



By: *Todd G. Buchholz*

# The World Free Rides on America



Ever since the Reagan boom of the 1980s, many elites outside the United States have been telling Americans that they had been hoodwinked – that cutting taxes and regulations is a reckless, unnecessary way to spur growth.

Countries that provide generous childcare subsidies and wrap businesses in reams of red tape still enjoy equivalent incomes, the argument goes. So why put up with a rugged, muddy cowboy economy?

Two reasons stand out. First, over the past ten years, US income growth has left countries like Canada and Germany in the dust – **registering** a gap as large as 20% in some cases.

And the equity markets tell a similar story, with the S&P 500 up about 250% since 2015, **double** the gains of the rest of the G7.

The second reason could get me banned from port and sherry toasts across Europe: The Old Continent, and a good part of the wider world, has been a free rider, hitching its wagon to the US cowboy economy.

The Trump administration likes to focus on defense, bemoaning Europe and South Korea's failure to pull their weight.

But there's more to this argument than the statistics showing that the United States **spends** 3.5% of GDP on its military, compared to, say, Austria's 0.8% or Norway's 1.6% (even though it shares a border with Russia).

So not only are Norway's fjords and the Alps in neutral Austria safer because of American gunslingers, but such protection frees up more money to spend lavishly on schools and health care.

## The US funds the world's medicine cabinet

Moreover, despite hefty defense spending, the US funds the world's medicine cabinet.

With less than 5% of the global population, it **accounts** for half of all pharmaceutical research and development spending.

By contrast, the United Kingdom **invests** just 0.28% of its GDP in new medicines, about one-third of the US share.

**Without the free riding, hundreds of drugs would not make it from the test tube to the medicine chest**

Then, when firms shout "Eureka, we've found a new cure!" America's light-touch pricing regulations allow companies to recoup massive R&D costs from American families.

But when Swedes and Belgians get breakthrough drugs – whether for epilepsy or migraines – American consumers end up **paying** 2.5 times as much to stop their limbs from seizing or to quell blinding headaches.

Without the free riding, **hundreds** of drugs would not make it from the test tube to the medicine chest. US households pay the price to spark new discoveries.

## America's shale revolution

On energy, America's shale revolution not only transformed North America's power profile but also stabilized global oil prices.

In 1980, when candidate Ronald Reagan **proposed** a shale solution to the energy crisis, President Jimmy Carter scoffed.

Carter was a trained engineer, whereas Reagan was just a Hollywood actor on a horse.

Yet today, despite a war between Russia and Ukraine, and Houthi missiles soaring above the Red Sea, oil prices look downright boring.

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And when Russia turned off the gas taps to Europe, the proverbial cavalry that rode to the rescue came from liquefied natural gas ports in Texas and Louisiana.

Of course, the US is not the only place with shale oil and gas. Geologists report that France has shale-energy reserves under the Paris Basin, as does Germany in Lower Saxony; but those countries' regulators would rather throw their bodies in front of earthmovers than develop these resources.

## Fearless startup culture

In technology, Silicon Valley and America's venture capital machine turn much of the world into free riders.

Fueled by lax regulation, bankruptcy-friendly laws, and a fearless startup culture, the US attracts \$300 billion in venture capital – five times more per capita than the Nordic countries, which draw just \$5 billion.

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The US also hosts three times as many unicorn startups (valued at \$1 billion or more) as the EU, with some of them growing into companies like Nvidia and Google.

But the US allows **failure**, too, as nearly 70% of tech startups die within five years. The churn fuels breakthroughs, and that's why investors bristle when European Commission regulators threaten to throttle them.

## Cowboy keeps bandits at bay

Given America's undeniably widespread, market-driven success, Trump's White House risks undermining this model by pursuing equity stakes in private companies – from Intel, where the administration is brokering a 10% share, to high-flying defense firm Palantir and aerospace giant Boeing – all now in the cross-hairs of Commerce Secretary Howard Lutnick.

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They might trust Trump with state capitalism, but what about his successor, whether Republican or Democrat?

I recently spoke at an investment conference in Seoul, where I was one of the only Americans present.

Through translation headphones, I heard multiple Korean speakers warn clients, "If you want to make money on tech and AI, you must send your won to the US."

At first, I was surprised, since firms like Samsung, LG, and SK Hynix are nimble competitors. But within South Korea, there is more than a feeling that these brands simply cannot keep up with the likes of Oracle and Palantir.

You can look up, down, or sideways to find US leadership. Look down and you will see shale being pulled out of the ground; look up and you will see 70% of European companies **using**

US-based cloud services; look even higher and you will see Blue Origin and SpaceX launching European satellites into outer space.

So, yes, the US looks like a cowboy – with its boots muddy from shale, its pockets lighter from defense spending, and a swagger that irks polite company.

But that same cowboy keeps bandits at bay, stocks the world's pharmacies, and ferries satellites into orbit.

If regulators force the cowboy to hang up his spurs, free riders on the wagon will face a slower, bumpier ride.

Todd G. Buchholz, a former White House director of economic policy under President George H.W. Bush and managing director of the Tiger hedge fund, is the recipient of the Harvard Department of Economics' Allyn Young Teaching Prize.