

How Europe regulated itself into American vassalage

It wasn't long after blue jeans, Hollywood blockbusters and Big Macs crossed the Atlantic last century that some worrywarts started fretting about Europe falling prey to American dominance. What was once a concern about cultural hegemony has of late morphed into panic over commercial dependency. With some justification: the commanding heights of the modern European economy have quietly been captured by American firms. Apple and Google power the mobile phones used from Dublin to Dubrovnik. Other Silicon Valley titans have spawned cloud computers storing Europeans' data, and from which American artificial-intelligence models are being deployed deep inside the continent's businesses. Visa and MasterCard, two American firms, are often required for Europeans to pay other Europeans. Increasingly the continent's lights are being kept on by American liquefied gas, replacing an erstwhile reliance on Russian energy.

This form of economic vassalage, which comes on top of dependency on security matters, is hardly new. "Why can't Europe build its own Google?" has long been a predictable lament at Brussels confabs. But in an age when such entanglements can be weaponised—not least by Donald Trump and his MAGA clan in America—it also raises geopolitical questions. If Mr Trump *really* wants Greenland, say, could he threaten to cut off Europeans' ability to pay in shops, or switch off their iPhones en masse? Could some perceived slight from the German chancellor result in the *Mittelstand* being shunted off cutting-edge AI models, hobbling their prospects? The possibilities seem, alas, endless.

Here is an uncomfortable truth for hand-wringing policymakers in Paris, Berlin and beyond: Europe's dependency on America Inc is in no small part Europe's own fault. Decades of over-regulating the old continent's economy left businesses there unable to compete with American firms, which went on to trounce European ones even in their own backyards. What Europeans could not build quickly for themselves, due to a

thicket of regulations, they often imported just as quickly from abroad. That forcing businesses to jump through endless regulatory hoops would put a burden on Europeans was always understood: meeting ambitious green targets, protecting privacy, preventing bank meltdowns or achieving other necessary goals was always going to carry a cost. But the extent to which it also left Europeans in hock to foreigners—for now mostly America, but also increasingly China—has only belatedly become clear.

Tech is where the dependency seems most acute. Europe has few firms at the forefront of AI, space or high-end computing (one notable exception is ASML, a Dutch firm globally vital to chipmaking). Even governments often have little choice but to use the likes of Microsoft or Amazon for cloud services, Palantir to sift through data or SpaceX to launch military satellites. Quixotic attempts to shake off big tech abound, for example by having civil servants ditch Windows for some clunky substitute. Too often the European alternatives are lacking anyway. It turns out that boasting about regulating AI before the public had made their first ChatGPT query—as the European Union did in 2021—is not conducive to home-growing AI champions.

Yes, EU rules often applied to American firms, insofar as they wanted to offer their wares in the bloc. But regulation in practice hit European firms harder. The costs of administering complex data-protection rules, say, could easily be absorbed by a Google or OpenAI, with their hordes of compliance staff. Not so their European rivals, which have usually lacked scale (if only because the EU's fragmented single market made it harder for them to grow beyond their home country). The EU thus generated barriers to entry that often ended up protecting American giants.

The sapping of European sovereignty is also evident in finance. European banks requiring dollar funding have long had to enforce Washington's edicts, for example applying American sanctions. But other dependencies are self-imposed. Several thousand European banks once jointly owned a pan-continental payments system (known as "Visa Europe"; its only American element was the name licensed from the global brand). But well-intended EU regulations that capped the sector's profits made that business unattractive for the banks, which ultimately sold the business in 2016—to the Americans at Visa. Thus a new dependency was born.

Even less whizzy bits of the economy have regulated themselves into subservience to foreigners. In the 1990s the EU imported just half the natural gas it used, thanks in part to domestic production in places like the Netherlands. A tangle of national and EU rules made it ever-harder to drill; many countries have given up. Today 85% of all gas used is imported, over a quarter from America. Other new industrial projects are often unfeasible to launch in Europe. The EU these days frets about access to critical raw minerals, for which it depends mainly on China. Europe has deposits, but getting the environmental and other permits in place to extract them can take up to 20 years, per the EU's auditors.

Brussels, we have a problem

The annoying thing is that, taken individually, each piece of euro-regulation is laudable. Yes, Europe should aim for “net zero” carbon emissions by 2050. Of course regulating AI is sensible, lest the robots turn on us one day. Firm antitrust rules enforced by the EU have served consumers well, and so on. But taken together the effect has been a tangle of red tape that has left Europe awkwardly exposed. Efforts are afoot to get to grips with some of the more unappealing dependencies; next month the commission will unveil a “tech sovereignty package”. But it remains to be seen whether Europe can escape its role as a superpower in rule-making, yet a supplicant in everything else that matters.