Europe's Promise : Why the European Way is still the Best Hope in an Insecure Age

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The 21st century world is facing two immense challenges: how do we enact a desirable quality of life for a burgeoning global population of 7 billion people? And how do we accomplish that in a way that does not burn up the planet in a Venus atmosphere of our own creation, due to excess carbon emissions, pollution, and other downsides of development? That is a tall order to fill, yet it is the defining task of our insecure times.

More than anywhere else, Europe has been fostering the types of innovations that point the way forward for the world to meet these challenges. The economic crisis has overturned much of what we understood as the way to foster successful economic development. The Washington consensus that dominated the post-World War II era has been smashed into pieces like a jigsaw puzzle, with confused world leaders trying to reassemble the parts that make sense in this anxious new era. Despite the trials of the euro zone crisis, Europe's brand of "social capitalism" is still a better model for the 21st century than America's "Wall Street capitalism" or China's "communist capitalism" because it has developed itself on several crucial fronts.

The European economic and social model

An economic power

The typical knock against Europe by critics has been that these levels of support for workers, families, communities and the environment are unsustainable, and make the European economies weak and sclerotic. The economic difficulties of the euro zone have only increased these criticisms. But even after the economic collapse of 2008, Europe still has the largest economy in the world, producing over a quarter of the world's gross domestic product, larger than the United States and India combined. It has more Fortune 500 companies than the U.S. and China together, and some of the most competitive national economies according to the World Economic Forum. The E.U. is now the largest trading partner of both the U.S. and China[1].

Europe's economy actually has more small and medium-sized businesses (SMEs) than the U.S. that provide two-thirds of Europe's jobs, compared to half the jobs in the United States[2]. In many European countries, the SMEs are world-class exporters, making products that are crucial to industrial growth in the developing as well as the developed world. So much for too much red tape supposedly strangling the European economy

While several European economies – the so-called PIIGS (Portugal, Ireland, Italy, Greece and Spain) – have had difficulties, the rest of Europe is gradually recovering from the largest economic collapse since the Great Depression. Germany, with only 6 percent unemployment (compared to 9 percent in the U.S.) has defied the experts' predictions and is a reminder of Europe's capacity for pleasant surprises. In Scandinavia, Sweden's economy expanded by over four percent in 2010 and is expected to see more growth in 2012, according to OECD estimates; Norway, Finland and Denmark also are expected to see growth. Poland avoided a recession altogether, and Netherlands, Denmark, France, Switzerland, Poland, the Czech Republic and others have maintained their footing during this economic upending.

So despite sovereign debt worries in five countries, Europe's economy overall is hardly weak or sclerotic. Social capitalism has performed better than Wall Street capitalism in many ways. And while China has outperformed Europe in terms of growth, it is a long way from figuring out how to create a more broadly shared prosperity for the vast majority of its 1.3 billion people.

Environmental sustainability, readying for global warming

Europe is leading in preparing for global warming, with widespread deployment of conservation practices and "green design" in everything from skyscrapers, public buildings, homes and automobiles to low wattage light bulbs, motion sensor lights and low flush toilets. Europe has moved forward vigorously with renewable energy technologies like solar, wind and sea power, as well as efficient mass transit, high speed trains and more. In the face of vehement criticism from the Obama administration, China and other countries, Europe has pressed forward with its plan to force all international as well as European airlines to buy carbon credits to offset their emissions. As a result of this transformation toward sustainability, the average European uses half the electricity of the average American[3], and it takes 40 percent more fuel to drive a kilometer in an American car compared to a European vehicle[4]. Europe has reduced its "ecological footprint" (the per capita amount of the earth's capacity consumed by a population) to half that of the United States for the same standard of living[5]. And in the process, Europe has created hundreds of thousands of new green jobs.

China also has begun greening its economy and society, but it is so vast and poor a country that it has a long way to go before it reaches Europe's level of deployment or sophistication.

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1. Fortune magazine's Global Fortune 500 rankings, 2009, located at http://money.cnn.com/magazines/fortune/global500/2009/index.html

2. Jeremy Rifkin (2004), *The European Dream: How Europe's Vision of the Future Is Quietly Eclipsing the American Dream*, New York: Jeremy P. Tarcher/Penguin, p.69.

3. Central Intelligence Agency, The World Factbook, "Country Comparison: Electricity – consumption," https://www.cia.gov/library/publications/the-world-factbook/rankorder/2042rank.html, U.S. per capita consumption is 12,470 kwh, E.U. per capita consumption is 5774 kwh

4. Steven Hill (2010), *Europe's Promise: Why the European Way is the Best Hope in an Insecure Age*, Berkeley: University of California Press, p. 183.

5. WWF (2008), *Living Planet Report*, Gland, Switzerland, October 2008, p. 36-38, http://assets.panda.org/downloads/living_planet_report_2008.pdf. Europe's Total Ecological Footprint was rated at 4.7 hectares per person while the U.S. was rated at 9.4 hectares per person

Health care and social support

In this economically unstable age, European nations have done more than anywhere else to reduce inequality and provide economic security for families and workers. Europeans today enjoy universal health care for all, decent retirement pensions, an average of five weeks paid vacation (compared to two in the U.S.), paid parental leave and sick leave (in the U.S. neither is mandatory or universal), affordable childcare (Americans pay at least six times more), low-cost higher education (American students graduate tens of thousands of dollars in debt), and a shorter work week with comparable wages. Social spending in Europe runs 35 percent higher per capita than in the United States[6]. Not every country enjoys the highest level of family supports, with western Europe generally having more than central and eastern Europe. But the west-east gap is closing, and even in Greece, which has been beset by deep economic woes, people still have more of these supports than most Americans or Chinese.

European nations are rated by the World Health Organization as having the best health care systems in the world, with France having the top-ranked system. Some like Sweden and the UK use a government-directed, single-payer system, while France, Germany, Belgium and others employ private but *nonprofit* insurance companies as the backbone of their health care systems. Costs and fees are negotiated between all the various health care sectors, with the end result being that countries are spending only about half the amount of money per capita as the United States and its for-profit system to provide universal coverage. . Despite spending far more money, 50 million Americans don't have any health care at all except a hospital emergency room, and the quality of U.S. health care is ranked 37th in the world -- just ahead of Cuba and Kuwait, truly a damning indictment of the American for-profit system. And in China, the health care system is primitive and expensive for the average person[7].

America can take great credit as the inventor of the middle class, but Europe has figured out how to put the middle class on a more stable footing by providing supports for families and workers, and by reducing inequality and the number of people in poverty. As British medical researchers Richard Wilkinson and Kate Pickett have demonstrated in their book *The Spirit Level*, inequality dramatically affects other social ills, such as infant mortality, crime, homicides, incarceration (the US incarcerates 7 to 10 times more people than European nations do), life expectancy, mental illness, drug abuse, alcoholism and more. These social ills are expensive to treat and an additional drain on the economy and social fabric. In all these areas, Europe's social capitalism has made demonstrable improvements over America's trickle-down capitalism or China's communist capitalism.

The European economic and political democracy

An economic democracy

Europe has fostered a greater degree of economic democracy by deploying practices like codetermination, works councils, co-operatives, strong labor unions, and public-private partnerships. Codetermination, first pioneered by Germany, allows workers at

6. "Before austerity, sizable social benefits," *Washington Post*, April 24, 2011, www.washingtonpost.com/world/before-austerity-sizable-social-benefits/2011/04/24/AF22IvdE_graphic.html

7. WHO (2000), *The World Health Report 2000—Health Systems: Improving Performance*, Geneva, Switzerland, annex table 1, 152, www.who.int/whr/2000/en/whr00_en.pdf.

major corporations and Fortune 500 companies to elect their own representatives that sit side by side with stockholder representatives on corporate boards of directors. From the American standpoint, this is like requiring Wal-Mart to allow its workers to elect up to 50 percent of its board of directors. It's hard for Americans or the Chinese to even conceive of such a notion, yet many European nations employ some version of this as standard procedure.

Codetermination also includes worker-elected works councils in most workplaces, which give workers a great deal of input and consultation at the shop floor level. Europe in effect has reinvented the corporation and stockholder capitalism by empowering its stakeholders, yet most political analysts and economists have barely noticed. The impact of codetermination has been immensely significant, and yet it has not hurt Europe's competitiveness. Indeed various studies have shown that these practices have helped the economy by fostering a culture of consultation, information-sharing and consensus-building between business managers and workers[8].

Europe also has been steadily reforming its financial sector, cracking down on the "greed culture" by limiting bonuses, pushing for a financial tax on stock market transactions, proposing alternatives to the corrupt rating agencies, regulating hedge funds, derivatives and short selling, increasing cash reserves for banks, and requiring the originators of asset-backed securities to retain at least 5% "skin in the game" (meaning they must retain ownership of 5 percent of those securities they have created, which disincentivizes Goldman Sachs-type financial fraud). Europe also has greatly increased supervision by launching four new agencies that police Europe's financial institutions, protect consumers and taxpayers, and monitor and warn of excessive risk in the financial system.

But banks and the financial industry is one area where Europe has a lot of work still to do. Europe, like the US, allowed its banks to become gambling casinos backed by tax payers' money. While European banks are not as guilty as Wall Street for causing the global crash that still bedevils policymakers, nevertheless Europe was extremely vulnerable because it has yet to figure out the proper role for a financial system in a sustainable, steady state economy. As in the US, discussions of core principles such as whether some banks can become "too big to fail" have been shelved. Europe has yet to develop a concept of "social banking" that outlines how financial institutions can play the crucial role of providing suitable amounts of credit for businesses and the economy, but in a way that would "make banking boring again," as former Federal Reserve chairman Paul Volcker has called for. The financial system and its banks remain one of Europe's greatest challenges as it tries to maintain and further advance its progress.

A political democracy

After centuries of kings and dictators, Europe has forged pluralistic political institutions and electoral methods like proportional representation, public financing of campaigns, free media time for campaigns and automatic/universal voter registration that have produced the most representative democracies in the world at the national level (at the European Union level, however, which is relatively new and still in formation, the institutions have not yet resulted in sufficient levels of democracy or accountability). These modern practices have fostered inclusiveness, participation, multiparty representation and policy based on broad public support and consensus-building. Europe's robust political democracies ensure that politics rule over economics, instead of the other way

8. Jonas Pontusson (2005), *Inequality and Prosperity: Social Europe vs. Liberal America,* Ithaca, NY, and London: Cornell University Press, p. 117–18. See also the work of Klas Levinson, researcher for the former National Institute for Working Life in Sweden, one of the world's experts on codetermination.

around, resulting in the benefits of its social capitalism being broadly shared. But in America's Wall Street capitalism, powerful economic forces have captured the political system and turned the economy into a trickle-down one; the 400 wealthiest Americans now have $1.4 trillion in wealth, greater than the GDP of India with a billion people (this stark inequality has given rise to the Occupy Wall Street movement and its framing of "the 1% vs. the 99%")[9]. And in China's "consultative dictatorship," a small cadre of political and business leaders try to manage the nation like a giant corporation, which so far has resulted in vast inequality.

Despite Europe's considerable achievements, many myths abound. One myth says that "Europeans pay more taxes than Americans," but for their taxes Europeans receive a long menu of supports and services for which Americans must pay extra, via out-of-pocket fees, premiums, deductibles, higher tuition and other charges, in addition to their taxes. For example, many Americans are paying a lot more out-of-pocket than Europeans for escalating health care costs. Other Americans are stuck saving tens of thousands of dollars per child for their college education, yet young Europeans pay low tuition (and in some countries no tuition). Millions of Americans are scraping to save the money they will need for retirement beyond their meager government pension, but the European public retirement systems are more generous, paying out twice as much per individual as America's Social Security[10]. Many Americans pay extra for child care (at least six times what Europeans pay), or self-finance their own parental leave after a birth, or sick leave when they get sick, and senior care when they are old, but Europeans receive all of these and more in return for paying their taxes. When you sum up the total balance sheet – taxes paid as well as out-of-pocket expenses -- it turns out that many Americans pay out more than Europeans, but they receive a lot less for their money.

That kind of inefficiency is undermining America's middle class and families. In this era of globalized capitalism, with developing countries like China, India and Brazil demanding their deserved seat at the table, all of the developed countries are going to need to learn to do more with less, and to increase productivity in all sectors. European Member States can offer services such as healthcare, childcare and more for much lower cost than in the US because they collect their tax dollars into pools of "social insurance" which allows them to design relatively efficient, cost-effective systems. But the US has created scattered, hodgepodge systems, many of them for-profit and privately financed, that are inefficient, expensive and lacking in quality and coverage.

Properly understood, Europe's economy, political democracies, social support system and environmental policies are all components of an identifiable European Way -- a well-designed framework in which a capitalist economy has been harnessed to finance a broadly shared prosperity as well as environmental sustainability. The economic engine finances a social system that better supports families and individuals in an age of globalized capitalism that threatens to turn most people into internationally disposable workers. Even the continent's conservative political leaders agree that this is the best way; indeed European conservatives are for the most part to the left of the Democratic Party in the United States.

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9. Julianne Pepitone, "Forbes 400: The super-rich get richer," CNNMoney, September 22, 2010, http://money.cnn.com/2010/09/22/news/companies/forbes_400/index.htm

10. For American figures, see "Understanding The Benefits," SSA Publication No. 05-10024, January 2010, ICN 454930, p.4. and "Social Security Provides a Foundation on Which to Build Retirement Security," Social Security Administration, www.ssa.gov/pubs/10055.html. Also see Stephen Beard, "German pension system showing age," Marketplace Money, May 15, 2009, www.marketplace.org/topics/business/next-american-dream/german-pension-system-showing-age; Reuters, "Possible French pension reform proposals-FACTBOX," July 13, 2010, www.forexpros.com/news/interest-rates-news/factbox-french-pension-reform-proposals-148090; Edmund L. Andrews, "Germany Clears Way for Pension Reform," New York Times Service, published in the International Herald Tribune, May 12, 2001; "Germany's Pension Reform," The Economist, May 10, 2001; and "Go Private, Says the State," The Economist, May 10, 2001.

The differences between the European, American and Chinese ways is not a mere coincidence, but rather a direct result of basic differences in key economic, political, media/communication and environmental institutions and infrastructure that have been quietly incubating and evolving in the post-World War II period. Taken together these differences in "fulcrum institutions" -- the crucial institutions on which everything else pivots -- are the keys to understanding the striking divergence between the European way and the American and Chinese ways.

Young Europe meet young America

Some analysts and pundits predict the unraveling of Europe as a result of the euro zone crisis. But these same experts have been predicting the "end of Europe" for many years and have been wrong. That's because this viewpoint ignores the historical record about the complex process of integrating economies. Europe is in the process of deciding how united it wants to be, and that process is going to take decades.

To understand the present and future, sometimes it's helpful to revisit the past. In the case of Europe, it is instructive to consider the young United States of America in 1789. This young America was torn by regional tensions and sovereign-minded Member States that were constantly in the process of deciding to what degree they should forge a new union or maintain their separate ways. Young America had no single currency -- each state had its own currency, indeed banks even had their own scripts that were used like currency. The new nation also was plagued by debt to domestic as well as foreign creditors. To meet these challenges head-on, the first Secretary of the Treasurer, Alexander Hamilton, took the lead in designing the beginnings of a modern financial system, including a single currency. Attesting to how controversial these matters are, two of the most important and influential founders, Thomas Jefferson and James Madison, were fiercely opposed to Hamilton's plans.

Even more than the current European Union, this young America was gripped by regional tensions, north, south, east and west, with few Member States wanting to yield much state sovereignty to a national government. Americans were so suspicious of central government that President George Washington – who was a military hero and enjoyed god-like stature as the nation's preeminent leader – dared not propose raising funds for a standing army. People were so against federal taxes that the first national tax, which was levied on whiskey – chosen because it was less controversial than other possible taxes – led to open rebellion in western Pennsylvania, prompting President Washington to march troops there to suppress it.

There were moments throughout the 1820s, 30s, 40s and 50s when it seemed like those "united" states might crack. Finally, a full 70 years after its first government, America fought a bloody and bitter civil war over "states' rights" (and the related issue of slavery), which at its core was a violent disagreement over the powers of central government and member state integration. In short, it took many decades from its founding for America to cease being a collection of regions and to become a nation. And during that time the US economy suffered at least seven bank and financial crises. Yet America persevered, continuing to define its union decade after decade, uneasily bound by a political will that believed, as founder father Benjamin Franklin had forewarned, "We must all hang together, or most assuredly we will all hang separately." These tensions between the central government and Member States never really disappeared. You could see them in the U.S. in the 1960s during the civil rights era, and even today in the insurgence of the Tea Party movement.

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Sound familiar ? Europe today has many contradictions and tensions, but nothing on the scale of those that led to a civil war in United States. But Europe has a long road ahead as it continues to fashion its “union” and decide how united it wants to be. Despite the short-term debt crisis in some of the E.U. Member States, if we are to survive the 21st century then Europe must step up its global leadership. America and China are each grappling with their own deep-seated challenges and internal contradictions, and so their capacities for leadership have limits.

Part of Europe’s leadership must involve spotlighting its fulcrum institutions – economic, environmental and political - as well as its values of solidarity, social capitalism and ecological and economic sustainability as the basis for a new development model that offers hope to the world. In this make-or-break century beset by a worldwide economic crisis, global warming and new geopolitical tensions, the European Way still has the greatest potential to carry the world forward.