

# Handelsblatt

DIE WIRTSCHAFTS- UND FINANZZEITUNG

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Europe Op-ed

## *In Praise of Europe's Growth*

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Europe begins the New Year with a good outlook for continued economic growth, placing it at the center of a healthy rebalancing process now occurring in the global economy. This is certainly welcome news for world growth prospects in 2007.

In recent years, the news was less favorable. Such was the case in 2004, when, as U.S. Treasury Secretary, I toured European financial capitals promoting the "U.S.-EU Financial Dialogue," designed to promote growth by improving our financial markets' performance. The idea was to drive our economic growth through improved performance of our financial markets. My visit occurred just after the EU Constitution "non" vote, and confidence was faltering for the grand and noble European experiment. The economy seemed structurally stuck below its potential, with no sign of revival.

Today, by contrast, the European economy is making a comeback. The recovery started with exports and is spreading to investment, job creation and consumer spending. Euro-area unemployment has fallen to 7.7 percent, from a peak over 9 percent in

2004. Consumer confidence is increasing, as fear of unemployment starts to recede. Rising corporate profits and a new optimism have led European companies to invest at home again, especially in Germany. GDP is on a path to grow by almost double what it was over the previous five years.

How did this favorable turn of events happen, and why is someone like me so delighted about it?

Well, an academic explanation would focus on the release of pent-up demand after years of higher than normal savings rates as confidence returns.

But, any real-world analysis has to recognize the improvement in Germany - the world's third-largest national economy, and one of its most advanced - and Germany's pivotal role in the EU's resurgence. Germany has reclaimed its place as the region's growth engine, and is now helping to buoy its neighbors. This did not happen by accident. Rather, it has occurred in the wake of steps by government, business and labor to come together and agree on nascent, but also painful reform meas-

ures to boost efficiency and productivity and restore some of that lost Teutonic dynamism. Those actions have helped compensate for imbedded high labor and tax costs. As a result, investment in Germany is roaring back, in sharp contrast to previous levels. Just as a revival of U.S. investment started our current growth cy-



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cle, so too has an investment spurt helped spur growth and bring Germany's stubbornly high unemployment down.

Germany's experience is instructive for Europe's path forward. Reforms, even difficult and tentative, pay off in improved competitiveness, growth, employment and living standards. As we emphasized in the G8's "Agenda for Growth," more flexible

labor rules, wider competition in markets for goods and services, and an overhaul of pension and health-care systems would help the eurozone generate and sustain faster growth. Still, structural changes are a tough sell to voters everywhere because the benefits, often in the future, are difficult to convey to those anxious about current global economic changes. But, as in Germany, the case for moving forward with reform remains strong, and the results to date should encourage Europe's leaders to press ahead.

A strong and growing Europe remains essential to both the performance of the U.S. and the world economies. In recent years, above-trend U.S. growth compensated for below-potential growth in Europe and Japan. Now, while the U.S. naturally slows back to trend, the stronger growth in the EU will roughly offset weaker U.S. performance, keeping the global economy on a good upward path.

The EU's move to a single competitive capital market across the 25 member states is no easy task, but will raise EU growth. Meanwhile,

U.S. financial markets remain fragmented, and burdened by a rules-based, law enforcement regulatory approach. The European approach, as represents a better direction. Europe's approach to wasteful litigation also provides a competitive advantage. We need to be pointing towards one large, seamless U.S.-EU capital market that allows EU firms to do business as easily in the U.S. as they will do across Europe, and vice versa.

Open competition in financial markets pushes everyone - in London, Frankfurt and New York - to become more efficient. As Europe's revival helps to restore balance to the global economy, it also helps America. Your success is our success. By virtue of shared cultures, histories, and values, Europe and America are inextricably tied. We are much the better for it, indeed.

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