Experts discuss lessons from the Continent's woes

Are Europe's Welfare States Sustainable?

Europe has long been the model of the modern welfare state, with many countries providing "cradle-to-grave" protection against the vicissitudes of life. But the economic crisis that started in Greece and now pours through Europe has painfully revealed the true nature of the welfare state—it is unaffordable, stifles economic growth, and has countries drowning in debt.

As the Continent deals with the consequences of its severe fiscal crisis, the United States has an opportunity to gain a wide range of invaluable perspectives. In October, the Cato Institute held a conference—"Europe's Crisis and the Welfare State: Lessons for the United States"—in which leading international experts came together to examine the evolution of the European welfare state and discuss the steps that must be taken if America is to avoid arriving at the same painful destination.

In his keynote address, Josef Joffe, publisher and editor of *Die Zeit*, began by highlighting the myth that the financial crisis was caused by voracious market actors devouring easy credit. "The markets fattened themselves on a rich diet, but the table was set by governments," he said. Without "the inexhaustible cornucopia of the state," Joffe concluded, the financial crisis as we know it would not have occurred.

Juhan Parts, the minister of economic affairs and communications for the Republic of Estonia, described how his country managed to reignite its economic performance by reducing the burden of government spending. The strategy involved a balanced approach that went beyond simple austerity, he said. The "three basic pillars" of this approach were budget cuts, targeted stimulus plans, and reforms that focused on the long-term competitiveness of the private sector—all of which helped to restore public confidence in markets, Joffe added.

In a panel detailing the lessons the United States must learn, Desmond Lachman, resident fellow at the American Enterprise Institute, explained what the country may be facing by first offering a diagnosis of the

At a Cato Institute Conference, "Europe's Crisis and the Welfare State," (1) Spanish economist PEDRO SCHWARTZ (at podium) suggested that Europe's welfare states are fundamentally immoral. He was joined by (from left) ARISTIDES HATZIS of the University of Athens, JAGADEESH GOKHALE of the Cato Institute, and IAN VÁSQUEZ of the Cato Institute; (2) PASCAL SALIN, professor emeritus at the Université Paris-Dauphine, evaluated the effectiveness of austerity programs using the financial realities now facing Europe as a backdrop; (3) JOSEF JOFFE, publisher and editor of *Die Zeit* and a fellow at the Hoover Institution, discussed "the inexhaustible cornucopia of the state."

crisis in Europe. "The root of the problem," he said, "is that Europe got itself into the most fixed of exchange rate arrangements in 1999"—and then spent the next decade evading the new rules of the game. Michael Tanner, senior fellow at the Cato Institute and director of the conference, went on to illuminate the magnitude of the problem in the United States.

"The real level of debt facing this country could potentially exceed 900 percent of GDP," he argued. "If it did, then we are actually in a worse debt situation—less solvent, if you will—than Greece."

Other speakers throughout the day included Mickey Levy, chief economist at Bank of America; Bruce Stokes, director of the Global Economic Attitudes Project at the Pew Research Center; Miroslav Beblavy, a member of the Slovak Parliament and a senior research fellow with the Centre for European Policy Studies; and Mark Hallerberg, director of the Fiscal Governance Center at the Hertie School of Governance in Germany.

In his closing address, Richard Fisher, president of the Federal Reserve Bank of Dallas, acknowledged the fiscal pathologies the United States is currently dealing with, while also offering reasons to be optimistic. "One is tempted to conclude that we are but the best-looking horse in the glue factory of hapless economies," he said. But if the United States can free its economy from the uncertainty surrounding fiscal policy, he added, it will be able to avoid the European trap.

"The fix lies solely in the hands of a government that has the power to shape taxes and spending programs to incent businesses to go out and hire," he concluded, "rather than ball up into a defensive crouch, or worse, go elsewhere in the world." ■