"Why Are There No Trillion-Dollar Companies in Europe?"

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By David Hebert

GREAT BARRINGTON, Mass.—Europe is a wonderfully diverse continent, with 44 countries, each with its own rich (and long) history and unique constellation of policies. Despite this, though, there are no trillion-dollar companies in all of Europe.

■ In fact, of the 11 companies worldwide to reach this level, nine are in the United States, with the other two being in Taiwan and Saudi Arabia.

If we look at the top 11 companies in Europe, their combined market capitalization amounts to just $2.2 trillion, which is $1 trillion less than the market capitalization of Apple alone.

So what gives? Why are there no trillion-dollar companies in all of Europe?

One answer is simple: Most of the trillion-dollar companies that exist today are what we consider "tech giants"—Apple, Microsoft, Nvidia, Alphabet, Amazon and Meta.

The economist Harold Hotelling provided insights into why these companies are all U.S.-based, way back in 1929. Before we apply his insights to tech giants, let's take a quick detour to use this to understand why there tend to be many gas stations on the corners of the same intersection. Wouldn't it make more sense for them to be dispersed throughout a city or area?

The explanation for this lies in competition.

Suppose that we have people throughout a city, none of which care a whole lot about which brand of gasoline they buy, they just want to go to the gas station that's easiest for them to get to. If the gas stations were distributed throughout the city (and if we ignore the costs of moving gas stations), each gas station would want to move closer and closer to where most of the customers live in order to secure the most customers. This ends with them being located across the street from one another or even right next to one another.

The same can be said about tech giants. They will want to locate themselves where most of their customers live and, with a massive customer base with one of the highest rates of adoption of technology in the world, locating in the US makes good business sense.

But this explanation falls short, too. Notice that it presumes that these tech giants *exist* and are simply deciding *where to locate*. The truth is that these tech companies did not descend upon the world like mana from heaven; they had to be created and built from the ground up. The real questions we must ask are the following.

- What makes the U.S. so fertile for economic growth?

- What makes Europe so reticent for growth?

America vs. Europe: An Economic Perspective

It is no secret that the U.S. remains "the land of opportunity." Even just logically, we can tell that it is based on immigration patterns. The U.S. remains one of the most immigrated-to countries in the world. In fact, the UN reports that 20 percent of the total immigrants in the entire world are in the United States. But this still invites a question: why do so many people want to live in the United States when they could live elsewhere?

There are many factors, but chief among them are economic in nature.

- First, we can look at average wage rates across countries. The U.S. remains one of the highest-earning countries in the world. Lest we think this is a fluke or a historical accident, cross-national studies confirm that simply living in the US actually causes wages for workers to increase.

The newly awarded Nobel Prize economists Daron Acemoglu and James Robinson evidenced this by looking at the city of Nogales, a city at the border between Mexico and Arizona. What is unique about this situation is that the city's people share a common heritage and culture; in fact, there are families that were split in two when the wall was first erected.

Because of their shared heritage, the only real difference lies in which side of the fence, running right through the middle of downtown, one lives. The U.S. side is much, much wealthier than the Mexican side. In fact, in 2012, the fire department on the U.S. side of Nogales famously helped the Mexican side put out a fire by "exporting" water over the fence. They could only do this because of their dramatically higher wealth.

- We can also look at the ease with which one can start a business.

The U.S. ranks among the easiest nations to start a business, with a mere 4.2 days as the average length of time it takes to do so compared to the European Union's average of 12.17 days. This measure, while imperfect, provides evidence of just how quickly one can go from having an idea for a business to starting to operate the business. The lower this number, the easier and more quickly it can be done.

The time it takes to do so depends on many factors, such as the approval process and whether a person or group of persons must approve the application in-person or if it is a series of forms that must be filled out online and reviewed periodically during, e.g., tax season.

Regardless, the faster that all of this can be done, the faster a would-be entrepreneur can start their business, start serving their community, and start earning income.

■ Finally, we can look at taxes.

Despite the bluster about tax rates, the U.S. remains one of the lowest taxed countries in the world. This matters greatly for workers, as lower taxes mean that they get to keep more of the value that they create for themselves instead of remitting it to the government, who will use it for collective purposes. It also means that it is cheaper to hire workers and therefore expand a company's workforce.

■ Taken together, we can see that the U.S. remains a top place for workers and businesses to locate. Our system promotes businesses and the creation of job opportunities in a way that is the envy of the rest of the world. This is something that must be protected.

As Ronald Reagan famously said, "Freedom is never more than one generation away from extinction."