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That Other Problem With 'Old Europe'

PRESIDENT BUSH has good reason to be mad at what his defense secretary calls "old Europe." The policies now in effect in Western Europe could frustrate the president's success in the area that could be most important in the next election.

We're not talking about Iraq. French and German opposition to war seems unlikely to deter the United States, or to keep it from winning a military victory. We're talking about the economy.

The American economy is stumbling along, and yesterday's gross domestic product report showed that the private sector shrank in the fourth quarter, although growing government spending helped produce slow growth. We are not in a recession, even if it feels like one.

On the other hand, old Europe has growth that is chronically anemic. In 2002, the American economy showed real growth of 2.4 percent. Germany's rate was 0.2 percent, and it is hoping for 1 percent this year. France is doing only slightly better.

Over the last decade, Robert Barbera, the chief economist of ING/Hoenig reports, the United States achieved nearly twice the growth of France and almost three times that of Germany.

This lack of growth shows up in Europe's high unemployment rates, but it also shows up in our trade statistics. America's trade deficit has widened relative to almost every country and region, but it is worth noting that since 1997 the deterioration in the trade account with Europe has been greater than against China or Japan.

It also helps to explain why Alan Greenspan's easing of monetary policy, and President Bush's tax cuts, have not done more to spur the American economy. With Japan perennially weak, and Europe doing little to stimulate its own demand, our exports have stagnated as imports grow.

In normal recessions, weak American demand improves the trade balance. But there was almost no improvement in the 2001 downturn, and we are now back to setting records. In the final quarter of 2002, net imports came to a record 5.3 percent of the gross domestic product.

So what's wrong with old Europe? To be sure, Europeans have good reason to be as tired of American economic sermons as we were of Japanese lectures in the 80's, when the consensus was that Japan had all the answers and we had better listen.

But it does not seem too strong to insist that the euro so far has not produced the advertised benefits. It was supposed to encourage countries to liberalize their labor markets, but little of that has happened. Instead, European countries are stuck with a common monetary policy that has been too tight for too long, and with a fiscal straitjacket that is now leading Germany to raise taxes.

Mr. Barbera sees a bright side. A rising euro, which he expects to continue, "will force European nations to come to terms with pathetic rates of home-grown growth." He figures that a more lenient monetary policy is virtually a sure thing, and he has hopes for structural reform in other ways.

President Bush should hope he's right. Slow European growth was not that important in the late 1990's boom in the United States, but those days are not coming back. American growth is likely to be restrained for some time by the hesitation of businesses to make capital investments, with or without tax cuts.

That means that we need other major economies to show some growth to help the world economy. Japan is not likely to do that before the next American election, so that leaves it to Europe. Mr. Bush may not need French troops, but he may be more dependent than he realizes on successful European economic policies.

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