



Financial FAQs

A Failure of Capitalism?

Are we returning to the New Deal economics of Roosevelt and the Great Depression? This would be an about face from the neo-classical, so-called trickle-down economic theories of recent decades that maintained government was inefficient and only the private sector should control markets and the fair distribution of wealth. If so, it will be much more like the European model that has prevailed since WWII.

Nobelist and New York Times columnist Paul Krugman said some interesting things of late comparing the U.S. economic system with Europe. His basic thrust was that even with a more comprehensive social safety net that allows universal health care, better unemployment benefits, and higher taxes, it hasn't lowered their standard of living. In fact, Europeans have basically the same prosperity as do Americans—in terms of productivity, per capita GDP, and even technological innovation.

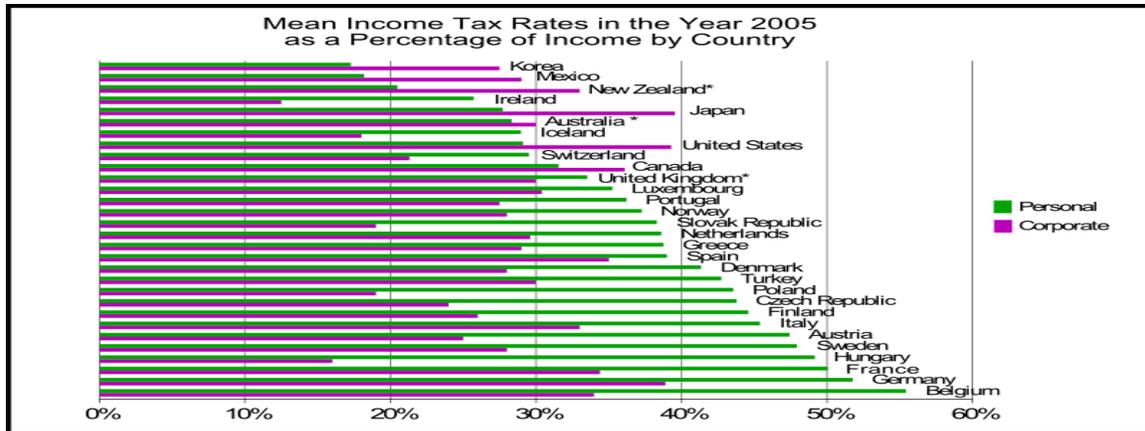
He makes an important point because Europeans are now living longer with fewer illnesses, have less severe recessions, lower crime rates and better environmental controls. Krugman is just quoting studies by historians, the UN, IMF, OECD and many other developmental organizations.

How did this happen? Basically, it is because we chose to keep a huge military establishment after WWII to defend our interests overseas, whereas Europe gave up its colonies, and so the overhead costs of maintaining them. They were able thereby to invest their revenues to better the lives of their citizens.

It is true that European countries have higher tax rates than the U.S., but that is made up by better infrastructure—such as a massive rapid transit system that makes auto ownership a luxury rather than necessity—and better social programs, as mentioned. This in turn protects the environment and makes businesses more competitive, since they no longer have to worry about their employees' medical premiums.

U.S. personal taxes are some of the lowest in the world—in between that of Australia and Switzerland, while its corporate taxes are among the highest, according to Wikipedia.

Though tax rates have always been a bone of contention, they cannot be looked at without the attendant benefits. Europeans chose to invest in butter rather than guns in order to better their citizens in many ways. Paul Krugman gives France as an example of the tradeoffs. “The French family, without question, has lower disposable (i.e., after tax) income. This translates into lower personal consumption: a smaller car, a smaller house, less eating out.



“But there are compensations for this lower level of consumption. Because French schools are good across the country, the French family doesn't have to worry as much about getting its children into a good school district. Nor does the French family, with guaranteed access to excellent health care, have to worry about losing health insurance or being driven into bankruptcy by medical bills.

“Perhaps even more important, however, the members of that French family are compensated for their lower income with much more time together. Fully employed French workers average about seven weeks of paid vacation a year. In America, that figure is less than four.”

So which society has made the better choice, Krugman asks, guns or butter? “Europe is often held up as a cautionary tale”, he says, “a demonstration that if you try to make the economy less brutal, to take better care of your fellow citizens when they're down on their luck, you end up killing economics progress. But what European experience actually demonstrates is the opposite: social justice and progress can go hand in hand.”