

ALL IS NOT WELL IN EUROLAND

BY NATALIA DAVIS AND
RUSSELL REDENBAUGH

The great experiment to homogenize the monetary, tax and trade policies of the 300 million souls of Europe is struggling forward. On a recent trip to Germany and Ireland, we personally experienced a pervasive, but necessarily temporary, campaign to escape a central law of economics: the Law of One Price.

The law of one price simply states that in the long run identical goods cannot sell at different prices, after adjusting for differences in the costs of taxes and transportation. In establishing the euro as a single currency across the European community, Germany and the rest are rediscovering its perils. The sharp price increase incurred by translating from deutsche marks to Euros will result either in a sharp drop in the quantity demanded, or in a wrenching downward ratchet of all German

Natalia Davis and Russell Redenbaugh are partners of Kairos, Inc., a Philadelphia investment advisory firm.

prices. A vendor of internationally traded goods cannot price above the market and, in the long run, neither can local restaurateurs or service providers.

Having lived in Germany just three years ago, we were shocked at how expensive the country had become, even for auslanders like ourselves. Rather than posting prices consistent with the exchange rate, many vendors and restaurateurs seem merely to have transcribed their prices from deutsche marks to Euros—a nearly 100 percent markup. No wonder that Germans have dubbed the new currency the “teuro,” from teuer—expensive.

Those price dislocations are slowing Germany’s economic recovery. For the past six years, Germany has had either the slowest growth or second-slowest growth in Europe. Exports are up—now more than a third of GDP—and prosperity is down. Put another way, Germany is exporting capital through its trade account surplus—a disinvesting economy.

Adding to the mess is a myriad of laws to “protect” consumers from “excess competition”—low prices! This same thicket of laws protects workers from being laid off and German companies from being acquired. Price-comparison ads, for instance, are verboten. RyanAir, the Irish-based version of SouthWest Airlines, openly flouts this law, selling out every plane and gladly paying its fines. Under an “anti-discount” law, German companies are free to raise prices but cannot lower them without government approval. Or paying another fine.

Higher prices means fewer goods sold and more unemployment. At 10.4 percent, Germany’s jobless rate is almost double the U.S. figure. Shops are empty and restaurants are only frequented by the expense account crowd. Retail sales continue to stagnate after six years of no real growth.

Not all the news is dire. Last year corporate taxes on retained earnings were cut from 40 percent to 25 percent; corporate capital gains are tax-free. By 2005, phased-in reductions will bring the top personal income tax rate from 51 percent to 42 per-

cent. But the “teuro” and excess regulation continue to punish the overall economy. Prices and quantities will adjust as they always do. But the adjustment for consumers will be slower and more painful—thanks to all those wonderful “consumer protection” laws.

In Ireland we found a very different story. As we know, the Irish bow to no one, and Dublin has refused demands from Brussels to “harmonize”—hike—its tax rates. But for how long? Our Irish business contacts fear a reversal of the supply-side policies that have made the country one of Europe’s few successes. Ireland’s annual GDP growth since 1995 has been 9.4 percent, compared with the European Union’s 2.6 percent average. The Eurocrats cannot bear side-by-side comparison of Irish prosperity with the Continent’s stagnation. But the future of the European economy may depend on Dublin’s resolve in continuing to resist the pressure to “harmonize.” And if the Euro’s spread portends a suicide club of steadily ratcheting taxes, the prospects for the who world economy will deteriorate.

Irish consumers fare far better than their “protected” German counterparts. But they, too, face a wrenching confrontation with economic realities long denied. Unlike Germany, Ireland actively discouraged vendors from raising prices with the introduction of the Euro. Prices were rounded up but not hiked. But revealed in the move to a single currency was the reality that an Irish potato—the national staple!—costs three times its German equivalent. Protests have begun, and arbitrage and the law of one price are already starting to work.

Living with the Euro turns out to be more revealing than a lot of people expected. The contrast between supply-side Ireland and hidebound Germany offers lessons for the U.S. economy as well, as we see the president imposing new onerous taxes on U.S. consumers of steel while purporting to reduce the taxes across the board. The U.S., too, will have its own day of reckoning with the inexorable law of one price. ■



CORBIS

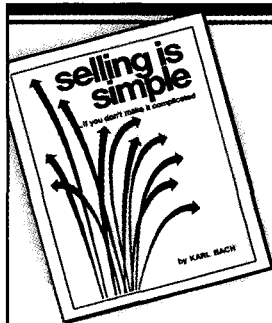
'SOMEBODY TO HATE'

A NEW NOVEL BY DORIS LESSING COMES CLEAN ABOUT THE INTELLECTUAL ORIGINS OF FEMINISM

Some people have come to think that our—the human being's—greatest need is to have something or somebody to hate. For decades, the upper classes, the middle class, had fulfilled this useful function, earning (in communist countries) death, torture and imprisonment, and in more equable countries like Britain, merely obloquy, or irritating obligations, like having to acquire a cockney accent. But now this creed showed signs of wearing thin. The new enemy, men, was even more useful, since it encompassed half the human race. From one end of the world to the other, women were sitting in judgment on men . . . part of an all-female jury that has just passed a unanimous verdict of Guilty. They sat about, in leisure moments, solidly in the right, telling little anecdotes of this man's crassness or that man's delin-

quency, they exchanged glances of satirical comment, they compressed their lips and arched their brows, and when men were present, they watched for evidence of incorrect thought and then they pounced like cats on sparrows. Never have there been smugger, more self-righteous, unself-critical people. But they were after all only a stage in this wave of the women's movement. The beginning of the new feminism in the Sixties resembled nothing so much as a little girl at a party, mad with excitement, her cheeks scarlet, her eyes glazed, dancing about shrieking, 'I haven't got any knickers on, can you see my bum?' Three years old, and the adults pretend not to see: she will grow out of it. And she did. 'What me? I never did things like that . . . oh, well, I was just a baby.'

*From The Sweetest Dream, by
Doris Lessing, published by HarperCollins.*



The most important book about salesmanship ever written ...

Selling is Simple... by Karl Bach only \$19.95*

**But read this ad for an even better deal!*

Karl Bach was a penniless and uneducated German-Jewish immigrant. He spoke very little English and, to top it off, he had a physical impediment. Not being able to get any other job, he enlisted as a Fuller Brush salesman. Within two months, he became the most productive salesman Fuller had ever had. From a

standing start, he had developed irresistible sales techniques. He applied those methods and insights to the life insurance business. Within three years, he became one of the most successful life insurance producers in the US. He founded and became principal owner of the San Francisco Life Insurance Company, which eventually merged with the Philadelphia Life Insurance Company. He became a very, very wealthy man. In this book, Karl reveals his enormously successful salesmanship methods.

If you are in any area of selling, you should be able to at least quadruple your performance by reading this groundbreaking book and following its precepts. There is no reason why you shouldn't be as successful as Karl Bach -- you have so much more going for yourself than he did. We are the publishers of this book and can offer it for only \$19.95. ***But we have an even better deal: Buy two books for \$39.90 and we will send you a third one, with our compliments -- absolutely FREE!** If you are in any area of sales and want to multiply your performance and your income, you owe it to yourself to buy this book. You and your family will be glad you did. Order it today!

Order directly from the publisher by toll-free phone (800) 600-2777, by fax (415) 356-7804, or by mail. Mention order code 1094Y245 and give Visa/MC # and expiration date, or send check for \$19.95. Add \$4.95 shipping/insurance, plus sales tax for CA delivery. 30 days refund/return, except for shipping/insurance.

advance books

division of jomira/advance
470 Third St., #211, San Francisco, CA 94107

© Order by toll-free phone: (800) 600-2777 or (fastest!) by fax: (415) 356-7804 ©
Visit our website at www.haverhills.com

The Board of Directors of the
Mont Pelerin Society
Announces the
Friedrich A. Hayek Fellowships
for the

2002 GENERAL MEETING OF THE MONT PELERIN SOCIETY

(London, England—October 5-10, 2002)

“The statesman who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted to no council and senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself to exercise it.” — *Adam Smith*

“Hayek goes to some lengths at the end of Chapter 5 of *The Road to Serfdom* to think about democracy in terms of the “values which it serves,” making it clear that a parochial belief in Democracy independent of the values that it promotes can be as devastating a belief in the “common good” or the “general welfare.” Is the value of a democracy, and in turn the value of any system of government, realized by the extent to which it was structured with Smith's statesman in mind? Is the system that has for its chief aim the limitation of political action — be it positive or negative, freedom-restoring as well as freedom-corrupting — the one most likely to succeed? Have any of the modern systems of government succeeded in preventing either the gradual or dramatic loss of freedom? If so, which one, and if not, what would such a system have as its pillars and why?

The Hayek Fellowships will be awarded for the three best essays on the above topic. Essays of 5,000 words or less may be submitted by students or faculty members 35 years of age or younger. The essays will be judged by an international panel of three senior members of the Society. The deadline for submission of the essays is May 31, 2002.

Prize information and additional
details are available from:

The Mont Pelerin Society, P.O. Box 7031,
Alexandria, Virginia, 22307, USA
www.montpelerin.org

Made possible by a grant from the Aequus Institute