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**Europe Embraces Free-Market Reforms**

By [MARIAN L. TUPY](#)

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The American right is increasingly worried about the rise of European-style social democracy in the United States.

Conservative columnist Charles Krauthammer refers to President Obama's "social democratic agenda," while former House Speaker Newt Gingrich warns against "European socialism" in America.

In fact, the traditional American economic model based on small government and private initiative has been under attack for a long time.

Europe's social democracies themselves, however, are also undergoing change. While the Bush and Obama administrations may have increased the size and scope of government in the United States, a number of European countries have turned to free-market solutions.

True, the European left sees social-democratic Europe as the antithesis of America's "cutthroat capitalism." Germany's left uses the term "American conditions" as shorthand for a total lack of a social safety net.

In reality, the annual price tag of anti-poverty programs (\$600 billion), unemployment insurance (\$60 billion) and Social Security payments and Medicare benefits (\$1.2 trillion) in the U.S. is staggering.

The American left sees Europe as an inspiration. Earlier this year, Paul Krugman declared European social democracy as "a success" that "demonstrates ... (that) social justice and progress can go hand in hand." In reality, the left on both sides of the Atlantic hangs onto an image of a Europe that no longer exists — if it ever did.

First, in terms of social and economic policy, there is no such thing as "Europe." The European Union is an association of 27 independent countries that have pooled their sovereignty in a number of important policy areas, including trade relations with the rest of the world.

The EU "government" in Brussels remains less powerful in terms of its competencies than the U.S. federal government, though, as is the case with Washington, much of what the bureaucrats in Brussels do is either unnecessary, such as regulating the curvature of cucumbers, or possibly harmful, such as a common fisheries policy that has resulted in massive depletion of fish stocks in the waters around Europe.

Second, European nation-states still retain a great deal of independence in social and

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economic decision-making. That independence leaves national governments substantial room to maneuver. Some have used it to surprising ends.

For example, seven EU countries (Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Romania and Slovakia) have introduced a flat income tax, which has proven so popular and economically beneficial that three more EU members (Hungary, Poland and Greece) are considering it.

Meantime, the U.S. is stuck with a tax system so complicated that the cost of compliance is estimated to reach \$483 billion per year by 2015.

Similarly, driven by falling birth rates and rising costs, seven EU countries (Bulgaria, Estonia, Hungary, Latvia, Lithuania, Slovakia and Sweden) have reformed their unsustainable pay-as-you-go pension systems. These countries now allow or mandate their citizens to invest a portion of their retirement contributions in private pension funds.

In the U.S., Social Security reform remains highly contentious, worsening demographics and \$16 trillion in unfunded liabilities notwithstanding.

Another seemingly unsolvable problem in the United States is the country's appallingly expensive but underperforming system of state-run primary and secondary education. In the 1990s, one European Union country embraced a radical reform that saw the establishment of private for-profit but taxpayer-funded schools that succeeded in raising education standards in both private and state-run schools. That country is Sweden — the supposed paragon of social democracy.

Sweden is not the only Western European social democracy with some surprisingly free-market characteristics. The World Bank's annual Doing Business report, which looks at the ease of doing business around the world, shows that while the U.S. has the fourth-most-welcoming business environment, Great Britain, Denmark and Ireland come in 5th, 6th and 7th place, respectively.

Are we witnessing a convergence of the two models? It may seem that way now, but the future of the social democratic model seems doomed. Just as the crisis of the early 1990s forced the Swedes to curb government spending and intervention, the current crisis is forcing the Greeks to reevaluate the balance between government spending and private-sector growth.

The changes taking place in Europe offer lessons for the United States. Far from being a sustainable long-term strategy for growth, an ever-increasing public debt will eventually result in a financial crisis. And in the time of crisis, social arrangements, no matter how cherished and long-standing, can be successfully reformed.

- Tupy is a policy analyst with the Cato Institute's Center for Global Liberty and Prosperity.

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