

Britain is not America's economic poodle

Irwin Stelzer argues that in trade and finance, Anglo-US relations are surprisingly well balanced

Britain's 'special relationship' with America is not confined to foreign policy. In more ways than one, our economies are interconnected in special ways, with neither being the other's 'poodle'.

Start with finance, where Britain seems set to be the dominant partner, constraining American legislators who like to regulate by adopting rules, while their British counterparts prefer to lay out broad principles. Britain is forcing America to change. No other country has that power. Capital is mobile, and the City provides a deep, transparent and less expensive capital market, free of excessive regulation. So capital-seeking entrepreneurs are avoiding New York and flocking to London. So far this year, London leads the New York Stock Exchange by 59 to 17 in attracting new initial public offerings. Fear of the emerging British hegemon has Treasury secretary Hank Paulson pressuring Congress to roll back some of the regulations that so offend international entrepreneurs, and New York mayor Mike Bloomberg shelling out £316,000 for a consultant to tell him how to win back this business, and the tax revenues that come with it.

Then there is the housing market, near and dear to the hearts of both Americans and Brits, for many of whom a house is not a home but an investment, and for some of whom those investments are on both sides of the ocean. Americans take on huge mortgages to finance their investments in the tonier parts of London, and Brits buy condos in Florida. So Americans hope the Bank of England won't raise interest rates, while condo-owning Brits hope high petrol prices won't discourage Americans from motoring down to Florida to rent condos and provide the owners with the income to cover the carrying charges on their sun-drenched properties.

More important is the economic relationship provided by interest rates. A slowing US economy allowed the Fed last week to continue the pause in its programme of interest rate increases. That contributes to what is more or less a \$2 pound, making life difficult for British exporters, hoteliers, restaurateurs, antique dealers and assorted shopkeepers.

Let's not leave oil and petrol prices off the list of special economic relationships. America's oil consumption underpins the world price of oil. We drive SUVs and you pay more for petrol. And when Americans get

tired of paying what we consider exorbitant prices for what we call gas, we leave those gas-guzzling Range Rovers, Land-Rovers and Jaguars on dealers' lots, with unpleasant consequences not only for Bill Ford and his family, but for British workers.

Of course, Britain recently got its own back on this one. Tony Blair came to California and persuaded governor Schwarzenegger to crack down on carbon emissions, creating a model other states will follow. Say what you will about 'Yo! Blair' being Bush's poodle when it comes to Iraq, but when it comes to carbon emissions Blair bared his teeth, and Bush and his programme of doing nothing about emissions got badly mauled.

Which brings us to trade. To say that the Doha round is in trouble is to put it mildly. Trade Commissioner Peter Mandelson has found a new career serving his EU protectionist masters, with time off for quick trips to London to assist the stop-Brown plotters. His willingness to defend his masters' decision to cling to their farmer-protection policies (£33 billion in subsidies in 2005) rather than deploy his skill at drafting resignation letters, is the principal impediment to a trade deal. Gordon Brown can huff and puff but he can't blow his old foe's protectionist wall down. Free trade, says President Bush, is a win-win situation; Blair and Brown agree. But Britain can't deliver the EU. So both economies will have to surrender the efficiencies that more open markets would provide. Of course, a Transatlantic Free Trade Agreement (Tafta) would be a big boost to trade, but Britain can't pull that off without the consent of Jacques Chirac and Romano Prodi so, as we say in New York, fuggit-about-it.

Not to be overlooked is the special relationship created by Britain's creative sector. Britain's fashion week is big news in the US, and not only for women. One sort of affluent



'I've always found his charm offensive.'

American male craves Savile Row suits, just as other sorts once took their fashion lead from Carnaby Street. British musicians have had a major impact on pop music ever since the Liverpool lads landed in New York. And some larger-than-they-want-to-be Americans follow the road to svelter figures charted for them by none other than your Fergie.

Of course, as with all relationships, the UK-US economic relationship has its swings and roundabouts. Marks & Spencer bought Brooks Brothers, clothier to America's waspy preppies, and sold it off when it found out that it didn't understand how to cater to these great-grandsons of the Englishmen who founded America. Now, Brooks Brothers is opening a chain of stores in Britain, and will try to convert some M&S customers to its brand of suits, shirts and ties. Tesco, unlike M&S, is relying for success in US food retailing on opening its own stores, rather than on acquisitions. Sir Terry Leahy reasons that his ability to see off the threat of Asda, owned by America's mighty Wal-Mart, bodes well for his chances in America.

Perhaps most important of all is the UK-US trade in ideas in the area of economic policy. We Americans early on recognised the wisdom of Adam Smith's call for free trade and, later, accepted John Maynard Keynes' arguments in favour of counter-cyclical government spending. Both are firmly entrenched in the neoconservative canon: we are all Keynesian now. Meanwhile, Britain adopted some of the work-to-welfare reforms that have cut welfare rolls in half in America. Ed Balls's studies at Harvard might not have persuaded him to convince his political mentor that patient and parent choice matter, but they did persuade him of the virtue of work over welfare, an easy sell to the hard-working Chancellor. Unfortunately, these reforms have had less effect in Britain because of the escape routes created by this government — if you really prefer the dole to work, find a friendly or frightened doctor to declare that being on time for work is just too stressful for your delicate constitution.

Britain and America have been joined even more firmly at the hip by the globalisation of their developed economies. It is no surprise that the British Chancellor and the American Treasury Secretary are as one in urging China to allow its currency to appreciate, or that policy-makers in both countries are groping for ways to improve their education systems lest their service industries be overwhelmed by India's lower-paid but better-educated workforce.

All of these special relationships supplement the billions that flow back and forth across the Atlantic, making Britain and America the largest investors in each other's countries. No surprise: we share a common language; both countries provide investors the benefits of the rule of law and robust protection of intellectual property; and our financial sectors are staffed by men and women equally at home in Harrods and Saks Fifth Avenue, at the Met or the Royal Opera House, and in the tower blocks of Wall Street and Canary Wharf.