The incurable ills of "cradle-to-grave" protections

The European Welfare State and Its Lessons for America

In the years following World War II, a massive expansion of the welfare state has taken place throughout Europe. As government has taken responsibility for more and more areas of our lives—from retirement and health care to guaranteeing a minimum level of income—it has grown bigger, more intrusive, and increasingly unaffordable. More recently, the United States seems to be headed down the same path.

In this special issue of the *Cato Journal* (made possible by the Carthage Foundation and the Lynde and Harry Bradley Foundation), various leading academics, economists, and politicians examine the central role of the welfare state in Europe's economic crisis, the reforms necessary to end that crisis, and the lessons America can learn from it.

In their lead article, Jagadeesh Gokhale, senior fellow at the Cato Institute, and research assistant Erin Partin examine the true size of the fiscal challenges facing Europe and the United States. "Demographics appear to be destiny in many European nations and in the United States," they write. As such, Gokhale and Partin warn that unless growth of welfare programs is curbed—and health care costs checked—higher fiscal burdens on today's young workers and future generations appear inevitable.

Comparing the American debt problem directly to that of Europe, Cato senior fellow Michael Tanner asks whether the United States is on the road to a similar crisis. It is clear, he writes, that the United States faces a massively growing fiscal burden. "But as bad as that debt is, it is merely a symptom of a larger disease: a rapidly growing government that is consuming an ever larger share of our national economy," Tanner writes. As a result, we are well down the road toward a crisis similar in scope to Europe's. It is only the size of the U.S. economy and the dollar's status as the world's reserve currency that has staved off a major crisis. "But that will not protect us forever," he concludes.

Conventional wisdom has it that the American welfare state is fundamentally distinct from the European variety. But Pierre Lemieux, author of *The Public Debt Problem*, argues that the American and European welfare states differ only in degree, not in type. Taking into account social protection, health care, and education, Lemieux finds that these functions make up 57 percent of total U.S. government expenditures, compared to 63 percent for the typical Eurozone country. As the American economy becomes further Europeanized, he writes, there will be slower growth combined with higher spending and a more developed welfare state. Desmond Lachman, resident fellow at the American Enterprise Institute, points out that while the crisis in Europe has contributed to low U.S. interest rates, America should not be lulled into a false sense of security, and should instead enact a serious deficit reduction program.

Other contributors include Mark Hallerberg on "Challenges for the German Welfare State before and after the Global Financial Crisis," Juhan Parts on "Estonia and the European Debt Crisis," and Pedro Schwartz on "The Welfare State as an Underlying Cause of Spain's Debt Crisis."

Should countries therefore respond to the debt crisis with austerity measures? Two authors offer somewhat different perspectives on this question. Veronique de Rugy, a senior research fellow at the Mercatus Center and an adjunct scholar at the Cato Institute, emphasizes the fact that most European governments have implemented private-sector measures, such as tax hikes, rather than public-sector ones, such as restraints. Therefore, despite the recent emphasis on European "austerity," few countries have truly reduced spending or reformed the structural problems of their welfare states. Pascal Salin, former president of the Mont Pelerin Society, argues that much of the current debate has been stuck between two false choices: Keynesian stimulus or austerity. A better approach, he suggests, would be a policy mix composed of real cuts to public expenditures, welfare payments, and tax rates. This would help solve the long-run "eurosclerosis" problem and ultimately boost economic growth, he concludes.

European welfare states have tentatively begun taking steps to cut back the entitlements that are strangling their economies. But they may well be doing too little, too late. This special issue of the *Cato Journal* comes at a time when it is not too late for the United States to avoid the same fate. ■

All of these articles, as well as the three book reviews in this issue of the *Cato Journal*, are available online at www.cato.org.