CHAPTER 1

A TALE OF TWO ECONOMIES

The transatlantic economy in 2015 remains the largest and wealthiest of the global economy, and home to the largest skilled labor force in the world. Yet since the 2008-9 financial crisis and ensuing Great Recession, the United States and Europe have embarked on divergent economic paths. Growing transatlantic gaps in growth, jobs, trade, energy and monetary policies have generated skepticism and uncertainty about the cohesion and durability of transatlantic ties at a time when the diffusion of economic power and weakening of the rules-based international economic order demand closer transatlantic partnership. It is not clear whether the United States and Europe are coming together or drifting apart.

Mind the Gaps

The growth gap

As the second half of this decade begins, the transatlantic economy is a tale of two economies. The U.S. economy has a spring in its step. It expanded by roughly 4% on an annualized basis over the second half of 2014, although for calendar year 2014, the economy expanded by just 2.4%. That marks the ninth consecutive year where real annual growth in the U.S. has been below 3%. However, the U.S. economy is expected to advance by better than 3% in calendar year 2015. Prospects in Europe, meanwhile, while not as bright, are gradually improving.

The European economy is still struggling six years after the global economic meltdown of 2008-09. While the U.S. economy is now in its sixth year of recovery, Europe struggled in 2014 to avoid a triple-dip, or a third recession in six years. Europe avoided a recession in 2014 thanks to stronger-than-expected figures for the fourth quarter of the year. Germany led the way, with Europe's largest economy rising 0.7% in the fourth quarter of the year from the previous quarter. At the other end of the spectrum, growth remained quite weak in Italy, Greece, Finland and Cyprus, reflecting the uneven nature of Europe's economic backdrop. For 2014, real growth for the euro area was 0.9% versus 2.4% in the United States. That is a meaningful gap in growth that the IMF expects to become larger in 2015. For this year, the organization forecasts the U.S. economy to grow by 3.6% and the euro area by only 1.2%.

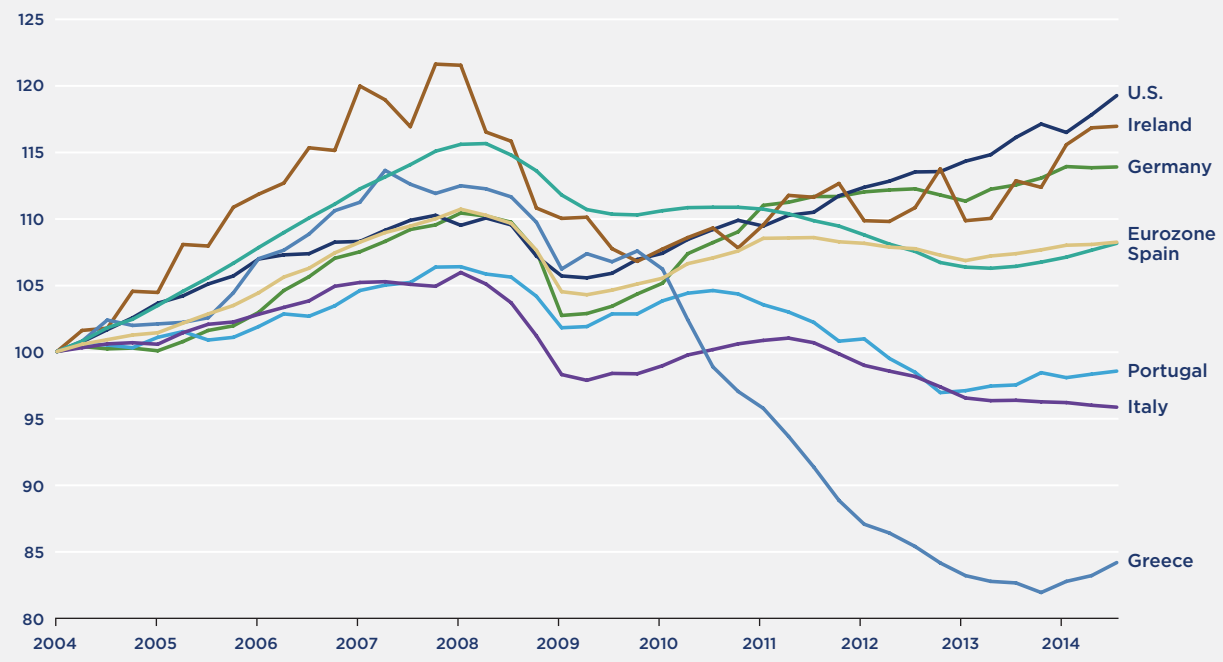
Overall, the news is good for the United States. Growth has been propelled by rising employment levels and private capital investment, as well as falling energy prices, favorable credit conditions and a buoyant stock market. Corporate and household debt relative to GDP has declined. Considered by many a spent and exhausted economic force a few years ago, the U.S. economy has emerged as perhaps the sole bright spot on the global economic horizon, growing much faster than Europe and many hyped emerging markets like Brazil and Russia. In 2015, the United States is expected to contribute more than China to global growth.

Below the headlines, however, the United States is hardly a picture of robust economic health. The recovery has been sub-par by historical standards. Political polarization continues to take its economic toll. Infrastructure challenges are mounting. Growth is being driven less by investment than by consumption, which is turn is being driven more by cheaper borrowing costs and energy prices than growing middle class earnings. Average family income for the bottom 90% of Americans has been flat since 1980. Income inequality has increased substantially, rivaling the extreme level that prevailed prior to the Great Depression. For the first time in over 50 years, a majority of U.S. public school students now come from low-income families.[1] The share of middle-skill jobs in overall employment has fallen while the share of lower-skill jobs has risen. While the country has emerged stronger from the crisis, and is better poised to continue on a path of growth to tackle its challenges, challenges abound.

Meanwhile, Europe remains in a funk. Across most of the continent, growth remains anemic, deflationary fears continue to mount, and unemployment and debt levels are uncomfortably high. Europe's political leaders continue to squabble over ways out of the crisis. High-debt countries like Greece, Italy, Spain, Portugal and Ireland are in no position to cut taxes, increase spending, or borrow more money. And countries that have the capacity to borrow and invest more — especially Germany — simply refuse to do so.

Notwithstanding better-than-expected growth figures for the fourth quarter of 2014, and the appearance that the acute phase of the eurozone crisis was over, Greece

TABLE 1: DEVELOPED ECONOMIES BACK ABOVE PRE-RECESSION OUTPUT LEVELS (REAL GDP LEVEL, Q1 2004 = 100)



Source: Haver Analytics.
Data through Q3 2014

again stole the headlines as its new radical government threatened to reject extension of its €245 billion bail-out package.

Greece's travails underscores the uneven nature of Europe's recovery. The UK recorded 2.6% growth in 2014, buoyed by consumer spending, robust housing markets and investment. Poland's economy continues to perform better than most. Small economies such as Bulgaria, the Czech Republic and Estonia have managed relatively well. Ireland and Spain are recovering. Germany, Europe's strongest and largest economy, has enjoyed sluggish growth but remains determined to balance its budget and press other eurozone countries to restructure their economies while abiding by tough fiscal restrictions. All are tightly bound to each other, however, and all are vulnerable to failing performance by afflicted neighbors like France and Italy. Falling demand from Russia, Asia and the Middle East have hit exports. Capacity utilization in industry—at just under 80%—remains at least two percentage points below the eurozone's historical average.[2]

Lower oil prices, a modest revival of domestic consumption, the European Central Bank's January 2015 decision to inject liquidity into the system, and the competitive benefits of a cheaper euro for European exporters are all likely to help. All told, however, Europe's recovery remains fragile, uneven, and slow.

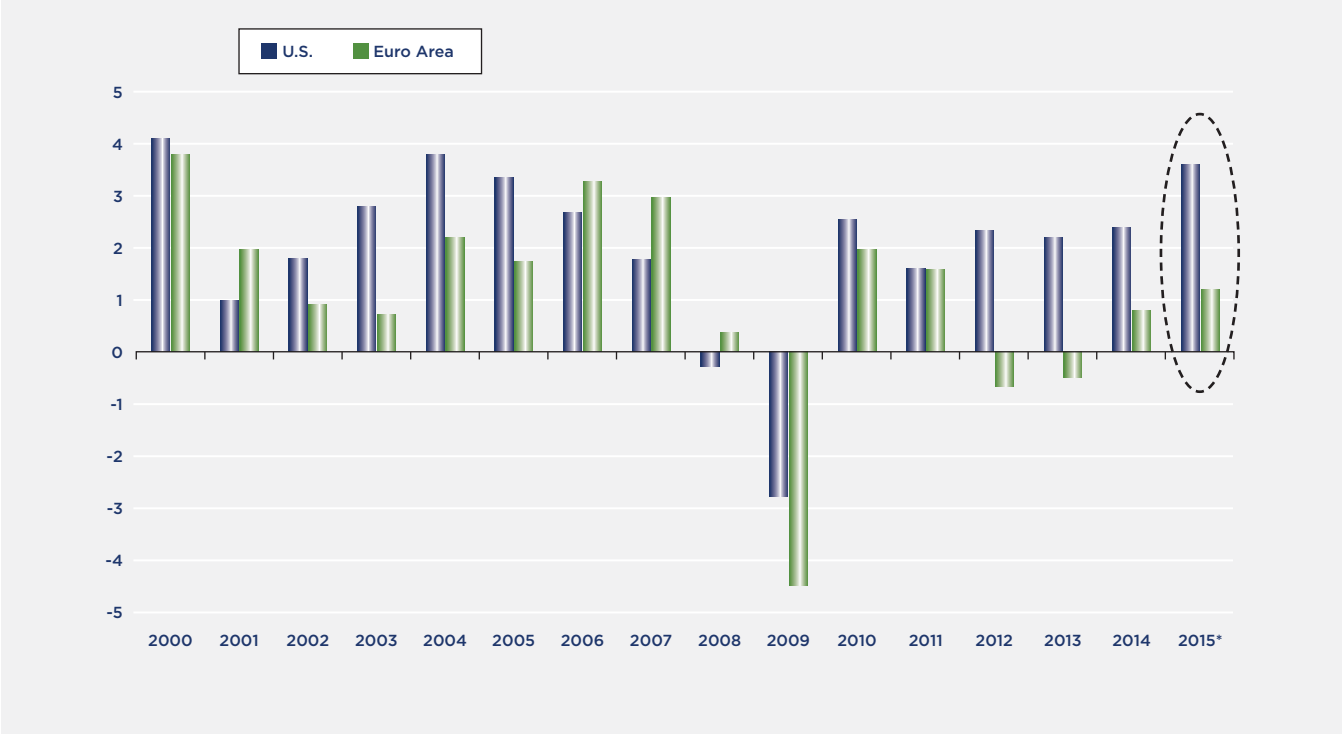
The monetary gap narrows.....

Why the contrasting growth patterns? One answer can be found in the divergent monetary policies that have been pursued by the U.S. Federal Reserve and the European Central Bank (ECB).

Aggressive monetary easing from the U.S. Federal Reserve has been critical and successful in right-sizing the U.S. economy, which was on the verge of capsizing six years ago. After pushing interest rates effectively to zero in 2008, and confronting a sluggish economy, the Federal Reserve opted for quantitative easing (QE)—or the buying of long-term Treasury and mortgage-backed securities. The Fed bought $1.7 trillion in securities in a first phase from November 2008 to March 2010; purchased an additional $600 billion in assets in a second phase from August 2010 to June 2011; and bought another $1.6 trillion in securities in a third phase between September 2012 and October 2014.

This monetary injection of over $4 trillion into the economy pushed interest rates lower, helping U.S. households to either buy or refinance homes, and to

TABLE 2: TRANSATLANTIC ECONOMIC OUTLOOK
U.S. VS. EURO AREA - (REAL GDP, ANNUAL PERCENT CHANGE)



**2015: Forecast.*
Data as of January 19, 2015.
Source: IMF

spend more on other goods and services. It also pushed up stock prices and other financial assets, boosting the net worth of many Americans, which in turned fueled even more personal consumption. Additional measures to recapitalize U.S. banks have made the U.S. banking system one of the strongest in the world.

In Europe the tale was different. Institutional constraints and the make-up of the ECB prompted Europe's central bank to act far more cautiously than the Fed over the past few years. It moved its interest rates to zero, but it never made the commitment to quantitative easing. Only in late 2014 did the ECB conduct a serious stress test to gauge the soundness of Europe's primary banks. One consequence: the eurozone's monetary base actually shrank over the past year, despite slowing growth and rising fears of deflation. Depressed by excessive debt, the eurozone stagnated.

Facing a very real specter of deflation, in January 2015 the ECB finally fired its "big bazooka" with its own version of quantitative easing — an injection of €1.1 trillion, or €60 billion a month at least through September 2016 — to boost the economy and lift inflation levels back towards its target of below, but close to, 2%.

The ECB's action promises to jumpstart growth and avert deflation. German leaders are concerned that the action takes the pressure off some countries from undertaking structural reforms. Yet Germany also stands to gain, not only via higher growth but also a cheaper euro, which will make German exports even more competitive.

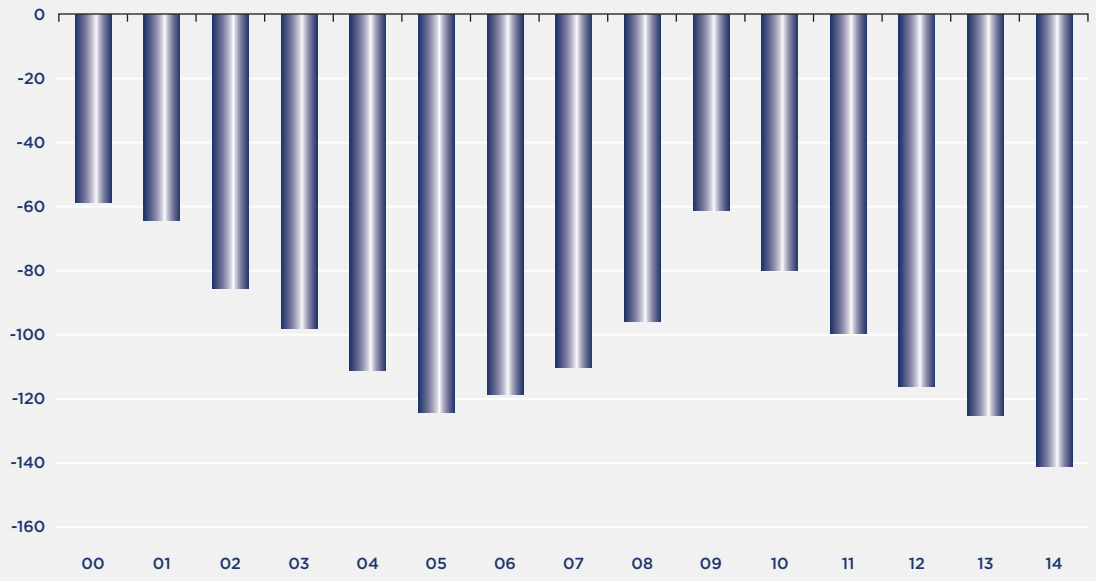
The European Central Bank's quantitative easing bond-buying program will also ripple across the Atlantic. A stronger dollar is likely to dampen European tourism to the United States, while encouraging American tourists and American investors to take another look at Europe. European investors looking for safe havens and higher yields may also choose to invest some of their new-found liquidity in the United States.

...while the trade gap widens

A stronger dollar could also exacerbate America's widening merchandise trade gap with the European Union, which hit a record high of $141 billion in 2014.

America's merchandise trade deficit with the EU has increased five years in a row, and more than doubled between 2009 ($60 billion) and 2014 ($141 billion). In 2014, U.S. merchandise imports from the EU rose 7.8%

TABLE 3: U.S. MERCHANDISE TRADE BALANCE WITH THE EU - (BILLIONS OF $)



Source: United States Census Bureau.

from the same period a year ago, while U.S. merchandise exports rose 5.5% over the same period, causing America's trade deficit with the EU to expand by 12.5%. The good news is that U.S. exports of goods—totaling an estimated $277 billion in 2014—have finally climbed back to their pre-crisis peak of $277 billion recorded in 2008.

However, U.S. goods exports to eight European countries—Finland, Germany, Greece, Portugal, and the United Kingdom—remain below pre-crisis levels.

More than half of America's EU trade deficit emanates from Germany, Europe's largest economy. In 2014, the U.S. merchandise trade deficit with Germany rose over 10.1%, and represented 53% of the total U.S. merchandise trade deficit with the European Union. Reaching nearly $74 billion in 2014, America's trade deficit with Germany was even larger than its trade deficit with Japan—$63 billion over the same period.

In this context, it is important to note that while the United States has been registering consistent merchandise trade deficits with Europe, it also continues to register consistent services trade surpluses with Europe. While the services data is not up to date as the merchandise trade data, the trends are clear. In 2013 the United States enjoyed a $64 billion trade surplus in services with all of Europe.

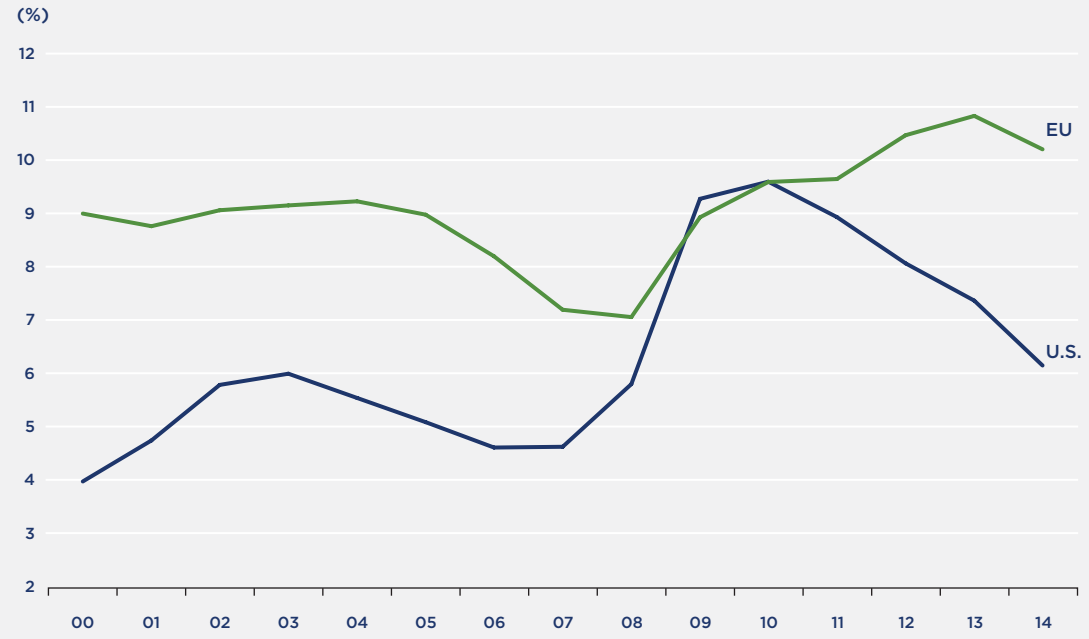
The jobs gap

Yet another transatlantic gap pivots on job creation. One half of the transatlantic economy is generating jobs; the other is not.

As of February 2015, America's unemployment rate was 5.7%, the lowest level since before the 2008 recession. In the three months between November 2014 and January 2015 the U.S. economy added 1 million new jobs — the first time it has done so in a three-month period since 1997 — with employment gains across a wide swath of industries. While U.S. labor force participation rate remains relatively low, they are improving. And while real wage gains have been nominal, they are the best since 2008.

As of December 2014 the EU's jobless rate was 9.9%, the first time it has dropped below 10% since October 2011. The jobs picture improved in 2014, but not anywhere near the extent and pace at which it changed in the United States. Double-digit levels of unemployment remain the norm in France, Greece, Spain, Italy and Poland. As with growth, the job picture in Europe is uneven; the lowest unemployment rates were recorded

TABLE 4: U.S. VS. EU UNEMPLOYMENT RATE



Data as of February 2015.
Source: OECD.

in Germany (4.8%) and Austria (4.9%), and the highest in Greece (25.8% in October 2014) and Spain (23.7%). Youth unemployment rates remain staggering at 21.4% in the EU28 and 23% in the eurozone, notably in Spain (51.4% in November 2014), and Italy (42%), Greece (50.6% in October 2014), Croatia (44.8% in the fourth quarter of 2014). These figures sometimes include full-time students and other categories of young people that obscure the true state of unemployment, but regardless of specifics, the situation is troubling and a lightning rod for social instability.[3]

The energy gap

A further key difference between the United States and Europe has to do with energy. Transformational U.S. energy developments, generated in particular by a surge in production of cheap natural gas and shale oil, have enhanced prospects for greater U.S. energy self-sufficiency, including U.S. energy exports, and have dramatically improved the comparative advantage of America's manufacturing base. At the same time, Europe's energy picture has become muddled and its dependence on unpredictable suppliers is rising.

As U.S. oil and gas production has surged, European energy output has fallen. U.S. crude oil production rose 37.1% between 2008 and 2013, while output of OECD Europe plunged 31% over the same period, according to statistics from the IEA. Both Norway and the United Kingdom reported sharp declines in production, in contrast to the United States, where oil production has more than doubled since 2008.

Thanks to pro-market policies at the state and local level, revolutionary technologies involving horizontal drilling and hydraulic fracturing, and American entrepreneurship/risk-taking, U.S. oil production climbed from a cyclical low of 4 million barrels per day in October 2005 to over 9 million in November 2014. Natural gas production also soared, with production in the Marcellus region soaring from 2 to 13 billion cubic feet per day between 2010 and 2014. As the world's largest natural gas producer—accounting for roughly 20% of global production—the United States produces more natural gas each year than the entire Middle East.

America's energy bonanza has bolstered its energy security in the face of geopolitical risks in Russia and Middle East—a situation that is sharp contrast with Europe, which remains significantly tied to the unpredictable energy source called Russia. While the United States will never be totally energy independent from foreign oil, U.S. dependence has declined sharply over the past

The Geopolitics of TTIP

The Transatlantic Trade and Investment Partnership (TTIP) currently under negotiation by the United States and the EU promises to unleash significant opportunities to generate jobs, trade and investment across the Atlantic. We have offered considerable economic analysis of TTIP's potential in our previous surveys and in our other writings. Yet to understand TTIP's full importance, it is also important to understand its geostrategic implications.

TTIP is about more than trade. It is about creating a more strategic, dynamic and holistic U.S.-EU relationship that is more confident, more effective at engaging third countries and addressing regional and global challenges, and better able to strengthen the ground rules of the international order.

A More Confident and Effective Transatlantic Partnership. To the extent that TTIP can help generate jobs, spark growth and reinvigorate the U.S. and European economies, it promises to renew confidence among publics and elites and ameliorate some of the political dysfunction afflicting many Western societies. Greater confidence and economic vigor at home, in turn, has the potential to increase the magnetic pull of Western values elsewhere, underwrites U.S. and EU diplomatic capacity, and enhances possibilities for strategic outreach.

TTIP can also reassure each side of the Atlantic about each other. Europeans are more likely to have greater faith in America's security commitments if they are anchored by strong trade and investment links. TTIP would also be an important U.S. validation of EU legitimacy that many Europeans crave, while reassuring Americans that the European Union is committed to look outward rather than inward.

In addition, TTIP can be an assertive, yet not aggressive, means to defend and advance basic values shared across the Atlantic. TTIP's fundaments are those of democratic societies rooted in respect for human rights and the rule of law. The United States and the European Union are among the few entities that include basic labor, environmental and consumer protections in their trade agreements. They boast the two most sophisticated regulatory systems anywhere. An agreement that commits both parties to sustain and uphold such principles and protections, not only vis-a-vis each other but together around the world, would be a strong affirmation of common values and a powerful instrument to ensure that such standards advance globally.

Engaging Other Powers. TTIP is important in terms of how the transatlantic partners together might best relate to rising powers. Whether those powers choose to challenge the current international order and its rules or promote themselves within it depends significantly on how the United States and Europe engage, not only with them but also with each other. The stronger the bonds among core democratic market economies, the better their chances of being able to engage rising partners as responsible stakeholders in the international system. The looser or weaker those bonds are, the greater the likelihood that rising powers will challenge this order.

TTIP has particular meaning for U.S. and EU relations with China. TTIP is lazily portrayed as an effort to confront and isolate China. Yet is less about containing China than about the terms and principles guiding China's integration and participation in the global order. China's burgeoning trade with both the United States and Europe attests to U.S. and EU interest in engaging China, not isolating it. Yet Beijing has yet to embrace some basic tenets of the international rules-based order. TTIP, TPP and related initiatives are important instruments to help frame Beijing's choices -- by underscoring China's own interests in an open, stable international system as well as the types of norms and standards necessary for such a system to be sustained.

TTIP is also important with regard to U.S. and EU relations with Russia and Eurasia. TTIP is a values-based, rules-based initiative that is likely to strengthen Western economic and social cohesion, reinforce U.S. commitment to Europe, strengthen transatlantic energy ties, and contribute to greater attractiveness of the Western model. TTIP would also bolster the resilience of central and east European economies, stimulate U.S. investment and enable such countries to more easily resist Russian encroachment. These changes are likely to resonate across Wider Europe, especially Ukraine, Moldova, Georgia and even Belarus.

This is anathema to the current leadership in the Kremlin. TTIP presents a huge challenge to the Kremlin's efforts to divide Europeans from Americans. It offers something that the Kremlin cannot match: a transparent, mutually beneficial agreement that creates a rules-based framework for international cooperation. A reinvigorated transatlantic marketplace among highly-connected, highly-competitive democracies, whose people enjoy greater economic growth and rising standards of living, would challenge the Kremlin's version of ''managed democracy;'' render Russia's own one-dimensional natural-resource-based economic model increasingly unattractive; and consign the Eurasian Economic Union to irrelevance. Greater U.S.-EU energy cooperation would blunt Russia's

monopolistic approach to European energy markets. And if such benefits extended to non-EU neighbors, particularly Ukraine, Russians themselves are likely to ask why their own country can't be better run.[4]

Strengthening the International Rules-Based Order. Europeans and Americans share an interest in extending prosperity through multilateral trade liberalization. But the Doha Round is stuck and the WTO system is under challenge, especially from emerging growth markets that have benefited substantially from the system. Given this situation, EU and U.S. officials are using TTIP to unblock the WTO Doha negotiations, jumpstart multilateral negotiations, and extend the multilateral system it to new areas and new members. TTIP could potentially result in clearer, more straightforward and transparent rules of origin arrangements that could facilitate global trade and serve as a common public good. It could pioneer new ways for countries to ensure high standards for consumers, workers, companies and the environment while sustaining the benefits of an open global economy. Without TTIP, Americans and Europeans could become standard-takers rather than standard-makers.

Challenges

Getting a TTIP deal will be tough. Remaining transatlantic tariff barriers, especially in agriculture, often reflect the most politically difficult cases. Long phase-in periods may be needed to eliminate tariff and quota barriers completely. Some of the most intense transatlantic disagreements have arisen over differences in regulatory policy. Investment barriers, especially in terms of infrastructure and transport sector ownership, will be very difficult to change. Investor-state dispute settlement mechanisms could present the biggest challenge of all. There is considerable debate how and whether to include financial services. It is questionable whether either side is prepared to gore its sacred cows on the TTIP altar -- audiovisual for the EU, the Jones Act for the United States. Defense trade seems off limits.

This list of difficult issues has raised concern that TTIP could divide rather than unite Europeans and Americans. Thus far both parties have signalled strong political commitment to a successful TTIP agreement. But as the going gets tough and other issues intrude, the open question remains whether both sides will consider that they need each other enough to make TTIP a priority and invest the political capital that will be needed to see the deal through to successful ratification

and implementation. If leaders on both sides of the Atlantic grasp the moment, America's first 'Pacific President' and his EU partners may well become best known for having re-founded the Atlantic Partnership. If they do not, then issues of failing trust and confidence, so visible today, will continue to eat away at the relationship like termites in the woodwork.

TABLE 5: COMPARING MEGA-REGIONAL TRADE AGREEMENTS (BILLIONS OF $ UNLESS OTHERWISE SPECIFIED, 2013)

	Transatlantic Trade and Investment Partnership	Trans-Pacific Partnership	NAFTA
GDP (Purchasing Power Parity)	17,578	11,825	3,577
% of World Total	17.2%	11.6%	3.5%
Population (thousands)	509,470	487,730	157,514
% of World Total	7.1%	6.8%	2.2%
Per Capita Income ($)	34,373	22,453	19,603
Personal Consumption Expenditures*	9,720	7,066	1,815
% of World Total	23.2%	16.9%	4.3%
Exports	5,842	2,742	838
% of World Total	32.1%	15.0%	4.6%
Imports	5,786	2,899	927
% of World Total	31.1%	15.6%	5.0%
U.S. Outward FDI Stock to...	2,356	983	470
% of U.S. Total	50.5%	21.1%	10.1%
U.S. Inward FDI Stock from...	1,685	664	256
% of U.S. Total	61.0%	24.0%	9.2%
U.S. FDI Income Earned Abroad	192	93	42
% of U.S. Total	43.6%	21.3%	9.6%
Foreign FDI Income Earned in the U.S.	102	38	17
% of U.S. Total	62.2%	23.0%	10.2%
Foreign Affiliate Sales of U.S. MNC's in...*	2,320	1,846	885
% of U.S. Total	38.9%	31.0%	14.9%
U.S. Affiliate Sales of Foreign MNC's from...**	1,857	909	267
% of U.S. Total	52.9%	25.9%	7.6%

Sources: IMF; UN; BEA.
Data for 2012
**Data for 2011*

few years, with net oil imports accounting for 29% of U.S. consumption in late 2014, down from a peak of 60% roughly a decade ago. According to the latest figures from the U.S. government, America's ratio of domestic energy production to consumption rose to nearly 84% in 2013, far ahead of comparable figures for Japan (7.2%) and Germany (35.2%).

The U.S. energy revolution has not only lessened America's geopolitical risks, it has also been a catalyst for economic growth, creating new jobs across multiple sectors (transportation, industrials, materials, etc) and rising incomes for U.S. households. Lower energy costs have been a boon to U.S. corporate earnings and a draw for foreign direct inflows, given that the United States is now among the most competitive locations in the world to produce.

Even after accounting for the late 2014 downturn in world oil prices, energy costs in Europe remain relatively high. One reason is that the energy market in the European Union remains fragmented; EU Council President Donald Tusk has dubbed it a patchwork of inefficient "energy islands."[5] The lack of coordination and coherency in the energy sector encourages waste and higher prices and a mismatch in energy supply and demand. Spain has an abundance of wind power, for instance, but cannot export its excess energy to the rest of Europe since the continent's power grid remains underdeveloped and more national than regional in scope.

In addition, cross-border efforts to create more European energy connectivity have run afoul of national policies. According to the *Financial Times,* "governments have tended to resist integration because they do not want to expose their energy incumbents to outside competition or cannot generate commercial enthusiasm to fund and build the necessary infrastructure."[6] Meanwhile, differing national tax laws means the cost of energy in Europe varies by location, making it even harder to harmonize energy costs and policies on a regional basis.

Moreover, Germany is pushing its own energy transformation project, known as the *Energiewende*, an audacious effort to break through to a new energy-efficient industrial model that could establish a new basis for Germany's global competitiveness. Yet the global turn to cheaper energy has confounded some price calculations that have underpinned the *Energiewende*. Moreover, EU climate change policies have largely failed to reduce CO2 emissions, despite extensive EU and member state regulatory structures and renewables subsidies. As a result, the EU has an integrated climate change policy yet no integrated energy policy; Germany's carbon emissions have gone up, rather than down; production of brown coal electricity is at its highest levels since 1990; and the country has become America's largest global customer of coal.

This not only leaves Europe paying more for energy relative to the United States, it renders the EU uncomfortably dependent on Moscow. Russia provides the EU with around 30% of its total gas needs, but for some countries of central and eastern Europe and the Balkans, the percentage climbs to 80-90%. Russia has used its energy exports and growing European dependence to influence European politics; weaken opposition to Russian actions, such as annexation of the eastern Ukrainian region of Crimea and direct military incursions into other areas of Ukraine; and to coerce countries into taking positions against transatlantic interests. It is also actively manipulating the European debate by influencing organizations and leading public figures via direct funding and sophisticated "divide and rule" policies.

The EU has taken some steps to counter undue Russian influence, including imposition of sanctions in response to Russian aggression in Ukraine, more rigorous implementation of EU energy law, and passing its Third Energy Package. The precipitous decline in fossil fuel prices is further helping to undermine Russian President Vladimir Putin's ability to coerce European officials and public opinion. Yet Europe has struggled to embrace a more courageous energy mix encompassing a range of sources, from fossil, wind and solar to hydro and nuclear, and it will be difficult for Europe to wean itself off of its energy dependence on Russia.

The transatlantic energy gap thus carries geopolitical as well as economic consequences. Europe is under growing pressure to diversify its energy resources, and the United States is in a position to help. The United States in now in a position in which it could consider exports of light crude oil and liquefied natural gas (LNG), particularly to its allies. There is great uncertainty, however, whether the United States has interest in helping; Washington has yet to make the energy security of its allies an integral component of its energy priorities. Current U.S. laws restrict energy exports except through onerous licensing procedures. European proposals to include energy in the current negotiations on a Transatlantic Trade and Investment Partnership (TTIP) have fallen on deaf ears. Washington's failure to signal strong support for a transatlantic energy partnership has chilled potential investments to build out European energy infrastructure. A strong U.S.-EU political signal of intent to build a more strategic energy partnership, including through TTIP, could influence such investment decisions, even as it would send a strong message of transatlantic

TABLE 6: THE TRANSATLANTIC DIGITAL DIVIDE - (IT SPENDING: % OF GLOBAL TOTAL)

Source: International Data Corporation.
Data as of January 2014

solidarity in the face of Russian troublemaking. Europeans are becoming increasingly concerned that America's changing energy dependencies could result in declining U.S. interest in engaging with allies, rather than offer a new basis for closer transatlantic cooperation.

The digital gap

A final gulf separating the United States and Europe has to do with technology and its myriad uses, with Europe more in favor of digital regulations, greater protection of personal data, and the potential breaking up of U.S. tech giants like Google, which hold dominant positions in Europe. The U.S.-led development of software, social media and innovative digital business models—while hugely popular in the United States—faces stiff headwinds across Europe, which reflect widespread European unease about the growing power of digital platforms directed from the United States, as leaders across the continent struggle to foster innovation-and-risk-friendly economic policies and stem an outflow of bright European minds to Silicon Valley and other hubs of American innovation.

At risk are the business practices of such firms as Amazon (in France, legislation has been introduced to curb free delivery of books); Uber (which has hit resistance across the continent); and Google (which has triggered a fierce debate about personal privacy and data and prompted even the UK government to announce a "Google tax" aimed at U.S. technology companies). Google News, for instance, is exiting the Spanish market owing to Spain's new copyright legislation, which requires all online news aggregators to pay Spanish publishers a fee for content to which they link.

A technology backlash is building in Europe that could not only undermine its own future technological capabilities but also hamper the efforts of U.S. technology leaders to expand and grow in one of the largest economies in the world. Also at risk: growth in U.S.-EU trade in digitally deliverable services that include a host of business services like advertising, legal services, finance, software, architectural design, and consulting, as well as activities like the transfer of royalties and license fees. Since U.S.-EU trade and investment in services holds significant growth potential for both parties, policies that restrict the internet or the free flow of data across borders could dampen growth, curb cross-border trade/investment in services, and weaken transatlantic supply chains that bind the two parties together.

Peter Thiel, one of America's leading technology investors, warns of an equally "dangerous view" developing in

the United States that European actions are simply about "European decline. There is a sense in Silicon Valley that it is on the right side of history, and Europe is on the wrong side of history."[7] Yet this attitude, he cautions, is likely to stoke even greater backlash in Europe. Managing the growing transatlantic digital divide is hugely important to the future of the transatlantic partnership.

Transatlantic Divergence in Global Context

In sum, six years after the global economic meltdown of 2008-09 the transatlantic economy remains largely out of sync. U.S. growth has accelerated and the economy is generating millions of new jobs; Europe is sluggish and unemployment remains stubbornly high. Differences are narrowing over monetary policies, but the transatlantic trade gap is widening. Each side of the Atlantic is approaching energy and technological innovation in substantially different ways.

These transatlantic gaps are even more troublesome when put in global context. In 2014 China overtook the United States as the world's largest economy, according to the IMF and World Bank. In terms of per capita GDP and income, of course, China remains significantly behind. Hourly manufacturing pay in China, for instance, is roughly 25 times less than in the United States, according to the U.S. Bureau of Labor Statistics. Yet it is one further indication that the global economy is changing fast. Although China's growth in 2014 slid to its lowest level in two decades, at 7.4% it still remained relatively robust. It is also becoming better balanced between consumption and investment, with a rising services sector and relatively healthy wage growth. China faces massive economic challenges. But it is casting an ever-larger shadow over global economic policymaking.

Moreover, developed countries as a whole now account for less than half of world GDP, and given that developing countries are likely to record consistently higher growth rates than developed economies into the foreseeable future, a growing majority of global economic activity in now happening in poor and middle-income countries. Even so, most rising powers are also experiencing weaker growth, due to soft commodity prices and sluggish global trade. These trends may be offset in part by the sharp decline in oil prices since mid-2014, but the World Bank has lowered its growth projections for the world economy to 3.0% in 2015 and 3.3% in 2016.

IMF Managing Director Christine Legarde characterizes the global outlook as ''the new mediocre'': sluggish global demand, stagnating productivity among high-income countries, polarized politics, financial fragility — a host of chronic afflictions less susceptible to quick fixes than sustained management. How well U.S. and European leaders can manage these broader challenges with others will depend in part on how well they can tackle emerging gaps across the Atlantic.

Endnotes

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