tensions that have marked U.S.-European relations since 2003 and the invasion of Iraq.

Underneath the lowering of diplomatic decibels there is the convergence of a set of American policies and certain European self-interests long neglected by the post-Cold War European leadership. There is also the quiet death of the Gaullist vision of a European super-state that would “challenge” (whatever that means) the United States *à tout azimuth*, a vision that for far too long led to the neglect of the cited European self-interests.

If a smoothing of U.S.-European relations is to proceed in 2005, as widely expected, it will occur along the lines of three U.S. policy aims that are fundamental to U.S. strategic interests. They are also top priorities for the second Bush administration:

- Accelerated economic growth rates in the European Union and especially the eurozone;
- Greater EU participation in the Middle East democratization strategy, including:
  - An Israeli-Palestinian peace settlement and
  - The consolidation of representative government in Iraq; and
- Continued EU involvement in counter-proliferation efforts, especially with respect to Iran.

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*Criton M. Zoakos is president of Leto Research, LLC, in Virginia.*

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2099 Pennsylvania Avenue, N.W.  
Suite 950

Washington, D.C. 20006

Phone: 202-861-0791

Fax: 202-861-0790

[www.international-economy.com](http://www.international-economy.com)

The Europe of 2005 is nothing like the Europe of 2003 or even 2004. Its political and institutional landscape is radically new in various ways. First, of course, the European Union no longer consists of fifteen members but of twenty-five. The addition of the ten new members in 2004 changed the political dynamics of the “European project.” The enlargement itself represented the collapse of the Gaullist vision of a European super-state managed jointly by France and Germany, and gave new life to the vision supported by the majority of the EU-15 nations (and the United States) of an enlarged, economically integrated community of nations. All but one (Malta) of the ten new members, representing about eighty million people, have far lower tax rates than the EU average. Their labor force is at the same educational and skill levels as Western Europe’s but at much lower wage levels. They are locked in varying degrees to continuing policies of further tax cuts, privatizations, and greater economic liberalization. Their national security policies are closely linked with the United States both through NATO and via additional, separate security agreements.

As a group, they exerted a powerful influence when they aligned with older pro-U.S. members of the EU-15 (the United Kingdom, Portugal, Italy, the Netherlands, Denmark, Ireland, and partially Spain) and revamped the European Commission into an emerging advocate of supply-side reforms under the leadership of the newly elected European Commission President, José Manuel Barroso of Portugal, a close U.S. ally.

This new hegemonic group inside the European Union is far more focused on the urgency of removing obstacles to economic growth and of improving Europe’s ability to deal with the massive security threats coming from the Muslim world and, to a lesser extent, from Vladimir Putin’s dabbling with a new authoritarianism in Russia. The eclipsed



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Gaullist hegemony, at one point anchored on a Franco-German inner club, was never serious either about economic reforms or about standing up to security threats. Moreover now, in 2005, Germany finds itself distanced from its French partner, cautiously trying “Anglo-Saxon”-style reforms and accommodating to the needs of its Eastern European partners. Finally, French President Jacques Chirac finds himself challenged domestically by an unusual French politician. Former Interior and Finance Minister Nicolas Sarkozy, having won the chairmanship of the President’s party, is proposing to his countrymen that they rethink their attitudes toward “Anglo-Saxon” economic policies, cooperation with the United States, and Israel. Finally, and perhaps most importantly, the political clout of trade unionism in Germany and France—the last two citadels of trade unionism—has collapsed in the course of a few months.

All these developments suggest that a new hope has emerged for some kind of European revival. Whether this hope will be fulfilled or frustrated remains to be seen. U.S. policy in the period ahead will be to encourage and sustain it.

#### **EUROPE’S BIGGEST ECONOMIC PROBLEM**

Europe’s biggest economic problem is lagging labor productivity, outranking in importance even the widely discussed demographic and fiscal problems. Annual productivity growth has declined from 1.6 percent per year in the late 1990s to 0.8 percent in the last three years. In the decade from 1995 to date, the European Union’s level of labor productivity declined from 94 percent of the U.S. level to 85 percent. This was due both to the acceleration of U.S.

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productivity and the simultaneous deceleration of EU productivity.

But Europe is not losing ground only with respect to the United States. Since 1995, China's productivity growth averaged 6 percent and India's 3.4 percent. The Eastern European nations that joined the European Union also averaged 2.7 percent growth, the highest being Latvia (5.9 percent), Lithuania (5.2 percent), and Poland (5 percent), and the lowest being the Czech Republic (2 percent).

Productivity growth in China, India, and the ex-communist economies of Eastern Europe has been due mostly to deregulation, privatization, tax incentives, and general shrinking of the state sector. Before last year's eastward enlargement, the European Union actively resisted these approaches to growth. Following enlargement, this resistance remains but is now passive, and fresh pro-growth forces are preparing to take the initiative.

Another obstacle to European productivity growth has been the slow absorption of information technology. By International Monetary Fund estimates (not very reliable but the only ones available), IT-producing and IT-using industries account for 33 percent of GDP in the European Union and for 40 percent of GDP in the United States. Not only is IT's penetration footprint in the European Union smaller than in the United States, but its productivity growth is also smaller. IT-producing industries in the European Union have a productivity growth of 8.6 percent while in the United States they score 18.1 percent. IT-using services in the European Union have a productivity growth rate of 1.4 percent and in the United States 5.5 percent.

A recent study by Robert J. Gordon of Northwestern University ("Why Was Europe Left at the Station When America's Productivity Locomotive Departed?") suggests that much of the productivity growth lag in the EU services sector is due to land-use laws that hamper many services, especially retail trade (around 25 percent of GDP). The European Union, according to this study, "ha[s] chosen ... policies that encourage high density residential living and retail precincts in the central city while inhibiting the exploitation of greenfield suburban and exurban sites suitable for

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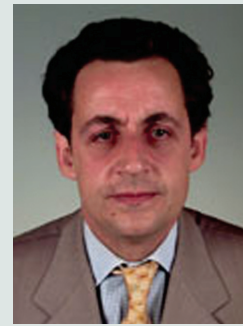
## French Duel

French President **Jacques Chirac** finds himself challenged domestically by an unusual French politician. Former Interior and Finance Minister **Nicolas Sarkozy**, having won the chairmanship of the President's party, is proposing to his countrymen that they rethink their attitudes toward "Anglo-Saxon" economic policies, cooperation with the United States, and Israel.

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Jacques Chirac



Nicolas Sarkozy

modern big box retail developments." As a result, the European Union did not undergo the "American explosion of productivity growth in retailing" typified by Wal-Mart-type outlets in expansive suburban and exurban settings.

This observation regarding land-use regulations is useful in two ways. It identifies the role of cultural impediments to growth. It also identifies future profitable investments in European real estate should Europe decide to abandon its veneration for the pristine countryside (and the Common Agricultural Policy) in favor of higher growth.

The European Union had recognized its productivity predicament as of 2000, when it proposed its "Lisbon Agenda" to make Europe "the most productive and the most competitive knowledge-based economy in the world." That Lisbon Agenda had two problems: it depended on a yet-greater economic role for national governments and EU bureaucracies, and it lacked political will. As a result, productivity growth decelerated faster after 2000 than before.

More recently, beginning in October 2004, however, the clamor for radical economic reforms has grown, following the complete overhaul of personnel at the European Commission with the appointment of the pro-U.S. José Manuel Barroso. To this have been added the voices of business leaders, politicians, and other luminaries. Governments have made some small token steps in the direction of reform, mostly by way of

limited tax rate cuts and some limited cuts in benefits. No steps have been taken or contemplated for opening up to competition the well-protected markets for products and capital. So far, Germany's narrow reforms to allow easier hiring and firing in the labor market have produced no results. Unemployment has continued to grow as employers find more attractive hiring opportunities in Eastern European countries.

On balance, the public debate has shifted in favor of reform, but no concrete reform proposals are on the table other than the inadequate Lisbon Agenda. The forces of reform are limited to some enlightened segments of the elite and elite wannabes, and seem to lack popular constituencies outside of Eastern European countries. Most incumbent politicians and their parties in key countries such as France, Germany, Belgium, and Spain remain hostile to any serious reform, but they have a problem: their cherished "European project," which is also their single remaining political marketing tool, is stalled. Their pro-reform rivals, however, are already putting forward an alternative, bright future for the "European project": hard-hitting, radical supply-side reforms could lift productivity, reduce unemployment, and increase overall labor participation and working hours to raise Europe's potential GDP growth rate to 3.5–4 percent for many years to come. Such radical overhaul of Europe's economic prospects by itself would revive European integration and enable Europe to take the place of influence in world affairs that the "Gaullist" stripe of Europeanists had promised but failed to deliver.

For its own reasons of national self-interest, the United States is locked into a policy to encourage this sort of development. For three years now, both the Federal Reserve and the White House have been arguing that the only reasonable way to remedy "global imbalances" is for Europe to start growing faster, not for the United States to slow down. At the last two

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*Much of the productivity growth lag in the EU services sector is due to land-use laws.*

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## Energy = Security

To keep it simple, Europe's security equation boils down to one central issue—critical energy dependence. The European Union is 55 percent import-dependent (as compared to the United States' 20 percent import-dependence) for its total energy needs. Furthermore, the bulk of its imports come from the Middle East and Russia via traffic lanes passing through politically troubled zones astride failed or failing states: Central Asia, the Caucasus, the Black Sea, the Balkans, and the Middle East itself—not to mention Ukraine, Poland, and the Baltic region. The European Commission estimates that this energy import-dependence will rise to 67 percent in the year 2020 from 55 percent today.

Official European security documents typically cite four security threats facing the European Union, namely "terrorism, WMD proliferation, failed states, and regional conflicts." All of these are problems that either originate in or directly threaten the sources and routes of Europe's energy supplies. These are threats to Europe because they threaten Europe's energy supplies and for no other reason. If these problems—terrorism, WMD, failed states, and regional conflicts—were occurring outside the sources and routes of the European Union's energy supplies, they would be someone else's security threats and not the European Union's. The European Union would ignore them in the same way it ignores the perennial crises in places like the Congo and Somalia. The European Union recognizes them as its own security problems because they threaten its energy security.

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G8 economic summits, in Evian, France, in 2003 and in Sea Island, Georgia, in 2004, the United States pushed for and obtained official pledges from Europe to accelerate structural reforms and economic growth. The United States will continue the same policy this year, but, unlike in the past, it will have more willing listeners on the other side of the Atlantic.

### EUROPE'S SECURITY ISSUES

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In addition, terrorism, a Middle East product, threatens directly the European homeland itself. It is a problem that is amplified by the growing presence of Muslim “underclass” populations inside the European Union. Today, the ratio of Muslims to ethnic Europeans in the European Union is 15

percent and is projected to rise to 20 percent in the next five years.

Europe completely lacks the military means to address these security threats. Specifically, the European Union lacks almost entirely critical capabilities such as C3 (command-control-communications) systems, intelligence, surveillance and reconnaissance, airlift and force projection, and precision strike capabilities. The EU military is trained and equipped for “peacekeeping” and “nation-building” operations, but is completely unprepared and unequipped for modern combat. In every one of its deployments in the past decade—Bosnia, Kosovo, Sierra Leone, Ivory Coast, Congo, and Afghanistan—the EU military did not engage in actual combat except when the United States supplied them with these capabilities on the spot. Even so, close combat cooperation with U.S. forces often proved impossible because of the vast gulf in training and equipment.

In the latter part of 2004, Europe’s leading military professionals intervened with a call to politicians to stop undermining NATO and proceed to build modern military capabilities in conjunction with the United States. A joint declaration to this effect was signed by the former chiefs of the armed forces of the United Kingdom, Germany, France, Portugal, Denmark, Switzerland, Romania, the Czech Republic, and Finland, as well as Turkey and Canada. At the beginning of this year, on January 13, the new EU Commissioner for External Affairs, Benita Ferrero-Waldner, was in Washington giving a speech on U.S.-EU relations. Its principal message was that post-2004, Europe will strive to strengthen its military capabilities within the context of NATO and not outside of it:

“... the emergence of a genuinely operational European Security and Defense Policy ... should enable the EU to take on a bigger share of our

## Diplomacy: A Stylistic Difference

American and European diplomatic styles are far too different ... American diplomacy will continue to insist on the concrete result, the bottom line. European diplomacy will continue to cling to the verbal flourish, the last word: “multilateralism,” “global governance,” “UN legitimacy,” and the like. These are conceptual constructs by which Europe pursues its perennial strategy to “bell the cat.”

As a result, European diplomats will be acceding to U.S. requests to isolate Palestinian terrorists, forgive Iraqi debts, hound international terrorism, subsidize democratic movements in the Middle East, contain Iran’s nuclear weapons, etc. In turn, U.S. diplomats will pay the price of sitting through European lectures about the merits of cooperation, “multilateralism,” and the like, all ending up in appeals for a new “international framework” that would convert the present practical cooperation into abstract general principle and “system.” Europeans love systems. Americans will accommodate up to a point, so long as it produces results. Americans love results.

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global responsibilities, working with NATO and, I hope more effectively than in the past, complementing its activities. But I should be absolutely clear—we have no intention of doing anything that would undermine NATO or the established basis of transatlantic security co-operation.”

But this is for the future. The European Union’s decades-long neglect of military capabilities has left it no choice but to adopt a policy of accommodation and appeasement toward the security threats astride its energy sources and routes. When the realities of the post-September 11 world clashed with this policy of accommodation and appeasement, a crisis in U.S.-EU relations erupted that is only now beginning to heal. The healing is proceeding along policy lines proposed by the United States: a broad, generational effort for Middle East democratization; an Israeli-Palestinian settlement based on the elimination of Palestinian terrorism and the creation of a Palestinian state; and the upgrading of European military capabilities appropriate for out-of-area deployments.

One further U.S. proposal—still resisted by many in the European political elite—is the admission of Turkey into the European Union. Turkey’s membership in a revitalized European Union would go a long way toward solving the European Union’s energy security problem, perhaps even solving it radically and completely. Not only is Turkey’s present combat-effective military power equal to (if not greater than) the power of all the continental western European countries combined, but Turkey as an EU member would dominate the security situation in its immediate neighborhood, which includes Iraq, Iran, the Caucasus, and—through ethnic affinity networks—reaches far into Central Asia, to Kazakhstan and beyond.

The three most potent security policies that the European Union could adopt in pursuit of its own self-interest are Turkish EU membership, Middle East democratization, and a robust anti-terrorist military and diplomatic posture. Ironically, these are policies long advocated by the United States and long

resisted by the European Union. And yet, they are of greater security benefit to the European Union than to the United States.

In a sense, by pursuing its own interests, the United States is pulling Europe’s chestnuts out of the fire, often over Europe’s

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objections and protests. It is a situation analogous to the Cold War era, when numerous U.S. policies aimed at containing or rolling back Communism were met with vigorous European objections, even though those policies were designed to defend Europe from next-door Soviet Union. At the end of each such episode of disagreement across the Atlantic, European self-interest prevailed over deep-seated anti-American sentiments, cooperation was restored, and the alliance became all the better for it. We are probably on the cusp of a similar moment now.

#### **A NOTE ON DIPLOMATIC STYLE**

Nothing in this prospect for a more normalized relationship suggests that verbal differences between the United States and Europe will disappear overnight. American and European diplomatic styles are far too different for that. American diplomacy will continue to insist on the concrete result, the bottom line. European diplomacy will continue to cling to the verbal flourish, the last word: “multilateralism,” “global governance,” “UN legitimacy,” and the like. These are conceptual constructs by which Europe pursues its perennial strategy to “bell the cat.”

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Through all this, however, both sides are in the middle of considering a serious renewal of their commitment to each other in security matters. Despite inevitable difficulties, this could well lead to a final success in a generation or two, as happened during the Cold War. The final outcome would be the elimination of those threats such as terrorism, WMD, failed states, and regional conflicts that menace Europe’s energy security. ◆

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