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Economic Lessons from Europe

Europe has plenty to teach us. But it's not what Bernie and Hillary think.

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It has become common wisdom on the Left that the United States needs to be more like Europe. Democratic candidates like Hillary Clinton and, especially, Bernie Sanders can hardly contain their enthusiasm for the European model of the modern social welfare state. As Sanders puts it, "I think we should look to countries like Denmark, like Sweden and Norway, and learn from what they have accomplished for their working people."

Obviously, this ignores Europe's many problems — staggering debt, slow economic growth, high unemployment — but maybe Sanders et al. are onto something. Maybe there *are* some things we could learn from Europe.

For example, we could well benefit from adopting a Swiss-style "debt break." By law, the Swiss government cannot run a budget deficit over an economic cycle. This is not, strictly speaking, a requirement for an annual balanced budget, but rather it limits the growth in government spending to no more than the average of revenue increases over a multiyear period, after adjusting for the cyclical position of the economy (as calculated by Switzerland's Federal Department of Finance). This allows the government to smooth budgets during economic slowdowns, when revenues decline and expenditures rise, but prevents ongoing deficit spending. Nor can the Swiss easily raise federal taxes to finance more spending. Maximum tax rates at the national level — an 11.5 percent income tax, an 8 percent value-added tax, and an 8.5 percent corporate tax — are set by the constitution. They can be raised only through a referendum, in which the proposed increase would have to win both a majority of the national vote and a majority of the vote in more than half the Swiss cantons. The equivalent in the United States would be that every tax hike had to be approved by a majority of all American voters *and* a majority of voters in at least 26 states.

Speaking of taxes, perhaps we should emulate European business taxes. Every country in Europe has a lower corporate tax rate than the United States. Our current corporate rate is 39 percent. In contrast, the highest corporate rate in Europe is 34.43 percent, in France. In Bernie Sanders's beloved Denmark, it is just 23.5 percent. On average, the EU corporate rate is just 22.8 percent. Much of Europe also has lower capital-gains taxes than we do. It's an article of faith among liberals that we need to raise taxes on capital and investment. But Belgium, the Czech Republic, the Netherlands, Slovenia, and Switzerland have no capital-gains tax at all. (Overall taxes in Europe are higher than in the United States, but that's primarily because of regressive VATs, not taxes on the wealthy.)

Let's learn some more lessons from Europe. How about labor policy? The Democrats are fighting over whether the U.S. should raise our minimum wage to $12 (Clinton) or $15

(Sanders); neither of the candidates seems to be asking how many jobs these proposals would kill. But there is no national minimum wage in Austria, Denmark, Finland, Iceland, Italy, Norway, Sweden, or Switzerland, although there are minimums for some specific professions in Denmark, Iceland, and Norway, and wages may be set by collective bargaining (including a government role) for certain industry sectors in some of the other countries.

But if we don't want to go that far, why not a subminimum wage for young people, such as the one in Great Britain? There, the minimum wage for someone between 18 and 21 years old is just 79 percent of the minimum for an older adult, and the minimum is even lower for those under 18. This allows young people with few skills and little job history to climb that first rung on the economic ladder. Similarly, Germany does not apply its minimum-wage requirement to hiring the long-term unemployed (for their first six months of work), teenagers, and young workers participating in the country's extensive apprenticeship program.

Speaking of helping young people, while American politicians are in hock to the teachers' unions, parents in Europe have much more choice about where their children go to school. In fact, in Belgium and the Netherlands, more than two-thirds of students attend private schools. In Denmark, a quarter of students are in private schools. And even in Sweden, one out of seven students attends private school.

Of course, when those on the Left praise Europe, they are looking at its enormous welfare state. But even here, Bernie and Hillary might want to think twice. Various European countries are making significant cutbacks to that welfare state: cutting the length of unemployment benefits, adding work requirements for welfare benefits, imposing additional cost-sharing in their health-care systems. In many cases, European countries are becoming more aggressive about reforming their welfare systems than the United States.

In fact, when it comes to the biggest welfare program of them all, public pensions (the European version of Social Security), liberals might be surprised to learn that Sweden has partially privatized its program. Younger workers are required to invest a portion of their payroll taxes in personal accounts. Bulgaria, Croatia, Estonia, Latvia, and Slovakia also have an individual-account component.

Overall, it's worth noting that, according to the latest Economic Freedom of the World report, Switzerland, Ireland, and the United Kingdom all score better than the United States.

Obviously no one wants the United States to become Europe. But when Hillary, Bernie, and the rest say we should adopt European best practices, they should be careful what they ask for. It might not be quite what they think.

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