

The European Economy:

THE EUROPEAN DREAM

How Europe's Vision of the Future is Quietly Eclipsing the American Dream

Or

..... European Nightmare



Session 4: The European Economy

- **Myth or Reality?**
- The European Economy is more sustainable than the US Economy
- The European Dream will eclipse the American Dream
- **Myth or Reality?** The European Dream will become a nightmare of collapse

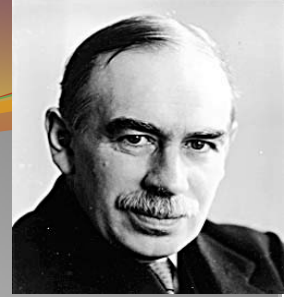


Today's Menu

- A Brief History of Two ideologies, two experiences
- Different Dreams, Strategies and Worlds: U.S.-EU Comparisons
- Is the EU economy more sustainable than the US Economy?
- Or.....Is the EU Economy turning into a Nightmare?
 - Evidence
 - Explanations: unsustainable welfare state or Eurozone Yoke
- The Current Economic Crisis: Will the EU survive?



Two Economic Ideologies

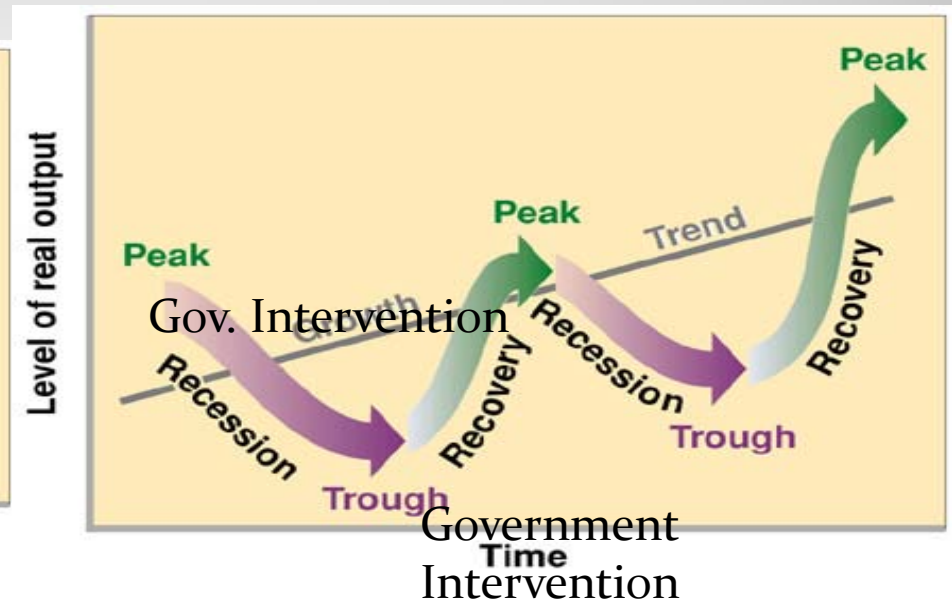
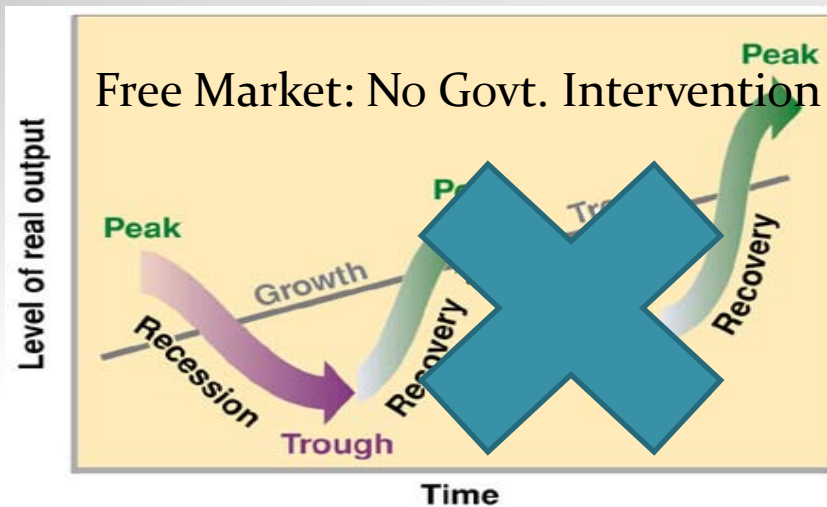


• Hayek's View: The Business Cycle

- \downarrow employment \rightarrow \downarrow Demand \rightarrow \downarrow Prices \rightarrow \downarrow Currency value \rightarrow \uparrow Demand \rightarrow \uparrow Employment

Keynesian Model

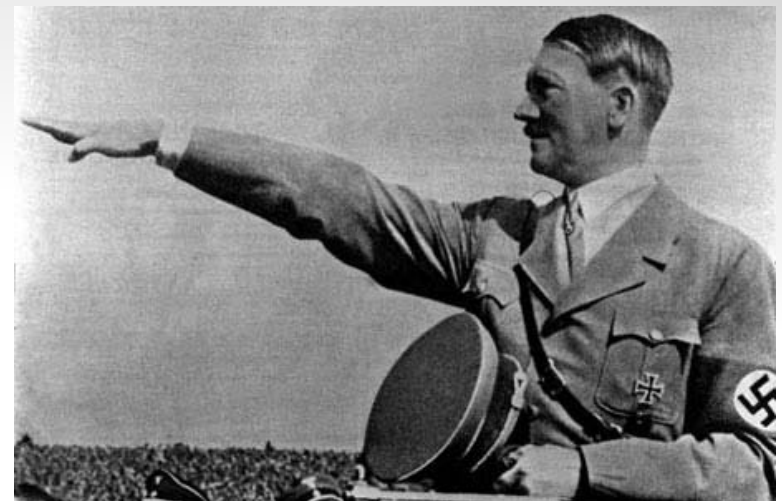
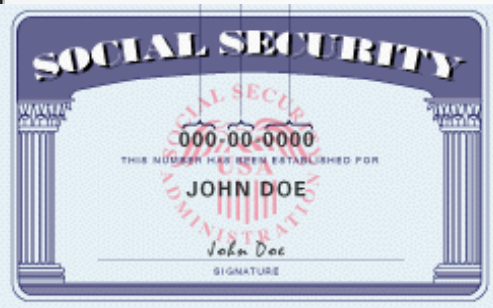
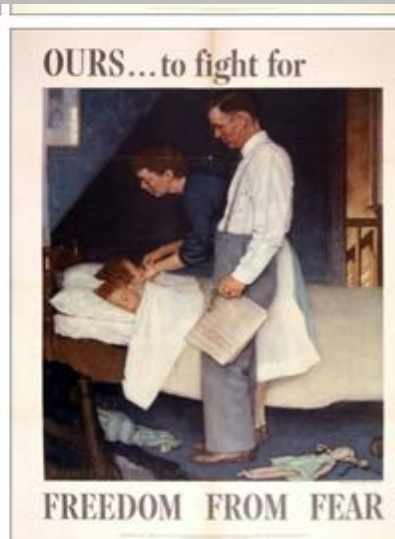
- \downarrow employment \rightarrow \downarrow Demand \rightarrow Govt. intervention (fiscal/monetary policy) \rightarrow \uparrow Employment



Two Responses to the Great Depression

- US Adopts Keynes' Model

- Europe Flounders



The Great Depression suggested that Hayek's view was too risky for governments



Different Post-War Realities: Switching Ideologies

- The United States
- Economic Dominance
- Restoring Free Trade
- The Demands of Free Trade
- The Limits of Government Intervention
- Europe
- Economic Defeat
- The Need for Social Solidarity
- U.S. Aid
- Restoring the Welfare State

Different Dreams



The American Dream Economic Prosperity

- Economic Growth
- Equal opportunity
- personal wealth and independence
- Free Markets
- consumption
- work ethic
- “live to work”



The European Dream Economic and Social Prosperity

- Economic Growth
- Income equity
and social protections
- primary education,
- higher taxes
- Regulation
- Shorter working hours,
- longer vacations
- “work to live”

Different Strategies to realize Different Dreams

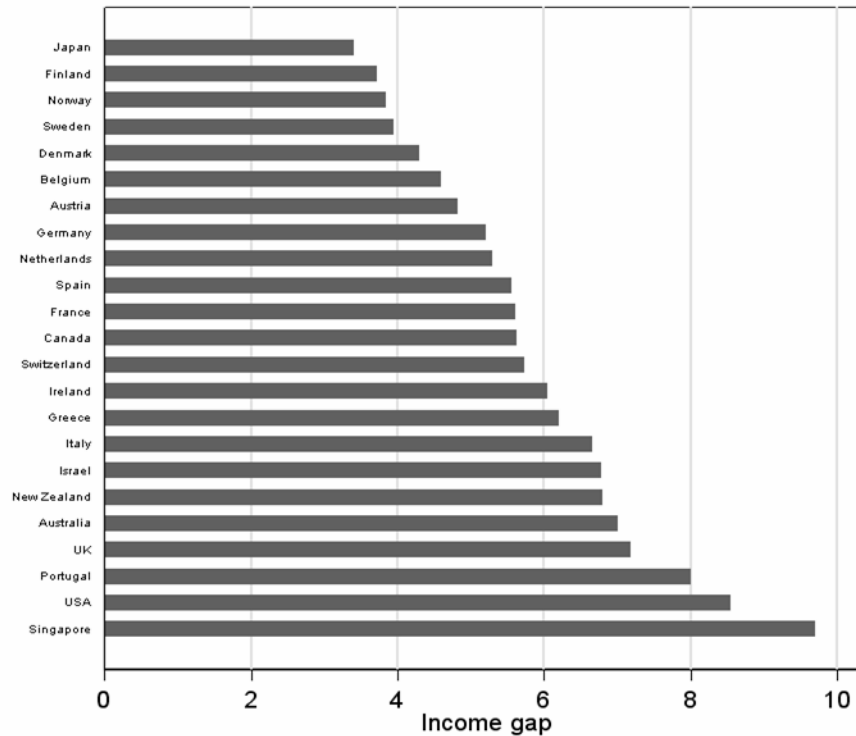
- The United States
- **Low benefits:**
- **Unequal benefits:**
- **Private sector priority:**
 - Flexible labor markets
- **Bottom Line: More inequality**
- Europe
- **High Benefits**
 - Social insurance:
 - Health insurance:
 - Education:
 - Child care:
- **Equal Benefits**
- **Public sector administration and regulation:**
 - Protected labor markets
- **Bottom Line: More equality**

Myth or Reality?

- The European Economy is more sustainable than the US Economy
- The European Dream will eclipse the American Dream

Comparing Two Dreams: Equality and Quality of Life

How much richer are the richest 20% than the poorest 20%?



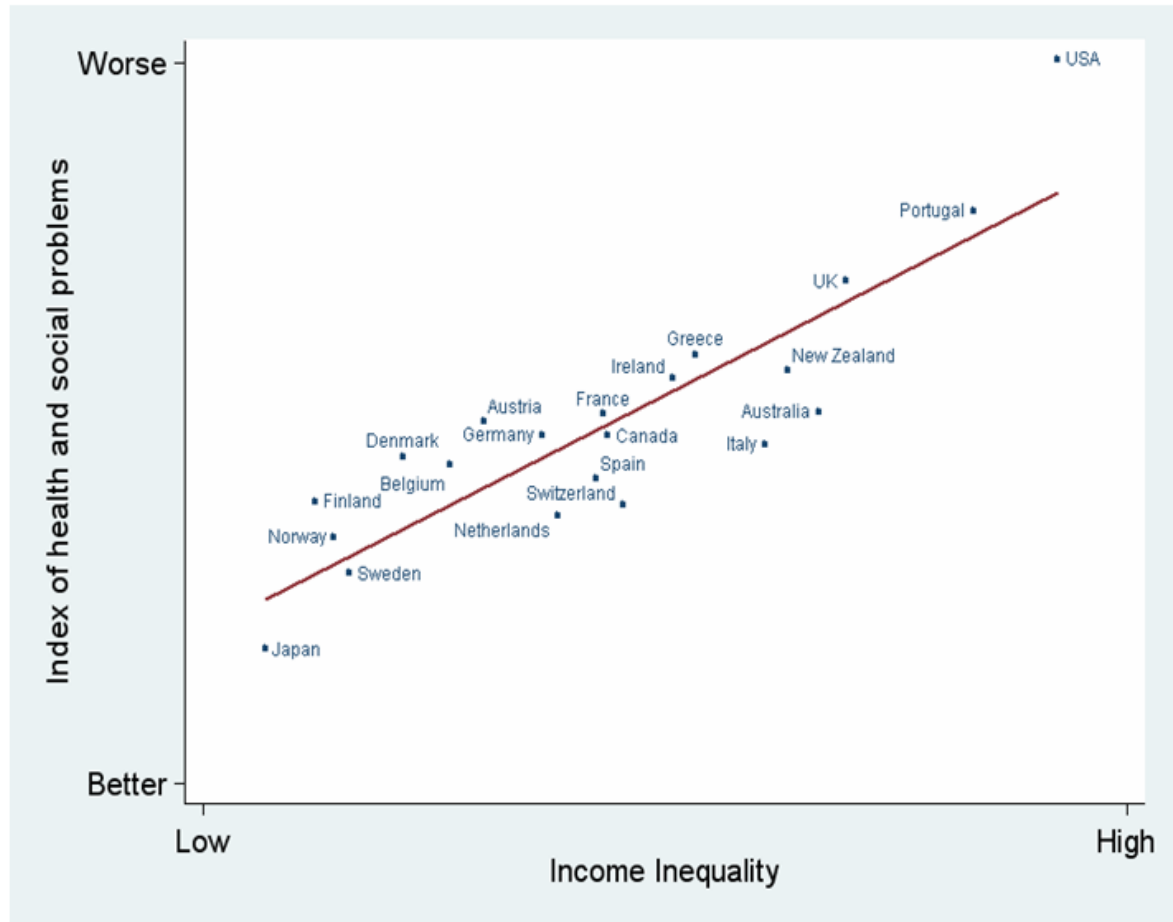
Source: United Nations Development Program

Source: Wilkinson & Pickett, *The Spirit Level* (2009)

Health and Social Problems are Worse in More Unequal Countries

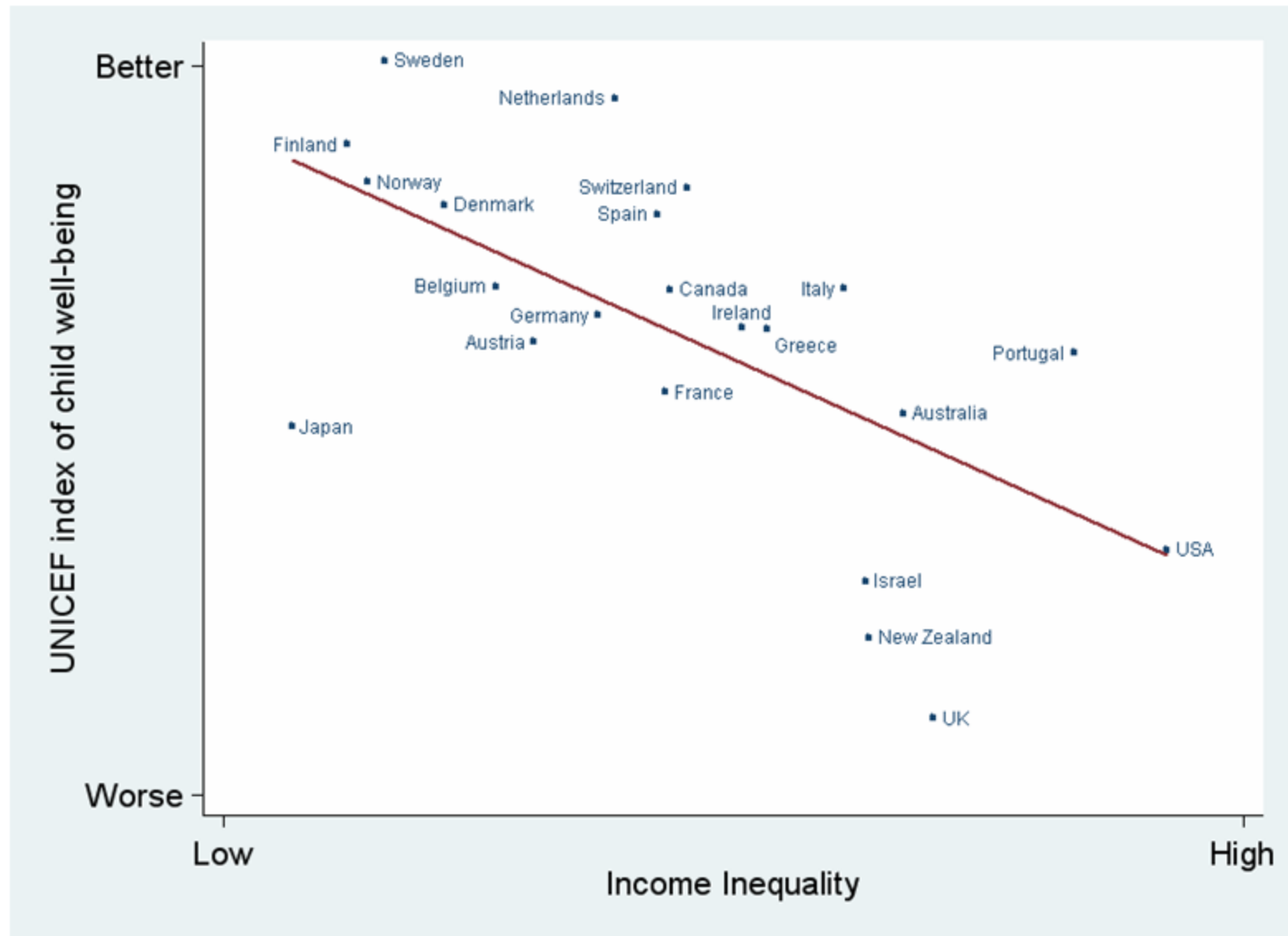
Index of:

- Life expectancy
- Math & Literacy
- Infant mortality
- Homicides
- Imprisonment
- Teenage births
- Trust
- Obesity
- Mental illness – incl. drug & alcohol addiction
- Social mobility



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

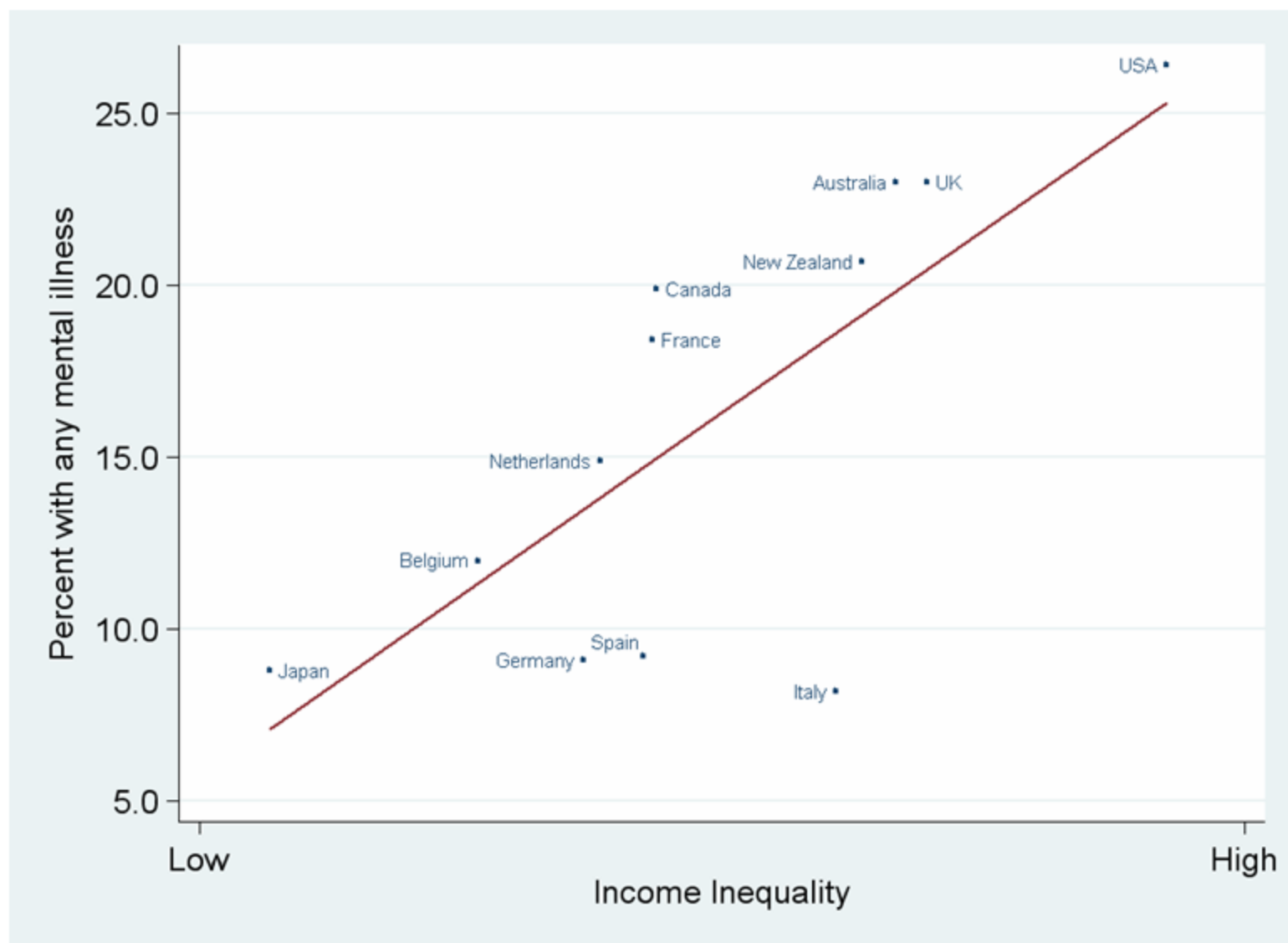
Child Well-being is Better in More Equal Rich Countries



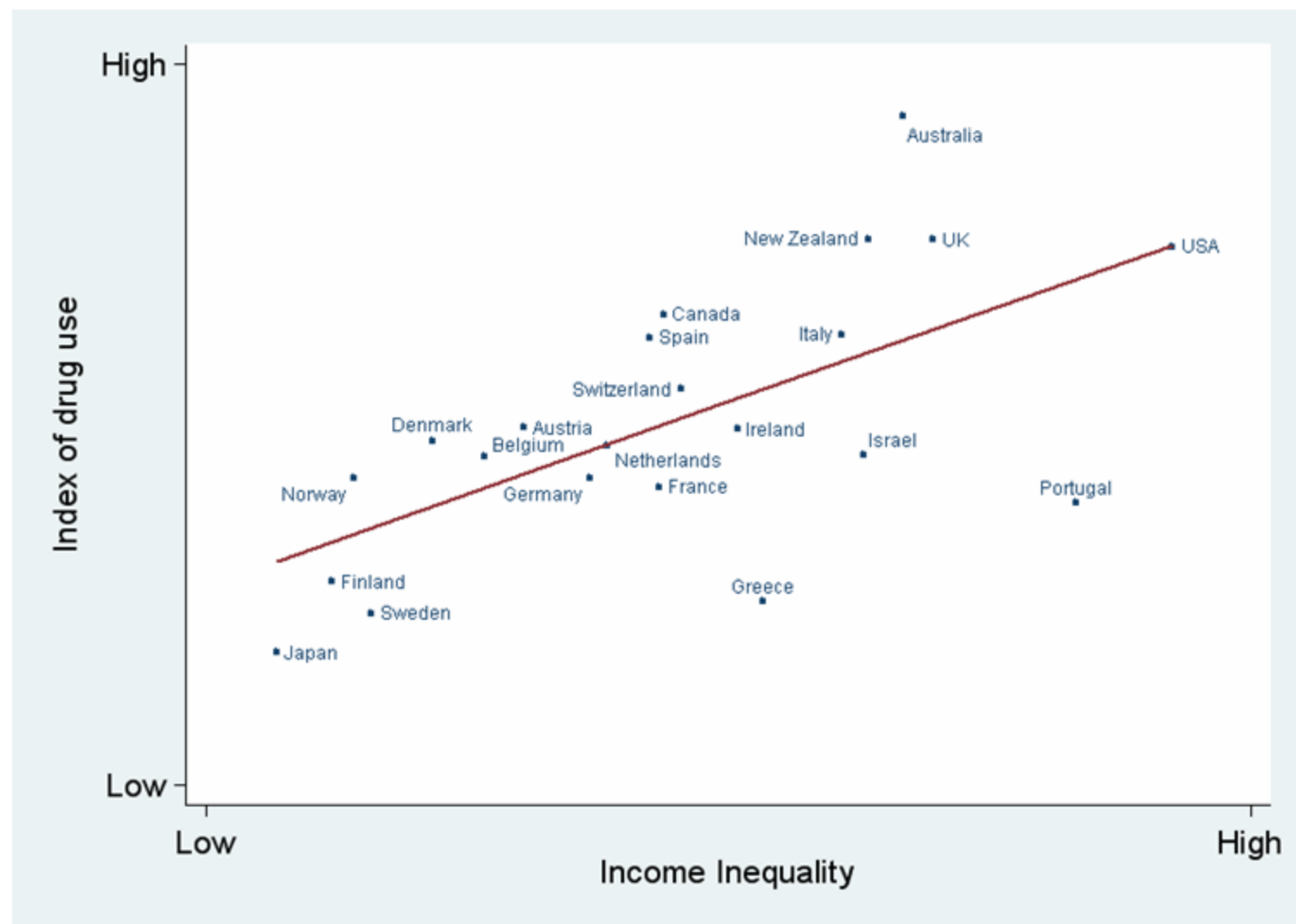
Levels of Trust are Higher in More Equal Rich Countries



The Prevalence of Mental Illness is Higher in More Unequal Rich Countries



Drug Use is More Common in More Unequal Countries



Index of use of: opiates, cocaine, cannabis, ecstasy, amphetamines

Life Expectancy is Longer in More Equal Rich Countries



Infant Mortality Rates are Higher in More Unequal Countries

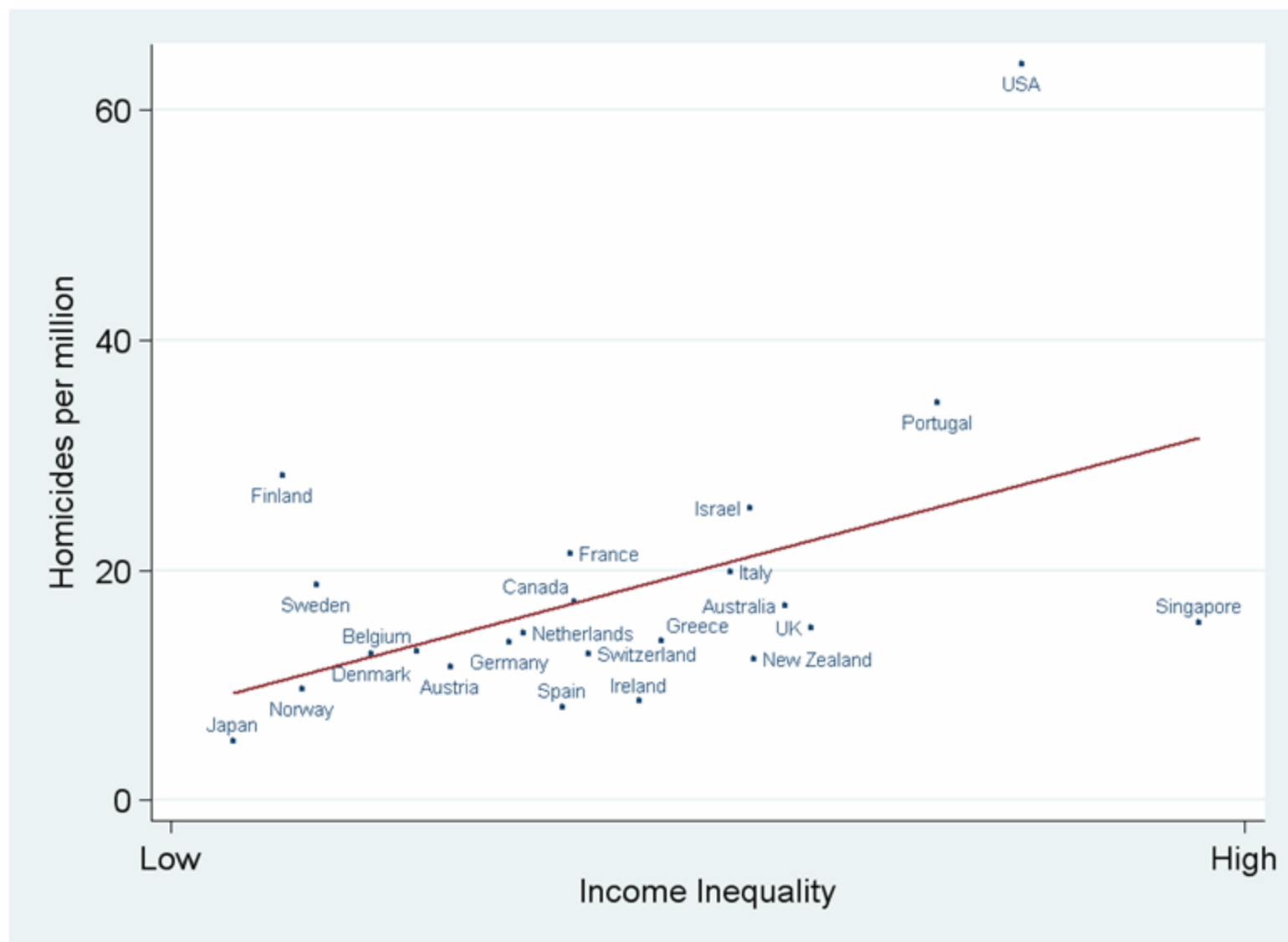


More Adults are Obese in More Unequal Rich Countries

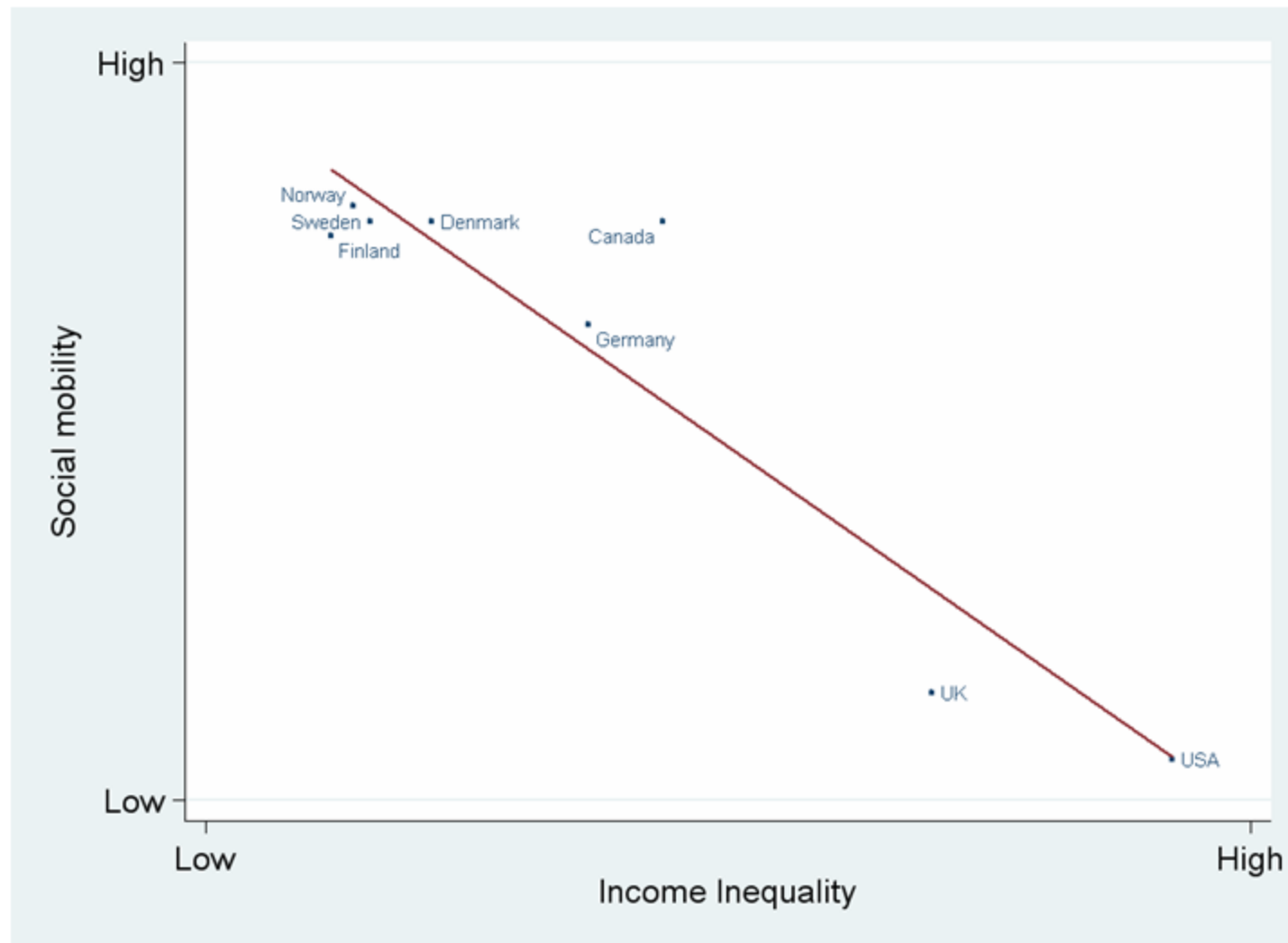


Source: Wilkinson & Pickett, *The Spirit Level* (2009)

Homicide Rates are Higher in More Unequal Rich Countries



Social Mobility is Higher in More Equal Rich Countries



How Europeans See the U.S.



Different Worlds

- The United States
- Inequality
 - High unemployment
- Decreased social mobility and opportunity
- Shorter life span
- Europe
- Relative Income equality
- Social solidarity
 - Low unemployment
- Increased social mobility and opportunity
- Longer Life Spans

Sources of data for the Index of Health and Social problems

Component	International data	US state data
Trust	Percent of people who respond positively to the statement "most people can be trusted" 1999-2001 World Values Survey <i>Reverse-coded</i>	Percent of people who respond positively to the statement "most people can be trusted" 1999 General Social Survey <i>Reverse-coded</i>
Life expectancy	Life expectancy at birth for men and women 2004 United Nations Human Development Report <i>Reverse-coded</i>	Life expectancy at birth for men and women 2000 US Census Bureau, Population Division <i>Reverse-coded</i>
Infant mortality	Deaths in the first year of life per 1000 live births 2000 World Bank	Deaths in the first year of life per 1000 live births 2002 US National Center for Health Statistics
Obesity	Percentage of the population with BMI > 30, averaged for men and women 2002 International Obesity TaskForce	Percentage of the population with BMI > 30, averaged for men and women, 1999-2002 Estimates from Prof Ezzati, Harvard University, based on NHANES and BRFSS surveys
Mental health	Prevalence of mental illness 2001-2003 WHO	Average number of days in past month when mental health was not good 1993-2001, BRFSS
Education	Combined average of maths literacy and reading literacy scores of 15-year olds 2000 OECD PISA <i>Reverse-coded</i>	Combined average of maths and reading scores for 8+ graders 2003 US Department of Education, National Center for Education Statistics <i>Reverse coded</i>
Teenage birth rate	Births per 1000 women aged 15-19 years 1998 UNICEF	Births per 1000 women aged 15-19 years 2000 US National Vital Statistics
Homicides	Homicide rate per 100,000 Period average for 1990-2000 United Nations	Homicide rate per 100,000 1999 FBI
Imprisonment	Log of prisoners per 100,000 United Nations	Prisoners per 100,000 1997-8, US Department of Justice
Social mobility	Correlation between father and son's income 30-year period data from 8 cohort studies London School of Economics	N/A

Is the European Economy more sustainable?

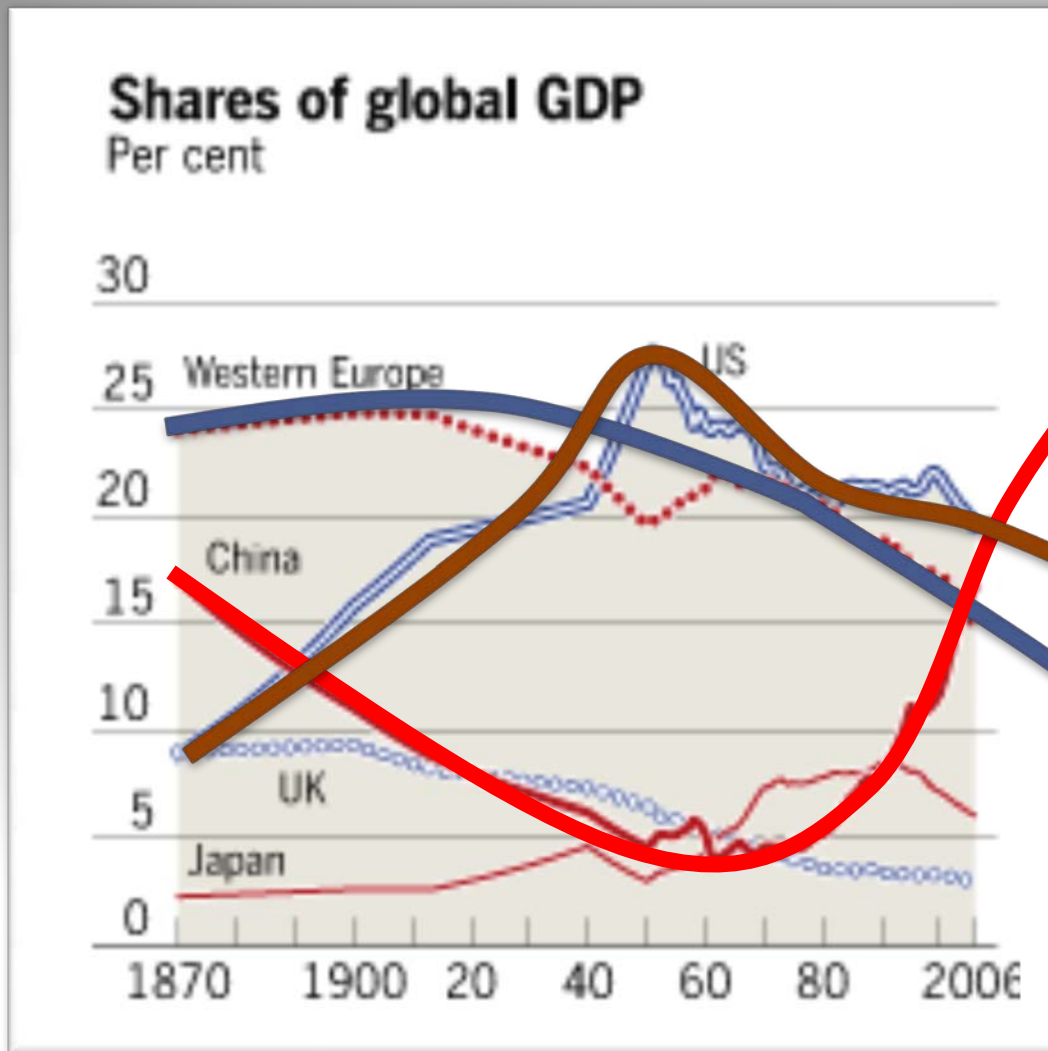
- Compare EU economies with those of American states
- Compare trade rankings
- Where are the world's most competitive economies?
- Compare companies/industries
- Who has more direct foreign investment
- Look at where European economies are moving

Myth or Reality: The European Dream is turning into a Nightmare

- Declining economic growth rates
- Rising Unemployment rates
- Declining productivity
- Unsustainable public debt

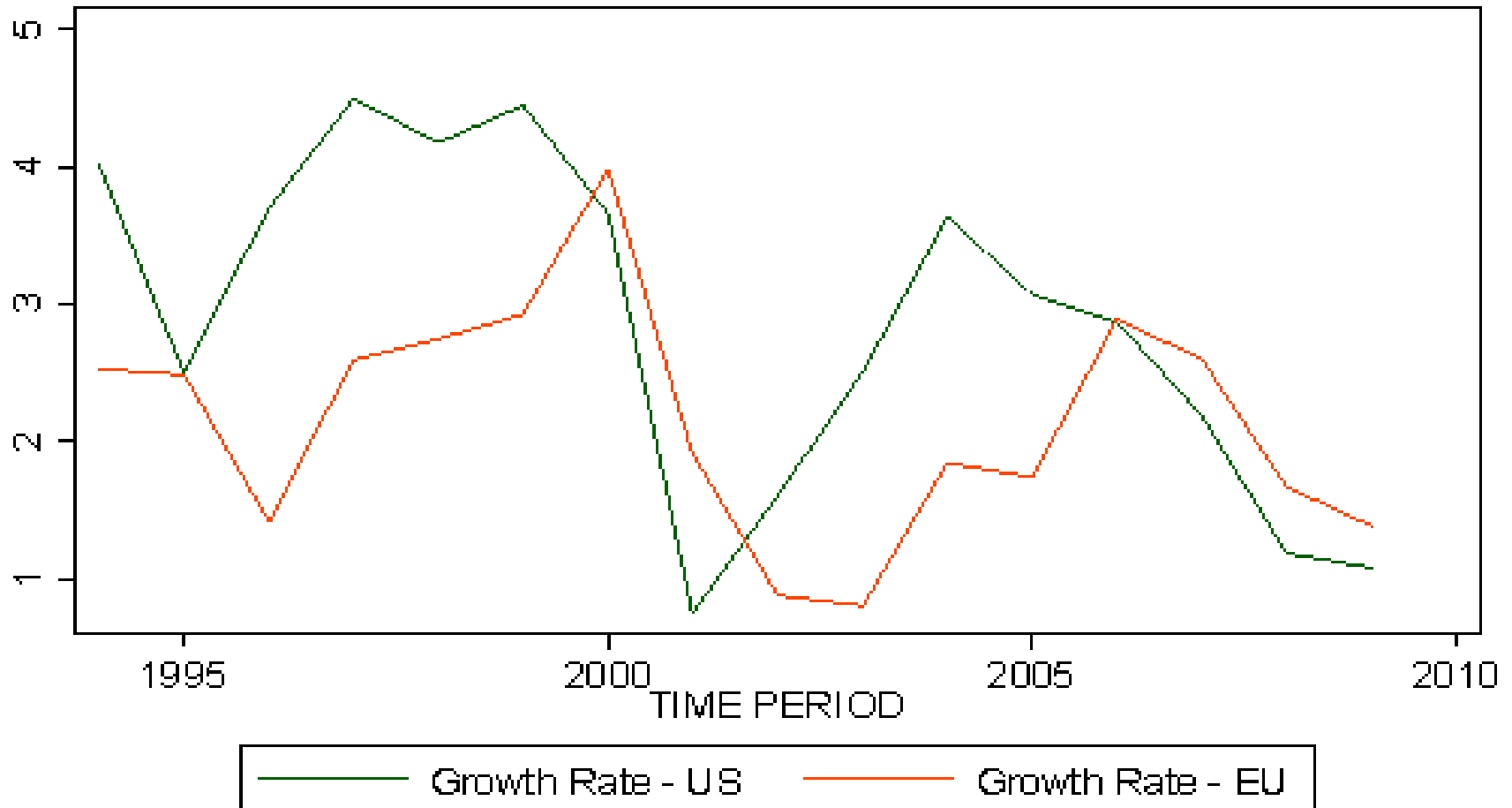


Declining Growth Rates....



Decline in economic growth

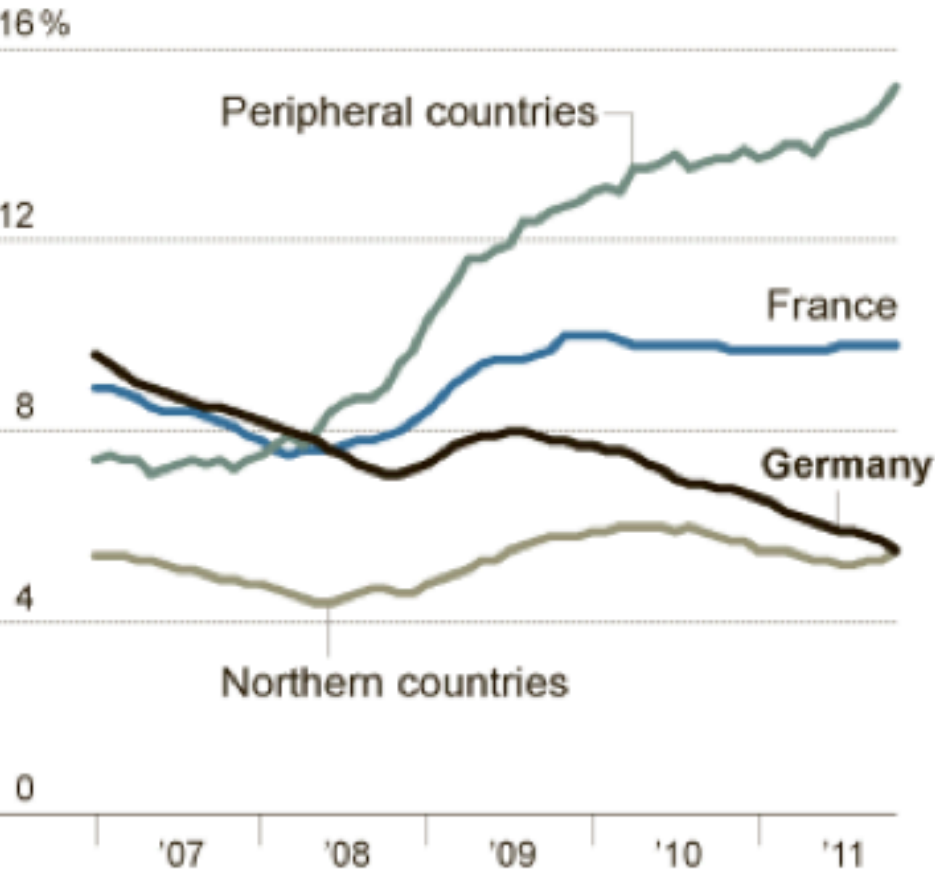
GDP Growth Rate - US and EU



Source: SourceOECD Economic Outlook Database

Uneven EU member unemployment rates

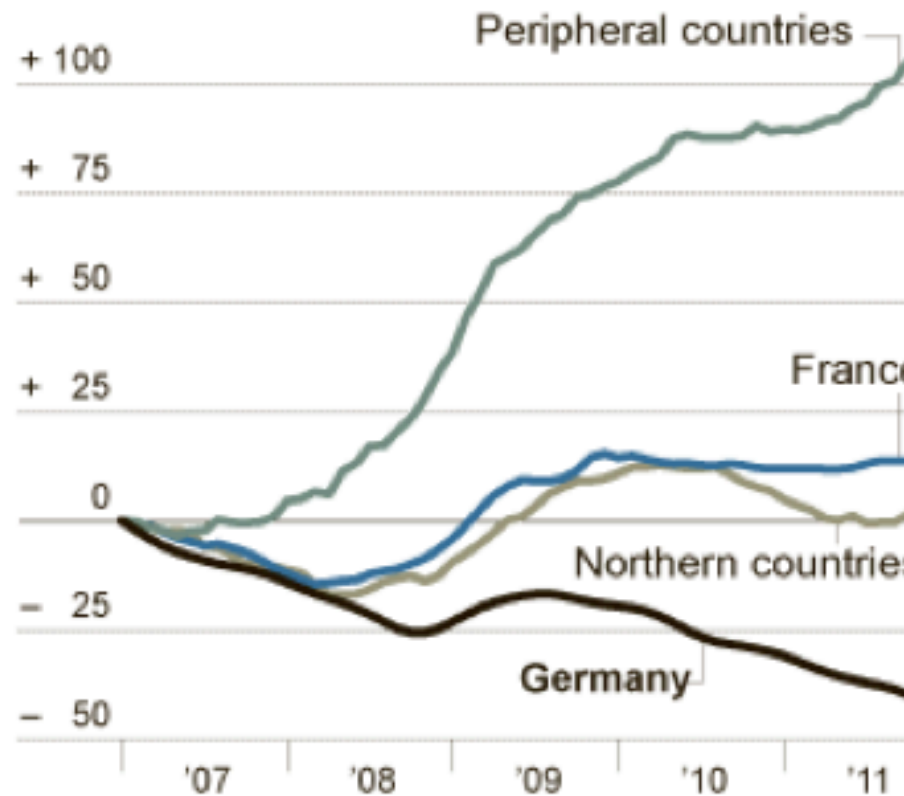
UNEMPLOYMENT RATE



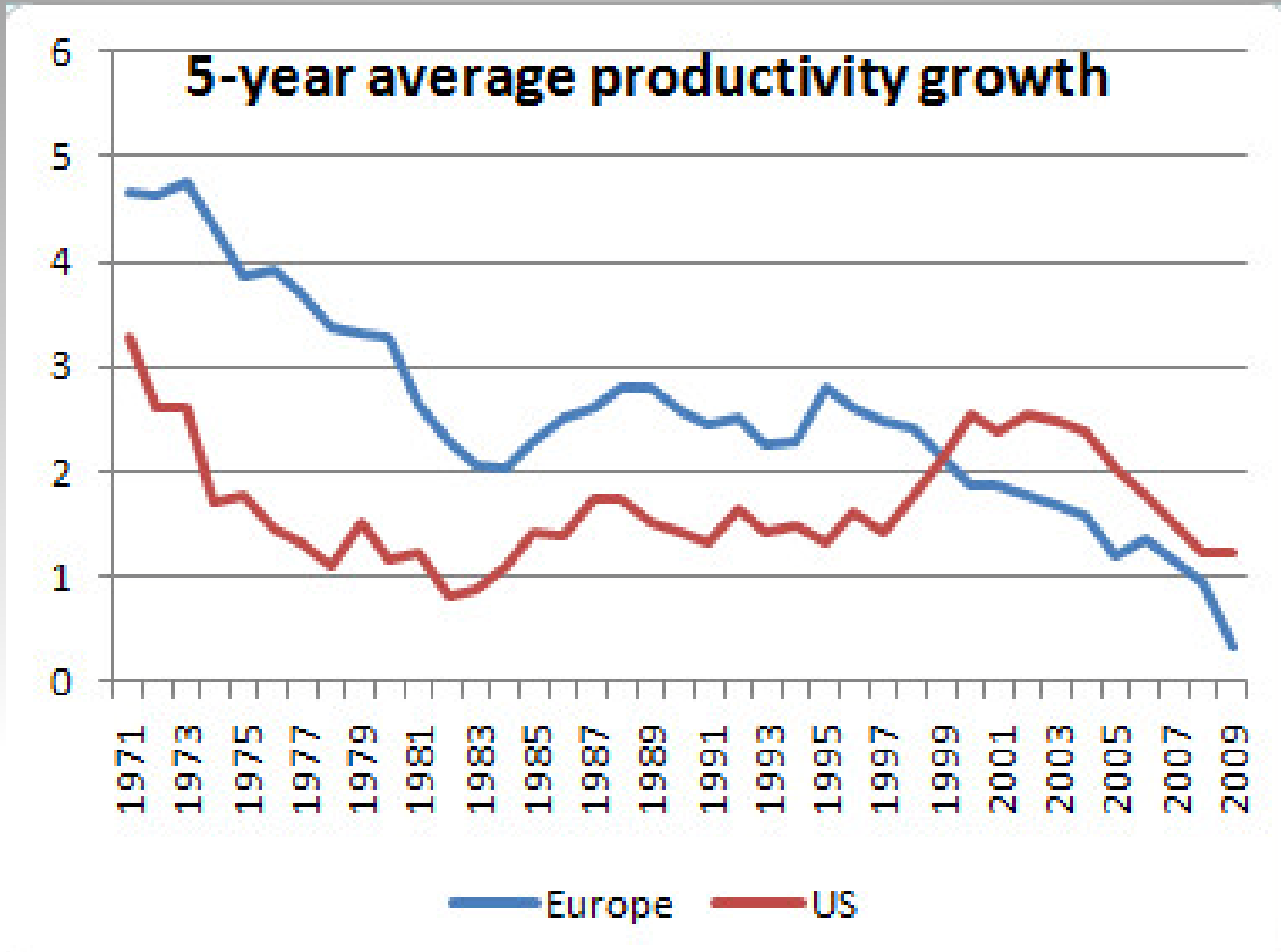
CHANGE IN NUMBER OF UNEMPLOYED WORKERS

From Dec. 2006 through date shown

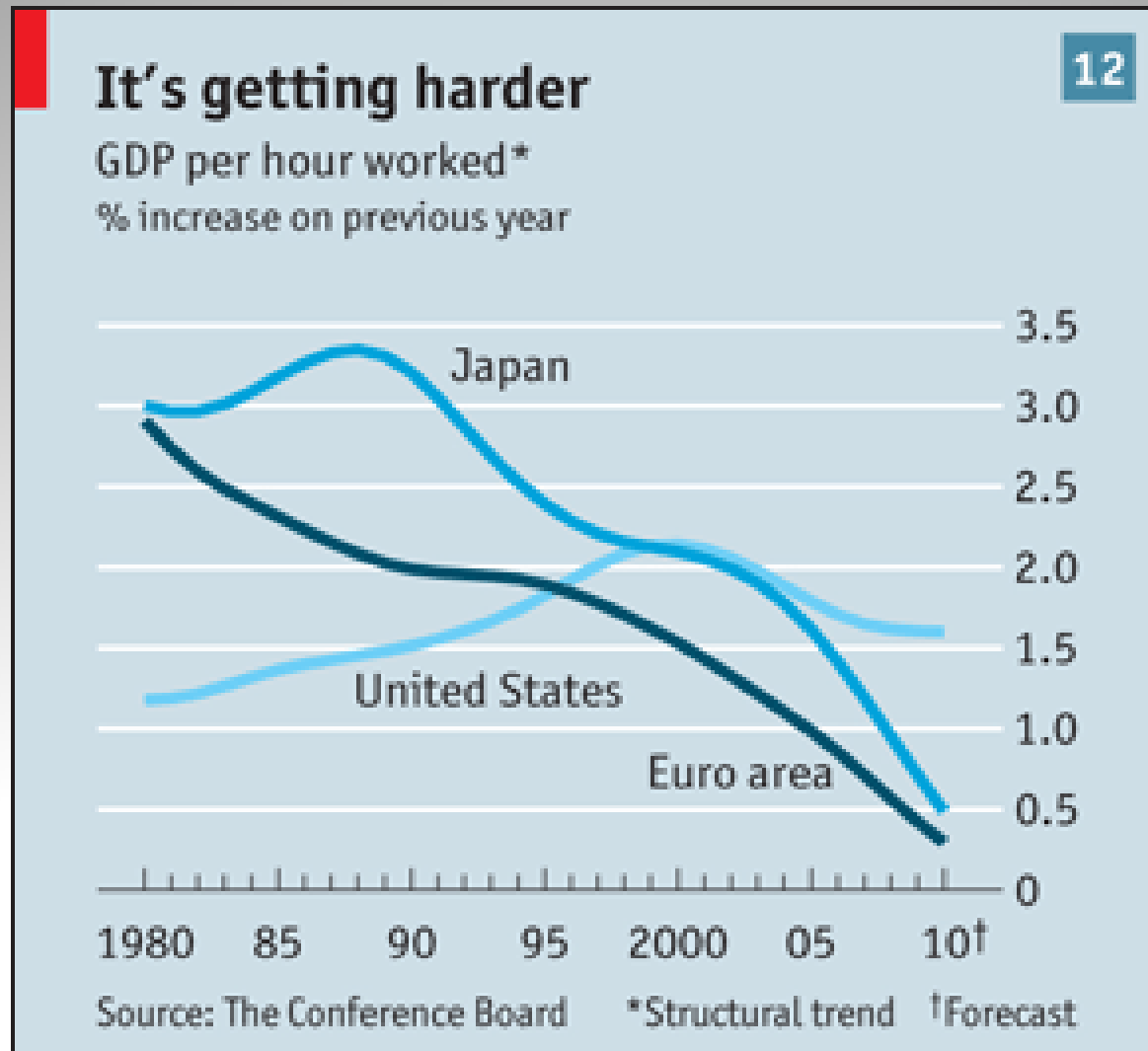
+ 125 %



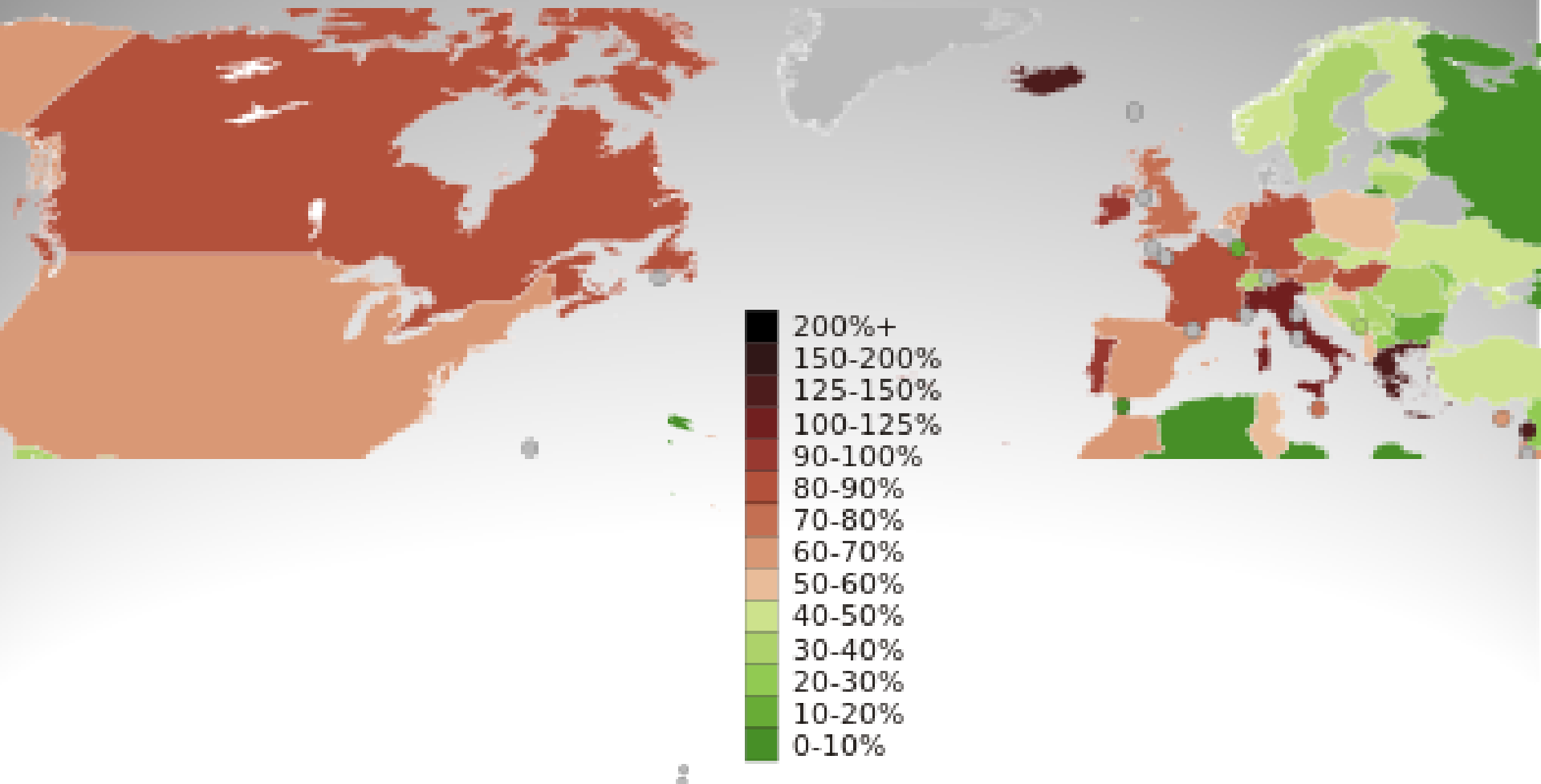
Declining Productivity Growth



Productivity Decline




Dangerous Debt



Explanations for the European Nightmare....start with **globalization**

Growth of “networks” and factor mobility



Rising global economic competition



Be efficient or die!

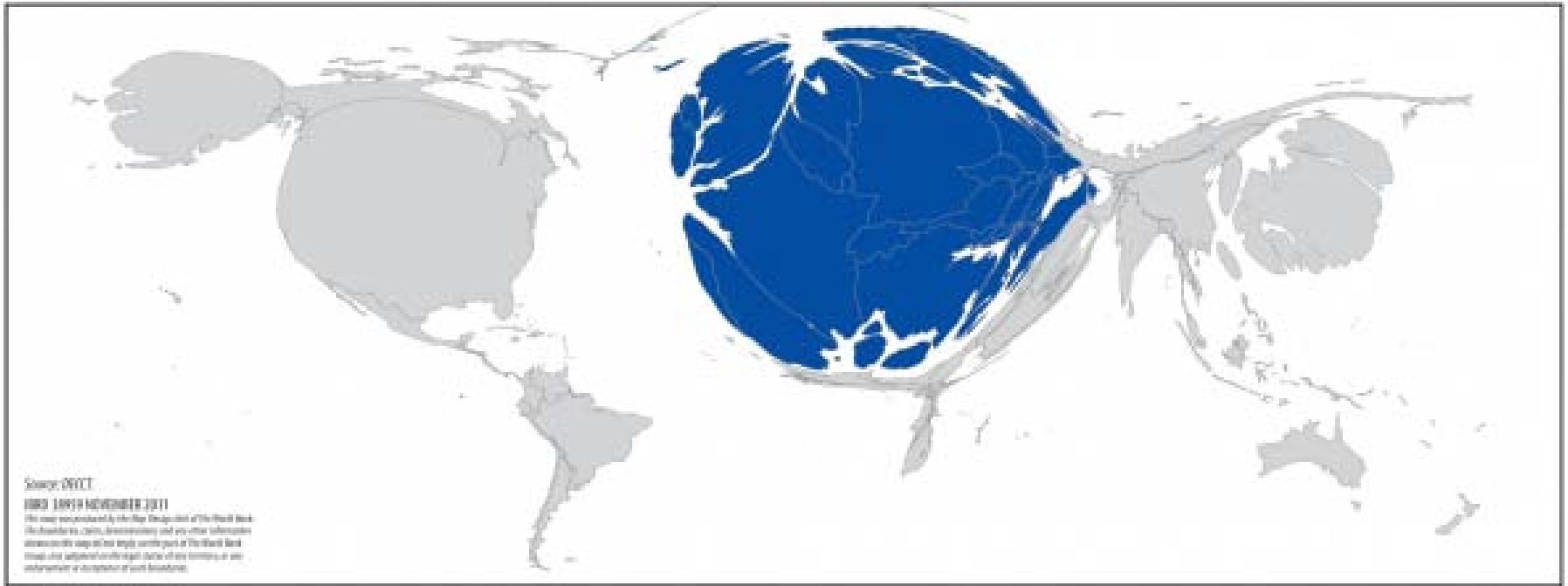


Develop technologies of efficiency + pressure governments to lower wages, taxes, regulation, welfare benefits

The Welfare State is uncompetitive in the global economy

- Labor market inflexibility
- Comfort levels too high for competitive innovation
- High taxes discourage investment
- Aging European Population
- The burden of low-skilled immigrants
- The Welfare state causes Chronic deficits and long term debt that may be unsustainable.....

Countries of the world sized according to the amount of Government spending



But is it really the welfare state that is unsustainable?

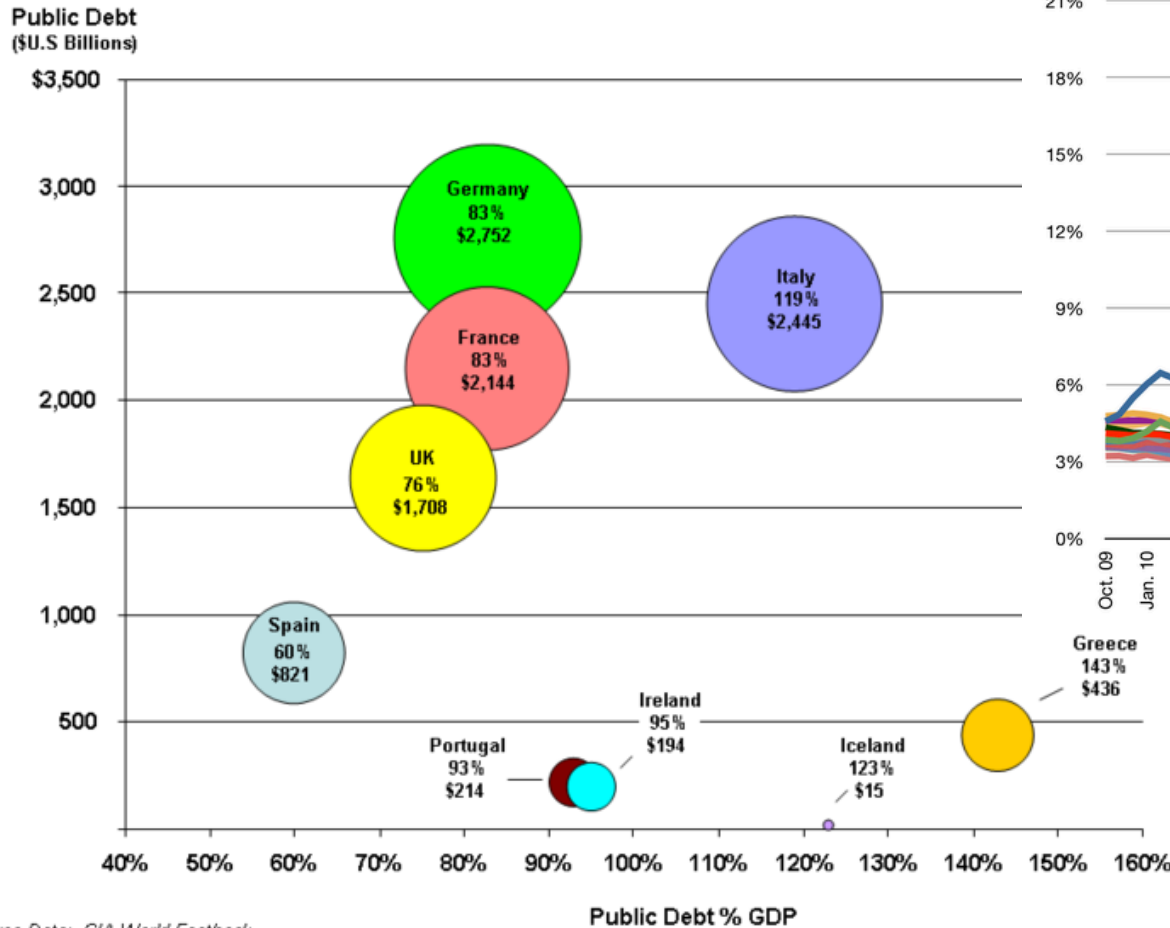
So is the Euro the culprit?

- The Eurozone is like the Gold Standard of the 1930s
 - Promoted trade and investment across borders
 - But took away econ. sovereignty
- Interest rate adjustment to deal with trade deficits
 - Not possible with the Euro
 - Low Eurozone interest rates encouraged borrowing
- No exit from the Eurozone!
- Trade /budget deficits must be paid by borrowing
- And NO BAILOUTS if lending dries up!
- Only choice was more borrowing

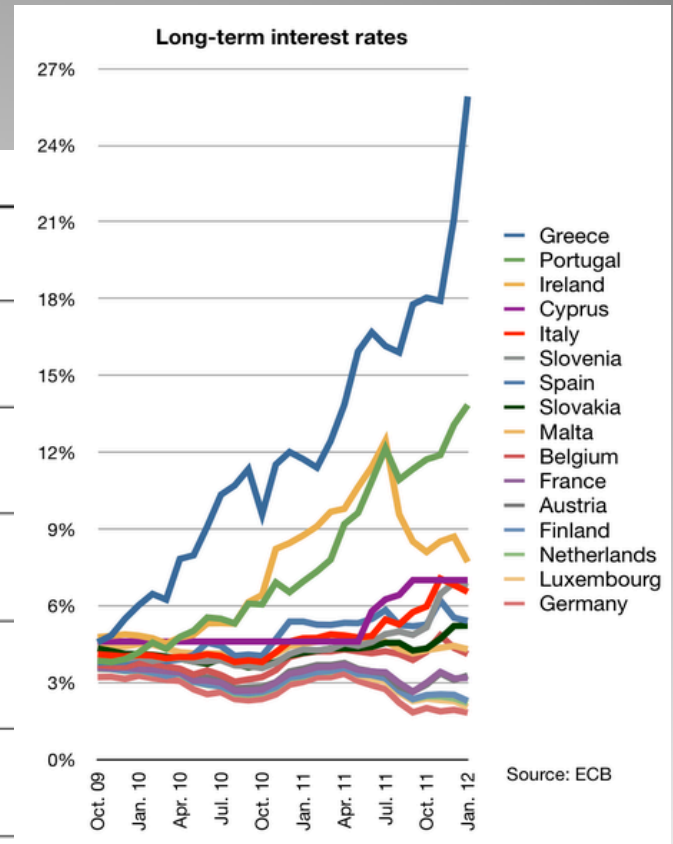


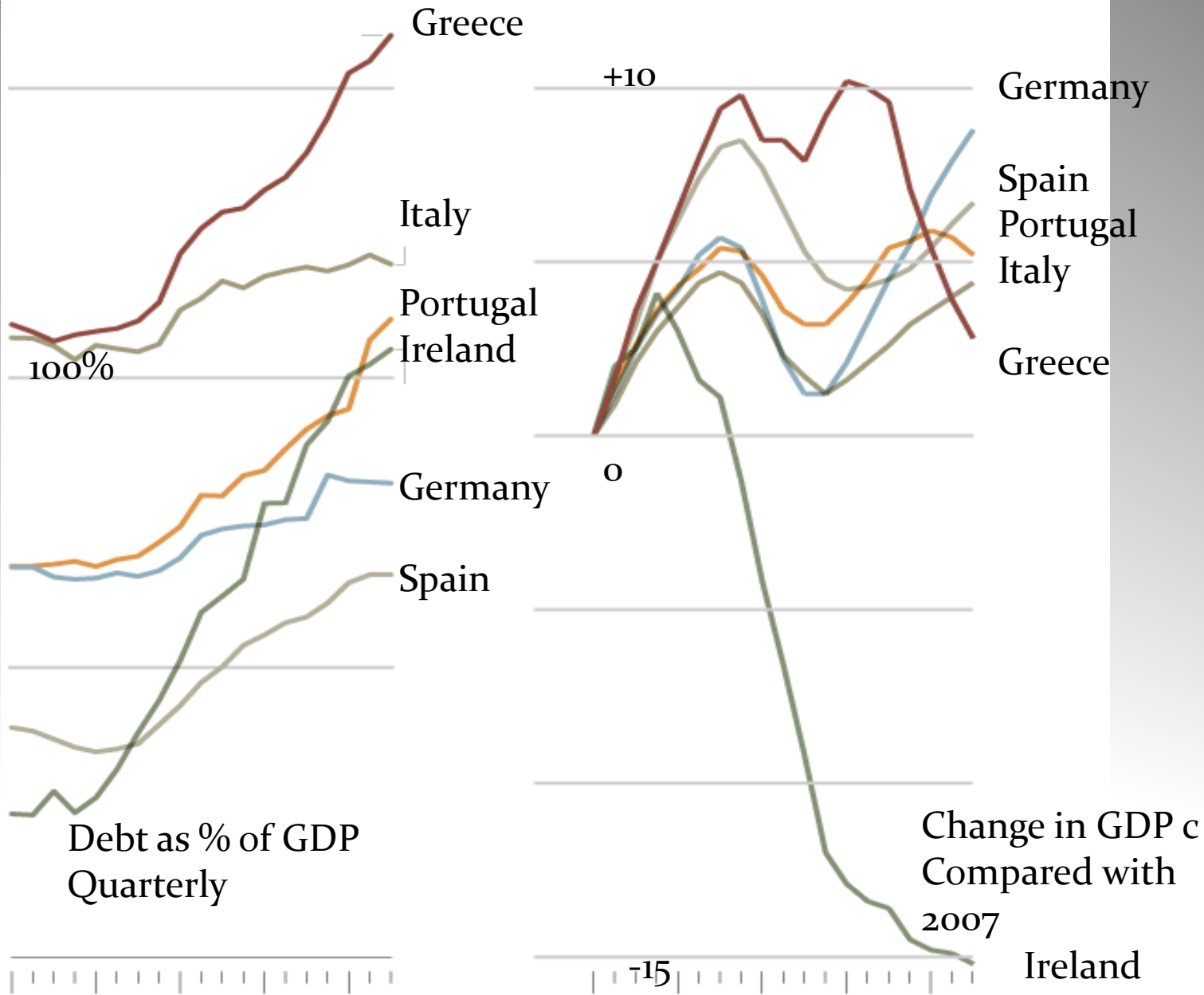
So.... rising Public Debt: Only a problem if a country can't pay.....

Public Debt and Debt to GDP - 2010



Source Data: CIA World Factbook



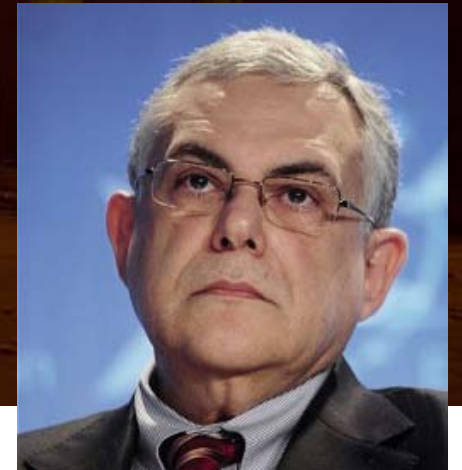


Austerity is the only remedy!

- Cut wages and other costs
- “liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate ... purge the rottenness out of the system.”
- Germany wants tough austerity measures for countries with dangerous debts....
- And they hurt workers, retired people, citizens...
 - Example of Portugal—a vicious circle
- Democracies aren't good at this.....



social stress and fall of governments



Solutions to the Greek Crisis (as of Monday)

- No Greek Default on the debt
- Write down the debt
- A Bailout – New for the Eurozone!
- Creation of A lender of last resort and discounting in crisis
- All in exchange for austerity measures and more loss of Greek sovereignty
- Fiscal union

Will the EU Survive this Crisis?

- No
 - Free markets create inequality among countries
 - In a community, the rich must help the poor
 - They will only if there is a common identity
 - No common identity, no real help, so Greece will default
- Yes, if.....
 - The Rich countries bail out the poor
 - Can a common identity be created to make this happen?
 - There is fiscal union
- The Crisis could lead to a more closely united Europe