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Globalization: can Europe make a difference?

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Abstract

Since the mid-1970s sales, finance and production and the concentration and centralization of capital have been internationalized to an extent that has never been seen before in history. This unprecedented economic globalization has been accompanied by the strengthening of international organizations and regulation to facilitate the internationalization of the three circuits of capital, but attempts to globalize social rights, the provision of public goods, democracy, and environmental norms are weak or hardly existent (Went 2002).

Although it recognizes that globalization has come at a cost (trends in global income distribution, increased volatility), and that major policy challenges (leverage of national governments, the provision of global public goods) remain to be tackled, the European Commission (2002) argues that economic globalization is a benign process that should be extended. Serious criticisms from international organizations, social movements and less-developed countries of the dynamics and effects of globalization are thereby ignored. The Commission wants the EU, which in international affairs has 'consistently acted as a regional subordinate of the US' (Gowan 2001), to continue its pro-globalization course.

An argument often used to support this approach is that the EU is economically (much) weaker than the US, and therefore has no other choice but to follow the leader. However, it will be argued in this paper that this claim is erroneous. Due to its weight in the global economy the EU is in no way forced to stay within the straitjacket of neoliberal globalization.

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Introduction

In a rather unambitious working document, the European Commission (2002) has presented its analysis of globalization and views on how Europe should respond to its challenges. Provoked by the blandness of this disappointing report, this paper examines whether the EU has other options than pursuing its current policies, which stay within the framework of neoliberal globalization and are roughly equivalent to the ones followed and propagated by the US.

The outline of the paper is as follows. First, because everybody has her own favourite definition(s) of globalization, there is brief description of what the present author considers to be the essence of this container term. Next, the analysis of the European Commission is summarized and briefly discussed. The third section then compares the relative economic weight and performance of the EU and the US according to various indicators. The fourth section concludes.

1. Globalization: a new stage of capitalism

This section briefly sketches major changes that have taken place in the world economy since the mid-1970s, and key features of the new stage of capitalism that we have entered since then.[1] The particular set of institutions that supported the expansionary 'golden years' after the Second World War ran out of steam in the mid-1970s. Worldwide, corporate profitability declined from the mid-1960s on, reducing accumulation and GDP growth. Since then sales, finance and production, as well as the concentration and centralization of capital, have been internationalized to an extent that has never been seen before in history.

Although the world economy is still far from being as globalized as theoretically possible, we can observe for the first time in history a combined internationalization of trade, finance and production, that is all three circuits of capital (Marx 1884). But in contrast with capitalism's golden years, 'the dynamism of direct investment has supplanted that of trade, and in its turn financial capital is piloting the redeployment of productive capital' (Boyer 2000: 289). In the words of Bello, Malhotra, Bullard and Mezzera (2000: 4-5), the globalization of finance means 'that increasingly its dynamics serve as the engine of the global capitalist system.' A central feature of this dominance of finance is the emergence of global norms for yields and profitability.

Not only is capital extending capitalist social relations to more and more people and more and more aspects of people's lives, so as to be able to accumulate; this process also entails an expansion of the scale of production through the growth of individual capitals (concentration of capital) and the extension of command over capital via agglomeration of existing capitals, that is by way of

[1] See Went 2002 for a more extensive analysis.

mergers and acquisitions (centralization of capital). This state of affairs is the outcome of a long process of international concentration and centralization of capital, in which three stages can be differentiated (Mandel 1972: 310-342). The trend towards increasing international concentration and centralization of capital accelerated after the end of the postwar productive order in the mid-1970s. This is exemplified by the rapid growth in both number and size of the biggest multinationals – the companies involved in international trade, international finance and/or international production.

In addition, it is important to realize that there is no spontaneous symmetry between (changes in) forms, scales, and rhythms of capital accumulation and institutional developments. The relationships of forces in and among capital, labour and social movements co-determine the concrete forms and contents of regulation and state functions. The restructuring of worldwide capitalism since the mid-1970s has proceeded on the basis of a reduction of the power and influence of organized labour in major capitalist countries and a narrowing of the space for national development projects in the South. Fundamental changes in the conditions of accumulation have thus drastically shifted the relationships of forces to the benefit of capital, which has taken advantage of sharply increased unemployment and the debt crisis. The development of state functions and regulation reflects these shifts, and the unprecedented internationalization of capital since the mid-1970s has thus been accompanied by a rather one-dimensional or asymmetrical globalization of regulation and governance.

Concretely, the post-golden age world has seen a multiplication of attempts and proposals to promote, establish or redefine the tasks and forms of (existing) international organizations. But in light of the changed relationships of forces and the predominance of market-oriented policies, it is no surprise that the most serious initiatives have concentrated on encouraging and facilitating internationalization of the three circuits of capital: international trade, international finance (IMF) and international production. It is therefore not hard to explain why over the last couple of years 'the mood of resistance to globalisation has visibly stiffened and sharply escalated. Among other factors, it has been spurred on by the highly visible social deficit caused by unfettered global market forces and civil society's growing scepticism that the existing global order can survive without major reform (…) The basic problem is that there is no provision at the global level for elementary social justice(:) (t)he provision of social goods globally and other non-income objectives' (Drache 2001: 2).

The point is that these forceful initiatives to encourage and facilitate the internationalization of trade, finance and production have not been accompanied by policies to globalize social rights, the provision of public goods, democracy, and environmental norms. Because the dominant claim of pro-globalization ideologues is that 'free markets' will produce benign social outcomes,

international organizations to promote and facilitate such policies are deliberately kept weak and are almost non-existent (see also Went 2004).

2. The EU challenged by globalization

In response to a request by ministers of finance, in February 2002 the European Commission published a study on responses to the challenges of globalization. As is indicated at the beginning of this study, it 'attempts to reflect some of the ongoing debate among academics, policy-makers and non-governmental groups as input for a policy discussion at Commission and Council level'. During the preparation no new research has been done; the report builds on existing literature. After a summary of its main thrust, a number of debatable points will be briefly discussed.

2.1 Outline of the report

Globalization, the European Commission report argues, has increased income and welfare, but the gap between richer and poorer countries and between richer and poorer segments of the population within countries 'has probably widened.' There also remains a group of, mostly very poor, countries that are less integrated into the global economy and that continue to be largely excluded from benefits of the globalization process. To improve living standards and the economic situation in these countries is one of the main challenges for the global economy. In addition, there are other challenges to globalization, such as communicable diseases, climate change, loss of biodiversity and lack of international security, for which it is necessary to provide the world with 'global public goods' that benefit developing and industrial countries alike. The increased internationalization of economic activity also raises important issues about the role of the state, and the report of the Commission highlights the fact that since the end of World War II major progress has been made in establishing a set of international and regional institutions and forums that provide international economic and financial governance. According to the report, the current institutional arrangements are a more robust set of institutions and forums to deal with global challenges than existed during previous waves of globalization. But emerging new challenges point to a number of inadequacies in the system, and reform proposals concerning various aspects of this governance system are therefore under discussion.

Some of these proposals are then taken up in chapters on 'the international financial system in a globalized world' and 'promoting and financing development'. On the first issue, it is argued that overall the international monetary and financial system 'has functioned well over the past half century'. Nevertheless, the study identifies a number of real or potential systemic weaknesses, which pose new challenges to policy makers. It reviews reform proposals that are in discussion on

modalities for crisis prevention and management (arguing among other things that a currency transaction tax may increase volatility), initiatives to reduce the abuses of the international financial system, regional and global cooperation, and reform of the institutional framework (noting that proposals with a greater institutional content on e.g. reforming the IMF have made little progress), mostly without drawing hard conclusions for the EU.

The final chapter reviews four existing development instruments for poor countries: official development assistance, debt relief, trade measures, and promotion of foreign direct investment, again without drawing many conclusions. Lastly, some alternative sources of financing for development, such as special drawing rights ('not a free lunch') and various proposals for international taxes (on carbon, aviation fuel, and arms) are discussed and rejected ('no political momentum' and 'limited revenue potential').

2.2 Discussion

On the level of analysis it is, to begin with, disappointing that the European Commission hardly engages with the important debates that are held all over the world on the (dis)advantages and dynamics of contemporary globalization. The report does not discuss, let alone reply to, the theoretical and empirical criticisms that international social movements and academics have formulated of such sacred cows of globalization ideologues as free trade (see e.g. Chang),[2] free capital flows (see e.g. Arestis, Nissanke and Stein 2003; Bhagwati 1998; Prasad, Rogoff, Wei, and Ayhan Kose 2003) and the 'Washington Consensus' (see e.g. Rodrik 2002). Nor does the report show that it has taken into account the serious work that has been done by international organizations on the consequences of globalization for growth and income differences (see e.g. CEPAL/ECLAC 2002; ILO 2003; UNDP 2003). Finally, without in any way denying the importance of analyzing how globalization can be changed to the benefit of the poorest countries, as the report claims to do, it is a bit odd that judging by this report globalization has hardly any impact on the EU itself that is worth considering.

As far as policies are concerned, the report is extremely cautious and non-committal. A number of proposals that have come up in policy discussions over the last couple of years are reviewed, but mainly in order to qualify them with a lot of 'ifs', 'buts' and 'maybes'. The general impression that comes out of this overview is that alternative policies are only seen as credible when the big players in the world are willing to accept them.[3] The idea that the EU might develop its own international

[2] The Commission uncritically endorses the 'growth is good for the poor' paradigm defended by the World Bank (Dollar and Kraay 2000). The empirical and theoretical quality of this study has been harshly criticized by e.g. Rodrik (2000).

[3] The Party of European Socialists (2003), to which incidentally most members of the European Commission belong, has an equally paralyzing approach, noting correctly that the 'present pattern of globalisation is not an inevitable trend' (p. 27) but arguing when it comes to alternative policies that the EU must meet the challenge of a much needed new global order 'primarily by rebuilding its partnership with the US' (p.31).

agenda, independently of what e.g. the US advocates, or can at least *begin* to implement policies that are not part of a consensus of all the rich countries, apparently played no role in the preparatory deliberations (or was dismissed beforehand as unrealistic?). More concretely, there are no hints as to how the EU will assume its responsibility for the moderate reforms (such as a limited reduction of third world debt, and the Millennium Development Goals) that *have been* agreed internationally but risk not being put into effect because the rich countries are reneging on their promises (see e.g. UNDP 2003).

3. The EU and US in the global economy

As reflected in the report discussed in the previous section, the EU has no independent approach to globalization. As Gowan (2001: 86) argues, the EU is acting as a regional subordinate of the US: 'Today, the EU regularly outdoes the US itself in lecturing other states on the inseparability of the free market from the rule of law and democratic government, and in posing as guardian of liberal principles. In practice, however, it has consistently acted as a regional subordinate of the US, save where narrow trade, investment and production interests are concerned – still liable to spark contention at a lower level. (…) At no period since the end of the Second World War has Western Europe been so closely aligned, ideologically and politically, with the United States as today.'

One explanation for this subordinate role is of course that European policy makers, their advisers and consultants, and a segment of Europeans citizens really want to follow the US model or even copy it in Europe. As Galbraith (2003: 7) notes: 'The American model fascinates Europeans. To many on the right, and certainly those in lofty perches in the official economic institutions (such as the Organization for Economic Cooperation and Development and the European Commission), the American version of the free market as they imagine it represents an ideal type. It is the highest form of capitalism. It is to be celebrated for its efficiency and technological dynamism, and even its capacity to deliver full employment – all free from the dead hand of government regulation and control.' Whatever ideological, political, material or other reasons these admirers of the US economy may have for their fascination is not important to dwell on here, because they are 'true believers'.

More relevant in this framework are the arguments of another sizeable group, which consists of people and policy makers who would indeed prefer to take a (very) different route, but who believe that this is not possible. One important argument that previously convinced some of these 'fatalists' has lost its appeal over the years, however. The claim that national states have no other choice in today's globalized world but to abide strictly by the rules and prescriptions of global markets (see e.g. Friedman 1999) is not heard so often any more, now that even some smaller and less developed

countries (like Chile and Malaysia) have proved in real life their continued ability to control capital flows or implement national industrial policies.

More persistent is the argument that the US economy has now become so dominant that Europe has no choice but to follow the leader closely. But is the US economically really so much stronger that Europe can only lie down and surrender? To be able to answer this question, we will look at some key indicators to compare the weight and performance of the US and EU economies.

3.1 Trade

The standard way to measure the relative weight of countries in the global economy is of course by looking at their respective trade flows as a share of global flows. Table 1 summarizes these data for the US and EU in the years 1991, 1996 and 2001.

Table 1
Exports and imports of merchandise and services of the USA and the EU (1991, 1996, 2001)

		1991	1996	2001
Merchandise exports	World	3 515 000 (100)	5 390 000 (100)	6 155 000 (100)
	USA	421 730 (12.0)	625 073 (11.6)	730 803 (11.9)
(millions of dollars and as a percentage of world total)	EU (15)	1 492 780 (42.7)	2 154 900 (40.0)	2 291 430 (37.2)
	[Of which extra-European]	[504 450 (14.4)]	[795 235 (14.8)]	[874 115 (14.2)]
Merchandise imports	World	3 634 000 (100)	5 537 000 (100)	6 441 000 (100)
	USA	508 363 (14.0)	822 025 (14.8)	1 180 154 (18.3)
(millions of dollars and as a percentage of world total)	EU (15)	1 578 945 (43.4)	2 101 330 (38.0)	2 334 210 (39.1)
	[Of which extra-European]	[589 445 (16.2)]	[737 745 (13.3)]	[912 805 (14.2)]
Exports of commercial services	World	826 100 (100)	1 275 900 (100)	1 458 200 (100)
	USA	147 750 (17.9)	217 210 (17.0)	299 000 (20.5)
(millions of dollars and as a percentage of world total)	EU (15)	384 100 (46.5)	533 200 (41.8)	611 500 (41.9)
Imports of commercial services	World	845 900 (100)	1 263 400 (100)	1 443 600 (100)
	USA	99 960 (11.8)	137 670 (10.9)	187 700 (13.0)
(millions of dollars and as a percentage of world total)	EU (15)	365 600 (43.2)	514 100 (40.7)	604 900 (41.9)

Source: calculated from WTO 2002.

As the data in the table show, if we take trade as an indicator the EU is clearly not less important than the US. It accounts for the bigger shares of world exports and imports, and if we exclude intra-European trade the US is only more important than the EU in merchandise imports. But considering that the US trade deficit runs at present at more than $50 million an hour (Elliot 2003), that can hardly be considered a disadvantage for Europe.

3.2 FDI

Trade flows only give a partial and therefore misleading picture of the global economic role of the USA and the EU. Since more and more transnational companies (TNC's) or multinational enterprises (MNE's) invest abroad to produce locally ('horizontal MNE's') or to take advantage of cross-country comparative advantage patterns by locating plants in different countries in order to specialize in different stages of production ('vertical MNE's'), trade and foreign direct investment (FDI) are complementary activities (Nicoletti et al 2003: 30). Table 2 presents FDI data for the US and EU.

Table 2
FDI inward and outward stock USA and the EU (selective years)

		1980	1990	2000
FDI inward stock (millions of dollars and as a percentage of world total)	World	635 534 (100)	1 871 594 (100)	6 258 263 (100)
	USA	83 046 (13.1)	394 911 (21.1)	1 214 254 (19.4)
	EU (15)	216 840 (34.1)	733 303 (39.2)	2 381 954 (38.1)
FDI outward stock (millions of dollars and as a percentage of world total)	World	521 486 (100)	1 721 462 (100)	6 086 428 (100)
	USA	215 375 (41.3)	430 521 (25.0)	1 293 431 (21.3)
	EU (15)	215 582 (41.4)	798 525 (46.4)	3 148 830 (51.7)
Inward and outward FDI stocks (as a percentage of GDP)	World inward	6.1	8.9	20.0
	World outward	5.4	8.4	19.6
	USA inward	3.0	6.9	12.4
	USA outward	7.8	7.5	13.2
	EU (15) inward	6.1	10.6	30.3
	EU (15) outward	6.1	11.6	40.1

Source: calculated from UNCTAD 2002 and World Investment Report 2002 Country fact sheet for the US.

FDI has become much more important than trade for the US and the EU. Quinlan (2003: 5-6) mentions for example that US foreign affiliate sales in 2000 were almost three times larger than US exports in the same year, while what European affiliates sold during that same year in the US was four times larger than US imports from Europe. If we look therefore at the relative shares of the EU and US in global FDI, we find that the EU is a much bigger 'global player' than the US, both in absolute amounts and in relative terms, that as when we take FDI as a percentage of GDP. This relative strength of the EU is also reflected in the fact that by the latest UNCTAD count (2002: 270) 35,096 parent corporations and 61,685 foreign affiliates of TNC's were based in the EU, and 'only' 3,263 and 15,699 in the US. Of the 100 biggest non-financial TNC's ranked by assets, 48 companies were based in EU member states in the year 2000 and 24 in the US.[4]

3.3 Financial markets

Because foreign direct investments are only one component of international financial flows, we must also take other kinds of capital flows into account (see table 3).

Table 3
Capital inflows and outflows USA and EU (1999-2001)

		Inflows			Outflows		
		1999	2000	2001	1999	2000	2001
Capital inflows and outflows USA (billions of US dollars)	Direct investment	289.4	307.7	130.8	-188.9	-178.3	-127.8
	Portfolio investment	285.6	419.9	426.1	-124.4	-127.5	-94.7
	Other investment	167.4	288.4	196.0	-169.0	-300.4	-143.5
	Reserve assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Total	*742.5*	*1 016.0*	*752.9*	*-477.6*	*-606.5*	*-371.0*
Capital inflows and outflows EU[5] (billions of US dollar)	Direct investment	211.1	400.0	138.1	-338.1	-127.8	-228.6
	Portfolio investment	281.9	263.9	290.1	-331.1	-94.7	-258.3
	Other investment	208.3	338.2	230.3	-34.6	-166.1	-219.2
	Reserve assets	8.7	-0.3	-4.9	11.6	10.2	16
	Total	*701.3*	*1 002.1*	*658.4*	*-692.3*	*-932.8*	*-689.3*

Source: IMF 2003a, table 1.

[4] The foreign assets, sales and employment of these top 100 TNC's accounted in the year 2000 for 11 percent, 14 percent and 14 percent, respectively, of the estimated foreign assets, sales and employment of some 65,000 TNC's that were operating at the time in the world (UNCTAD 2002: 85-88).

[5] These IMF data do not include Belgium and Luxembourg, for which no data were available.

The comparison of total capital inflows and outflows of the US and EU shows that there is no reason for Europe to have an inferiority complex on this score. The main difference between the US and the EU are the amounts for portfolio investment. The US is stronger on this indicator, which is of course not surprising given the fact that shareholder value is much more dominant in the US than in the EU. This same difference can also be seen in table 4, which compares the size of EU and US capital markets in 2001.

Table 4
Indicators on size of capital markets US and EU in 2001,
billions of dollars and percentage of world total, unless otherwise noted

		World	US	EU (15)
GDP		30 995.0 (100)	10 082.2 (32.5)	7 906.9 (25.5)
Total reserves minus gold		2 163.3 (100)	57.6 (2.7)	267.6 (12.4)
Stock market capitalization		28 875.1 (100)	13 826.6 (47.9)	6 763.0 (23.4)
Debt securities	Public	22 157.0 (100)	9 698.0 (43.8)	4 868.8 (22.0)
	Private	19 635.2 (100)	8 806.3 (44,8)	6 974.6 (35.5)
	Total	41 792.2 (100)	18 504.3 (44.2)	11 843.4 (28.3)
Bank assets		79 401.8 (100)	22 157.4 (27.9)	32 939.7 (41.5)
Bonds, equities and bank assets		150 069.1 (100)	54 488.3 (36.3)	51 546.2 (34.3)
Bonds, equities and bank assets (in percent of GDP)		484.2	540.4	651.9

Source: calculated from IMF 2003a, table 3.

Again, these data show that there is no reason to claim that the weight of the EU in the global economy is much smaller than that of the US. Unsurprisingly, the main difference between the two is in stock market capitalization, where the US has a share of the global total that is 47 percent bigger than its share of global GDP, while the EU 'only' accounts for 92 percent of its share of global GDP.[6] But if we take the total of bonds, equities and bank assets, which is a better indicator of financial strength, we get a different picture. By this measure the EU and the US each account for more than 1/3 of world total, the US slightly more than the EU. But the part of the EU exceeds its share of global GDP by almost 35 percent, while the US 'only' exceeds its share of global GDP by 12 percent.

[6] After comparing the number of (national and foreign) companies quoted on stock exchanges in the EU and the US, the total capitalization of these stocks, the number of shares traded and the number of transactions, Roger (2003) concludes however that 'the Europe of the 15 is far from negligible' on these indicators.

To complete the picture on financial flows, table 5 compares the share of the US and the EU in the global turnover of foreign exchange markets.

Table 5
Net foreign exchange turnover and OTC foreign exchange derivatives in 2001, daily averages in millions of US dollars, and percentage of world total

	World	US	EU (15)[7]
Foreign exchange	1 617 917 (100)	253 654 (15.7)	790 033 (48.8)[8]
OTC foreign exchange derivatives	1 186 071 (100)	169 076 (14.3)	608 197 (51.3)[9]
PM: share of global GDP	100	32.5	25.5

Source: calculated from BIS 2001, pages 66 and 102.

Again the EU is doing much better than one would expect if shares in these markets were divided proportionate to contributions to global GDP. The turnover of foreign exchange and of over the counter forex derivatives in the EU is (almost) twice as big as Europe's share of global GDP, while the US is a relative underperformer on both indicators.

3.4 A US growth miracle?

There is one final dimension that we have to examine in a comparison of the US and EU economies. Many policy makers and policy advisers are attracted to the North American economy because output per capita in the EU is only 77 percent (in 2000) of that in the US. It is often argued that Europe therefore has to look much more to the US as an example to increase growth, in the perspective of further improving the living standards of European citizens.[10] Moreover, because economic growth in the EU has been mediocre over the last couple of years, there is a sentiment among policy makers and in the popular press that since the mid-1990s the US economy has performed much better than the European economy. But is this really true?

The first criticism to be made of this line of argument concerns the relevance of GDP differences between the US and the EU. Taking into account, as suggested by Gordon (2002), that Europeans work fewer hours per year than North Americans because they apparently have a greater preference for leisure, and that US citizens have to devote more of their expenditure to things that Europeans

[7] These are unfortunately data from before the introduction of the euro, but the BIS only reports them every three years.
[8] If we exclude the eurosceptical United Kingdom, which has the highest turnover in the world, the percentage of the remaining EU-14 is 17.7, which is still higher than that of the US.
[9] If we exclude the eurosceptical United Kingdom, which has the highest turnover in the world, the percentage of the remaining EU-14 is 18.4, which is still higher than that of the US.
[10] The decision by the European Council in Lisbon in 2000 that Europe must become the most competitive economy in the world is based on this kind of argument. Incidentally, the Dutch government subsequently decided that the Netherlands must become one of the three most competitive economies in the EU. Leaving aside the question of how

do not need to the same extent, such as air conditioning, heating, transport and security, Boltho (2003) estimates living standards in the Eurozone as a percentage of US levels in terms of purchasing power parity (PPP). His conclusion is that 'Eurozone citizens are virtually as rich as Americans' (see table 6).

Table 6
Living standards in Europe as a percentage of US levels

	1999-2001
GDP per capita in PPP	69
Allow for greater European preference for leisure (as 50% of the Eurozone - US difference in employment ration and hours worked)	+ 15
GDP per capita in PPP – adjustment 1	84
Allow for greater US spending on air conditioning, heating, transport, security, etc. (as 7.5% of the Eurozone - US difference)	+ 7.5
GDP per capita in PPP – adjustment 2	92

Source: Boltho 2003, page 9

Obviously there is much more to it than this calculation. Also, the adjustments that Boltho makes are extremely difficult to calculate, they are obviously arbitrary to a certain extent.[11] But what this exercise does show is that it is not very helpful to fixate too much on GDP levels if one wants to compare living standards in the EU and the US.

Second, when we do look at GDP, caution is necessary about the so-called dynamism of the US economy in the second half of the 1990s. For as Brenner (2001: 37) argues, the often heralded growth in the US in the 1990s 'did not remotely compare to that of the first *three* decades of the post-war era. Even during its supposedly epoch-making *four-year* economic expansion between 1995 and 1999, the business economy as a whole was unable to match its *twenty-three year* economic expansion between 1950 and 1973 in terms of the average annual growth of GDP (4.0 per

this will be measured, it would be interesting to know how many other European governments have formulated a similar goal.

[11] On the first adjustment, Boltho (2003: 10-11) explains for example: 'Trying to split Europe's lower work effort, in terms of both lower participation in the workforce and fewer hours worked, into a willingly chosen component of a greater preference for leisure and a government or institutional component of greater regulation and involuntary idleness, would seem to be impossibly difficult. The importance so often given to working hours in union negotiations on the Continent militates for an adjustment that privileges a different work-leisure preference. This author's admittedly totally arbitrary split allocates half of the variation between American and European work patterns to such a choice, as well as to the difference in demographic structures. As a result, an adjusted welfare comparison would suggest that the gap in living standards between the two areas is of the order of perhaps 15 rather than 30 per cent.' One might also take into account the degree to which US GDP figures are inflated by higher prices for essential services such as health care.

cent versus 4.2 per cent), labour productivity (2.5 per cent versus 2.7 per cent) or real wages (2.1 per cent versus 2.7 per cent), or the rate of employment (4.7 per cent versus 4.2 per cent).'

In addition, there are serious doubts whether the US can regain these growth levels, now that the stock market bubble (internet and telecom) has gone flat and the US government and US consumers, who have kept the economy going by dissavings, have build up unsustainable levels of debt (Galbraith 2003; Godley and Izurieta 2003).[12] On government debt, Elliot (2003) recapitulates that between 2000 and 2002 the US federal budget 'moved from a surplus of $295bn into a deficit of $257bn, and is heading towards a $500bn shortfall in 2003. During the same two years credit expanded by $4.4 trillion.' The effect of 'this credit and debt deluge' was no more than that 'GDP grew in real terms by $248bn and in nominal terms by $621bn.'

If we take a less short-term approach to economic performance and compare growth and output per hour in the US with the EU during different periods, we get a rather different picture from the one that is often presented to us (see table 7).

Table 7
Real GDP per capita and real GDP per hour, Europe and the US in selected periods

	1913-1929	1929-1950	1950-1973	1973-2000
Output per capita				
Europe	0.97	0.79	3.61	1.77
US	1.65	1.55	2.40	1.64
Europe-US	-0.68	-0.76	1.21	0.13
Output per hour				
Europe	1.76	1.35	4.44	2.40
U.S.	2.40	2.48	2.68	1.37
Europe-US	-0.64	-1.13	1.76	1.03
YpC / YpH				
Europe	-0.79	-0.56	-0.83	-0.63
US	-0.75	-0.93	-0.28	0.27
Europe-US	-0.04	0.37	-0.55	-0.90

Source: Gordon 2002, table 1

[12] Growth of GDP in the US declined to 0.3% (EU 1.6) in 2001, and 2.5% (EU 1.1) in 2002 (European Commission 2003: 204 and 221).

As the data in the table show, since the Second World War average annual growth of real GDP per capita and output per hour has been higher in Europe than in the US.[13] In complete contrast to what can often be heard in Europe, Gordon (2002: 44) therefore ends his overview of two centuries of economic growth in the US and Europe with a cautionary remark for the US: ‘Over the five years 1995-2000 the U.S. briefly caught up to the European rate of productivity growth, but over any longer period, e.g. 1990-2000 or 1973-2000, the U.S. growth rate lagged behind. As one European nation after another overtakes and moves past the U.S. *level* of productivity, one might conjecture that in ten years conferences will be organized at American universities on “the sources of European advantage”.’

4. Conclusion

There seems to be almost general agreement that the US is nowadays economically (much) stronger than the EU.[14] But if we look at the facts it becomes a mystery what this broad consensus is based on. As the data presented in this paper show, the claim that the US eclipses the EU in the global economy can be made neither on the basis of the EU’s and US’s respective shares of global trade, FDI, capital flows, capital markets, forex exchanges or multinational companies, nor on the basis of a superior economic performance (GDP or productivity) of the US economy during any prolonged period since the Second World War. It is therefore puzzling why so many European admirers of the US economy see it as a model to follow, and why so many left wing Europeans self-censor their policy aims and hardly dare even suggest policies that are more than pale reflections of what the US is doing or advocating (see e.g. Party of European Socialists 2003).

Since the US is stronger than the EU chiefly on stock market indicators, perhaps the contemporary fascination with the US is another example of collective delusion by the smell of success of shareholder value, which has intoxicated many investors and commentators during the second half of the 1990s. But the deflation of the stock market bubble since then should lead to an about-face, for if we look at the US and EU economies it is closer to the truth to claim that the EU is economically stronger than the US than, as is so often done, the reverse. There is therefore no objective reason for the EU not to be more ambitious and courageous with regard to globalization.

As many social movements, underdeveloped countries and academics have argued, a different world is not only necessary but also possible. It is therefore high time for the EU to step out of the shadow of the US and to start developing and implementing its own progressive agenda for a

[13] One result is that Europe’s GDP has gone up from 50 per cent of that in the US in 1950 to 77 per cent in the year 2000 (Gordon 2002: 6).

[14] This overestimation of the economic importance of the US can be found from right to (extreme) left, as can be seen for example in Callinicos (2003: 210) who holds that the US has ‘the headquarters of the largest single group of multinational corporations (whose productive operations and routine workforces are by definition often sited off-shore)’ and is ‘the main centre of international financial markets, managing the gigantic inflows of capital that fuelled the boom – and the bubble – in the 1990s’.

different – i.e. social, democratic and sustainable – globalization. There are of course other obstacles, not directly related to the EU's economic weight in the global economy, that currently stand in the way of such a course. To begin with, the EU is still in the process of unification and is therefore much less unified than the US. Furthermore, the US has of course one very important economic advantage over the EU that has not figured in the comparisons made in this paper: the dollar, which is still by far the dominant global currency, and its printing presses. And finally, the EU is seriously obstructing its own economic development by sticking to self-imposed ideological macro-economic (the infamous 'stupidity pact') and monetary (i.e. the ECB's fixation on 'price stability'[15]) goals and policies. As Boltho (2003: 20) argues: 'Seen from the outside, the Eurozone looks almost like a developing country on which the IMF has imposed one of those rigid stabilization programmes for which it is so famous: low inflation, fiscal rectitude, deregulation and privatization, all run by a bunch of non-elected officials (Duisenberg, Solbes, Monti and Bolkestein).' But these obstacles can be broken down, the last one even very quickly, if there is a relationship of forces and political will to do so. All we need for that is, to quote former Danish Prime Minister Poul Rasmussen (Party of European Socialists 2003: 10), 'nothing less than strong determination to change the world'.

[15] See e.g. Bibow 2003, and European Economists for Alternative Economic Policies in Europe 2002.

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