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## EUROPEAN RESTRUCTURING

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Europe's economy is clearly on the upswing: growth forecasts run at 3 percent and even more is quite possible. The world economy looks better and even inside Europe demand is on the move. Plenty of reason therefore to be a bit optimistic World crisis goodbye, forget the risk of a stagnant Europe.

But there is even more good news, promising perhaps to turn the current upswing into something more durable. Whatever the channels and quantitative benefits to be expected of the new euro currency, that there are benefits there is no doubt, if only because the Club Mediterranee with its crisis potential is now firmly integrated in German-style monetary discipline.

But the interesting new fact is surely the belief, hope and perhaps reality of economic restructuring on a few fronts. Governments have started a few privatizations with radical consequences for competition, say, German Telecom and the price wars underway. Young people are increasingly recognizing the dramatic importance of modern information technology and are finding their way to the Internet and the *Neumarkt*—the German small cap attempt at venture capital. And big companies, too, are in the game. Europe is abuzz with mergers not only to take advantage of Europe's new economic space but also to confront the tough competition in world markets. In sum, the place is *hot*. Who knows how deep these changes go, how fast they turn Europe into the express lane?

No day passes without major headlines of big time mergers in Western Europe; Germany is ablaze as its mammoth corporations are performing mating rites, In France big strategic plays are underway in banks and fashion, Italy is seeing its major players position themselves on a European and world scale. And in the smaller countries, appropriately downsized in terms of scope and excitement, a lot is happening, too. Just what does all this mean for European growth and prosperity? Could it be that, with all the complaints about the American model, it is just that which now is underway in Europe?

Not! The claims are vastly overstated, the beginnings are relatively minor—privatizing a telephone company is done in every third world country and it is not making them rich overnight; getting on the Internet is routine in Bolivia and China, it is not an accomplishment to write home about. And as to corporate mergers, it remains to be seen how many are better than just an oversized vanity play of CEOs who do not face tough stockholder scrutiny.

Three reasons stand out as to why all this is not transforming Europe fast and deep. First, importantly, it takes a very long time to change an economic culture and an existing business organization that is more nearly an administration than a management. In the US

large companies were fat and lazy until the new generation of Jack Welch et al took over and played tough. Twenty years later the benefits are patent but it took a long time getting there even if much and most is done right. Next, governments seem mostly uncooperative, but nowhere more so than in Germany. The Kohl government did nothing nor does the Schroeder government—they talk, talk and shy away from decisive moves to change the economic landscape; Blair without Thatcher is the emperor without cloth and that is exactly what a Schroeder is today. But, worse, a country where 70 percent of members of parliament are teachers and bureaucrats, as is the case in Germany, can surely not hope to get dramatic legislative change. The cultural orientation of bureaucrats and teachers is deeply anti-market, anti-risk taking and in support of the status quo. No chance of a regulatory revolution.

There is another reason to be circumspect on the force of change. Unlike the United States, Northern Europe has a culture not of entrepreneurship, experimentation, risk taking, dealing. Rather, the State tells everyone what to do, the State and business authorities tell everybody what position to play. Of course, there are exceptions, but the dominant mode is passive... “Nobody told me to.”

All this sounds pretty pessimistic but is not meant to be; it is meant to calibrate that change takes a lot of time, more so if it is tentative and reluctant. But change is taking place at least and who knows, it might just become a new wave. Europe has accomplished an extraordinary move forward with the euro, why not in other areas? The euro was not an expensive step, except in Germany where it ran into all and every prejudice. What comes now is much harder because it steps on lots of toes and puts at risk a lot of beneficiaries of the inefficient status quo.

Normally a crisis brings the legitimacy for a dramatic move, but Europe is not in crisis; hence the gradual if not slow pace of progress. But there is one great source of optimism: today Germany is the loser in Europe, viewed by the French and even Italians as the losers—overweight and immobilized by bureaucracy and regulation. Germany had its turn at the head when hard money was the issue of the day; today it is trailing because the restructuring mode does not fit comfortably with its traditions of pay without work and disciplined followers without courageous leadership.

Nothing better could happen to Europe than just this discussion; perhaps it generates the kind of shock that drives more ambitious change. In the meantime, the significant upturn in growth makes radical change far less important and it is a short step from there to putting it on the back burner.