ONE

# THE RISE OF THE EUROPEAN WAY

## "WELCOME TO PARIS, THE LOCAL TIME IS . . ."

Arriving at Terminal One of Paris's Charles de Gaulle International Airport, one is struck immediately by a distinctly European mise-en-scène. As in a modern-day Tower of Babel, the languages of the world spike the air with an incessant buzz. The smooth nasality of French intermingles with the guttural "*ich*s" and "*ach*s" of Dutch and German speakers. On the periphery are Italians speaking in a lilting aria, with some halting English tossed in. Nearby stands a fashionable Polish couple in shiny black leather, sipping espresso, and Spanish speakers (probably from Spain, but maybe Argentina or Chile) are browsing the crowded news racks. Clumps of Asian businessmen, looking well dressed and sleep deprived, are sniffing for bargains in the airport shops. In a nearby bar, with a blaring TV tuned to a football (that is, soccer) match, a knot of Russian businessmen elbows for space near the bartender. Ebony Africans saunter by in colorful traditional dress or business attire or both, reminders of Europe's colonial past (eons ago or not that long ago, depending on who is doing the reckoning). There are clusters of men wearing Muslim head wraps or Hindu turbans, women whose saris and burqas flow to the floor, veils covering attentive female eyes and obscuring the ginger skin and wary faces of the newest Europeans. Several dialects and accents of English punctuate the cacophony, including one from a good ol' American boy with a

Texas drawl. And Euro-accented pop disco blares from an unseen speaker, the whole screaming effect sounding like a postmodern version of a Wagnerian hip-hop opera.

Paris and other European cities from A to Z—Amsterdam, Barcelona, Berlin, Brussels, Budapest, Frankfurt, Geneva, London, Kraków, Madrid, Oslo, Prague, Rome, Stockholm, Vienna, Zagreb, Zurich—long have formed some of the most important crossroads of the world, historical capitals of commerce with records of trade dating back to ancient times. It is a tribute to their durability and that of their people that these old, old cities have not only survived but thrived, grown, and modernized. In fact, *BusinessWeek*'s ranking of "the World's Best Places to Live 2008" listed thirteen of its top twenty cities as European (the highest U.S. city was Honolulu, in twenty-eighth place). Today, Europe has about thirty cities with populations greater than a million people, compared with only ten in the United States (and more than a hundred in China).[1]

Despite its ancient roots, much of what we know today as modern Europe arose only sixty years ago from the ashes of the most destructive war humans had ever known. Tens of millions of people died during World War II, most of them civilians, and entire cities were reduced to rubble. Following the annihilation of two world wars within the span of thirty years, Winston Churchill and others began calling in 1946 for a "United States of Europe." In the incubation period of the postwar Pax Americana, an entirely new Europe began to emerge, one less founded on the militarization of economies. It was as if the horror of the bombs and concentration camps had wiped much of the historical slate clean, leaving a tabula rasa onto which Europe could redraw itself, influenced greatly by the American ideal.

Postwar Europe embarked on a series of treaties that, over the next five decades, remade the European continent and, by extension, the world. In 1949 the Council of Europe was established as the first pan-continental organization to try to reassemble the jigsaw puzzle of Europe from the pieces into which it had been smashed. Guided by the vision of French political leaders Jean Monnet and Robert Schuman and German leader Konrad Adenauer (three of the fathers of modern-day Europe), it was followed, in 1951, by the formation of the European Coal and Steel Community, whose six member countries agreed to share control of their coal and steel industries; notably, two of its members were the formerly warring nations of France and West Germany. Monnet's strategy was simple yet brilliant: since coal and steel were the principal resources for waging war, pooling these resources into a regional network rendered hostilities between the signatories much more difficult. It also avoided creating any grand blueprint for Europe that might fail, opting instead for a series of smaller-scale, concrete proposals with practical outcomes which would serve as a gradualist vehicle for engaging the former combatants. The European Coal and Steel Community was the auspicious start of a successful strategy that Europe would employ many times over the next six decades, using incremental steps of engagement to foster multilateralism and consensus building between nations. The Community's founders declared it "a first step in the federation of Europe," and the Treaty of Rome in 1957 extended this strategic pathway via the creation of the European Economic Community, with six original member states: West Germany, France, Italy, Belgium, the Netherlands, and Luxembourg.

In 1973 the European Economic Community was enlarged to include Denmark, Ireland, and the United Kingdom. Greece, Spain, and Portugal joined in the 1980s. The first direct democratic elections of members of a European Parliament were held in 1979, the first pan-European elections ever to be held (as well as the first international elections of this magnitude). In November 1993 the Maastricht Treaty went into effect among the European Community nations, launching the supranational body known today as the European Union. Austria, Sweden, and Finland joined in 1995, and in 2004 the European Union saw its biggest single enlargement when ten new countries, most of them former communist states in central and eastern Europe, joined the union.[2] Three years later, two more eastern European nations joined, bringing the number of member nations to its current level of twenty-seven and reaching a geographic conclusion to the formal effort to reunite western Europe with the east, this time not as conquerors but as hopeful partners in peace and prosperity.

Today, the terms *Europe* and *European Union* are nearly but not exactly synonymous, since Switzerland, Norway, and Iceland are part of Europe, both historically and culturally, and participate in numerous treaties and pan-European organizations, but so far have declined to join the European Union. Many of the small Balkan countries—Croatia, Serbia, Bosnia, Kosovo, and others—are part of Europe and hope to join their fellow Balkan country Greece as members of the European Union sometime within the next five to ten years. Beyond those borders, definitions of what is considered "Europe" begin to diverge into various and sometimes heated opinions. Some consider

Ukraine, Belarus, Turkey, Moldova, and even eastern Russia to be part of Europe, though few of these nations—possibly none of them—will become member nations in the European Union anytime soon.

So the current twenty-seven-member configuration of the European Union, populated by half a billion people, is only a few years old, and the founding of the union itself is less than twenty years away from its Big Bang. The first modest attempt at forging a European "community" from former combatants is a mere sixty years out of the cradle, having arisen from the volcano of the most devastating conflict, followed by the ice age of Soviet communism, which covered half of Europe and froze its development. Europe had to decide if it was to go capitalist or communist, and it took decades to cut one cord and grasp the other. But finally, with the help of its powerful friend, Uncle Sam, that course has been set.

"The E.U. is riding high," says Professor Andrew Moravcsik, director of the European Union Program at Princeton University. "Over the past decade, Europe has completed its single market, eliminated border formalities, launched the Euro, and strengthened foreign policy coordination."[3] Professor Charles Kupchan of the U.S. Council on Foreign Relations has pointed out that it took roughly a hundred years after its founding for the United States to congeal and nurture a strong identity that transcended state and local loyalties and histories.[4] Given that time frame, Europe—whatever it is becoming, whether an eventual single nation or a more unified superagency—appears to be ahead of schedule. Europe is united—politically, economically, and, increasingly, culturally—in a way it has not been since the Roman Empire, and a distinctive "European way" has become discernible.

Amidst all the drama of today's headlines, it is easy to lose sight of how significant a tiding this is. The European Union is an entirely new species of human organization, the likes of which the world has never seen. It marks a new evolutionary stage in supranational development in the way it links and closely integrates entire regions of nation-states economically and politically, even as it allows the nations within that region to preserve most of their national sovereignty and culture. As the world attempts to forge multinational agreements among dozens of nations over pressing matters like financial re-regulation, economic integration, global warming, nuclear armaments, geopolitical tensions, and more, Europe's long experience in fostering trust and engagement among diverse players via small, concrete steps that nurture a consensus will be invaluable.

## THE EUROPEAN MODEL OF SOCIAL CAPITALISM EMERGES

> Europe will not be conjured up in a stroke, nor by an overall design. It will be attained by concrete achievements generating an active community of interest.
>
> **Jean Monnet, father of modern-day Europe**

> A compromise is the art of dividing a cake in such a way that everyone believes he has the biggest piece.
>
> **Ludwig Erhard,**
> **German economist and chancellor, 1963–66**

Parallel to the ebbs and flows of these political peregrinations, the shattered nations of postwar Europe engaged in deep bouts of soul-searching. With its people and major cities devastated, the antagonist Germany was ready to beat its swords into plowshares. In the mid-1940s a group of economists based in Freiburg and Cologne, led by Walter Eucken, Alfred Müller-Armack, and Ludwig Erhard, proposed a new type of capitalist blueprint. They criticized the inefficiencies of both U.S.-style laissez-faire "free competition capitalism" and communist state command economies, and devised a third way they called the "social market economy." The social market economy was founded on the principles of both pursuing a free market and serving humanity. This set the nations of Europe in motion on a decades-long journey of economic restructuring, reducing military budgets, increased social spending, and maturing of their political democracies, led initially by conservative leaders such as Winston Churchill, Monnet, Adenauer, and Schuman, joining with leftist leaders like Italy's Altiero Spinelli and Belgium's Paul-Henri Spaak—the founders of modern-day Europe.

Just as astounding as Europe's postwar economic rise was its accomplishment of all this while deepening its values of fairness, equality, and solidarity. Unlike in China today, where an impressive economic rise has nonetheless left the vast majority of people poor and the gap in inequality growing, and unlike in America, where a more hyperdrive, deregulated capitalism has resulted in rising inequality, a lack of health care for millions, retirement insecurity, and unaffordable higher education, the European economic engine has been harnessed to create wealth that has been broadly shared. These values first were fostered in the late nineteenth century by German leader Otto von Bismarck and others who, trying to ward off the growing influence of trade unions and calls for communist revolution, granted concessions and forged the beginnings of social democracy. But after the horror and trauma of World War II, European recovery and redevelopment could have taken any of several disastrous turns; following World War I, its redevelopment had teetered and finally plunged into fascism, national socialism, darkness, and eventually another catastrophic war. But in the aftermath of World War II, a miracle happened. The various western European nations embarked on a journey together that has led to the most egalitarian and democratic societies the modern world has ever seen, all the while producing robust capitalist economies with competitive businesses and a productive workforce.

Over the decades, Europe's political and economic integration has grown steadily, increasing people's personal wealth and security year after year (though always subject to the recurring ups and downs of the economic cycle). At the same time it has made fair and more equal distribution of that wealth a hallmark of its raison d'être. To an American, looking at the comprehensive and universal nature of the supports enjoyed by Europeans is truly a strange wonder to behold. Europeans, on average, are enjoying the highest of living standards and the most economic security, with health care for all, paid parental leave (following the birth of a child), affordable child care, monthly kiddie stipends, paid sick leave, free or inexpensive university education, ample retirement security, supportive elderly care, generous unemployment compensation, vocational training, efficient mass transportation, affordable housing, and more. They have an average of five weeks of paid vacation (compared with two for Americans) and a shorter work week, plus a plethora of holidays thrown in. In some European countries, workers on average work a full day less per week than Americans do, yet enjoy the same standard of living.

Instead of figuring out an American version of these comprehensive supports for individuals and families, U.S. critics and Euroskeptics have dismissed Europe's way as a "welfare state" and "creeping socialism." But as we will see in chapter 4, Europe can be more accurately described as a "workfare support state" rather than a welfare state. (European-style workfare should not be confused with the stigmatized American workfare; it has a different meaning from that in the United States and is grounded in a different philosophy. American workfare is targeted exclusively at the poor and government welfare recipients, making it politically vulnerable. But Europe's workfare support system is for *everybody*—middle class, rich, poor; its application is universal.)

It is part of the overall capitalist matrix in which Europe's powerful economic engine produces the wealth needed to underwrite its comprehensive workfare supports, which in turn maintain a healthy and productive workforce that keeps the economy humming, like a well-tuned Swiss clock.

In short, Europe's workfare system has been grossly mischaracterized by Americans in thrall to a fundamentalist free market ideology. U.S. politicians are known for invoking the importance of "family values" and a "work hard, get ahead" creed. Indeed, the United States is known as the inventor of the middle class, the attractive ideal that a good life is within reach for the vast majority of people. But if America invented the middle class, Europeans have taken that good idea and run with it one giant step further. They have figured out how to set the middle class on a more solid and secure footing and put some meat on the bones of their family values. They also have fewer poor people; indeed, "old Europe" shows more economic mobility and more poor people joining the middle class than does the American "land of opportunity," completely turning convention on its head.[5] Europeans have constructed their system so as to support families better and to minimize the personal risk for individuals in an age of globalized capitalism that has brought increasing economic insecurity.

## THE "STEADY STATE" ECONOMY

> The European model is, first, a social and economic system founded on the role of the market, for no computer in the world can process information better than the market.
>
> **Jacques Delors,**
> **former French president of the European Commission**

> What is at stake in our economic decisions today is not some grand warfare of rival ideologies which will sweep the country with passion, but the practical management of a modern economy. What we need is not labels and clichés but more basic discussion of the sophisticated and technical questions involved in keeping a great economic machinery moving ahead.
>
> **President John F. Kennedy, June 11, 1962**

Today, Europe's social capitalism relies on a delicate balance of free enterprise and government regulation that is constantly in the process of being recalibrated and fine tuned in reaction to ever-changing economic conditions. You can't really examine Europe's economy separate from the workfare support system, because the two are intricately linked, like two sides of the same coin. They function as a unit in what properly should be called a "steady state economy."

A steady state economy requires a refined tuning of the various economic levers and pulleys in order to foster vibrant commerce at a steady growth rate. At the same time, the goal is to provide sufficient jobs, adequate compensation, and workfare supports, but without stifling entrepreneurship and reasonable profit making or destroying the habitable ecology. A steady state economy grows not too fast but not too slowly; it steadily expands the economic pie without inciting inflation, and it also ensures that as many people as possible get a piece of the pie. Prior to the recent economic meltdown, when America's toxic financial products based on shaky mortgages damaged all major and developing economies around the world, Europe's steady state economy had reached a mature stage in which the growth curve was less steep than in previous decades but sufficiently upward nonetheless. Europe maintained its growth by having one of the consistently highest levels of productivity in the world, producing more goods and services per hour worked than just about any other economy. Researcher Klas Levinson, at the former National Institute for Working Life in Stockholm, Sweden, told me, "Europe doesn't need the growth rate of China or the United States because its productivity is high, and because it is so good at spreading the wealth around more evenly and efficiently than those two countries do." He estimates that economic growth of 2 percent is sufficient in a steady state economy.

In addition, the European workfare system creates vehicles to help individuals and families better prepare for more insecure times in their lives, whether those spring from economic downturn, old age, sickness, disability, or accidental tragedy. In fact, the system *forces* individuals to prepare, paycheck by paycheck, by deducting from workers and businesses the funds necessary to pay for the workfare infrastructure that secures their future. By comparison, the more deregulated U.S. system is known for allowing individuals to keep more of their paycheck—presidents from Ronald Reagan to George W. Bush were famous for declaring, "We let you keep your own money"—and leaves it up to Americans' discretion whether to prepare for the long run by saving money and handling the costs of health care, retirement, child care, and family security, or to spend it all in the short run. The U.S.-style "ownership society" should be called "on your own" society, because you are truly left on your own, for better or worse.

In theory, this should lead to Americans paying less in taxes and having greater discretionary income than Europeans, but this assumption has been mostly an illusion. As we will see in chapter 5, while Europeans pay higher income taxes than Americans, they generally don't pay as much in state, local, property, and social security taxes. Moreover, in return for their taxes, Europeans receive a whole host of benefits and services for which Americans must pay out of pocket with their supposedly discretionary income, via fees, premiums, deductibles, and tuition, *in addition to* their taxes. In an age of globalized capitalism and increasing economic insecurity, many of the things Europeans receive for their taxes are hardly discretionary; health care, child care, university education, job training, and adequate retirement, to name a few of their benefits, are necessary in order to enjoy a basic level of security and comfort. When you sum up the total balance sheet, including all the different types of taxes paid and benefits received, you discover that many Americans pay out just as much as Europeans, but we receive a lot less for our money. Furthermore, Europeans don't seem to have any less discretionary income, because they enjoy the same standard of living with access to the same material comforts and consumer goods (such as electronic gadgets and appliances) as Americans have.

What this points to is that in today's insecure age resulting from globalized capitalism, a middle-class standard of living is not only about income levels or economic growth rates but also about adequate support institutions for individuals and families. Europeans have established various vehicles to ensure their health, productivity, and quality of life, not only in the present, but also in the future. Properly understood, these workfare supports are a necessary part of infrastructure investment, just like the Obama administration's fiscal stimulus spending on physical infrastructure, such as bridges and roads, or spending on energy efficiency. But this "social infrastructure" invests in the most precious resource of all—people—even as it helps create jobs and stimulates consumer spending, which are two major components of a modern economy. While Europe and the United States both rely on a powerful capitalist engine as the core of their economies, the presence of a more robust social infrastructure is the reason that Europe has a higher level of economic security for its people than the United States has with its deregulated capitalism. This is Europe's way of ensuring one of America's chief principles, "life, liberty, and the pursuit of happiness," with results that are vastly different from America's "on your own" society.

In short, the European steady state economy acts like a blue chip stock instead of a venture capital startup. In normal economic times, it doesn't go up or down much in the short term, but in the longer term the trajectory is steadily upward. And because the European economies try to spread what is produced among more people, they use wealth more efficiently and more sustainably so that growth rates do not need to be as high as they are in the U.S. "trickle down" economy, which has a poor distribution system and fails to provide adequately for all Americans, even when the U.S. economy periodically performs better than Europe's. A steady state economy necessitates a whole new metric to gauge its utility and effectiveness. As we will see in chapters 2 through 5, economic growth rates, unemployment rates, tax rates, and other measurements have different implications in Europe's steady state economy than in America's trickle down economy, and reveal important distinctions that often are ignored by the media and political leaders.

This is the famous European consensus, an ingenious framework of social capitalism in which Europeans' economic system supports their workfare system, which supports their economic system, which supports their workfare system: a continuous feedback loop. Even conservative leaders in Europe today agree that this is the best way.

## DEMILITARIZED SOCIAL CAPITALISTS

This discussion of basic differences between America's Wall Street capitalism and Europe's social capitalism would not be complete without recognition of the great gap in military expenditures on each side of the Atlantic, and the trade-offs of military spending vs. social spending. Following the fall of the Soviet bloc in the late 1980s, bipartisan policy in the United States still continued to fund huge military budgets that were three times larger than the combined budgets of all conceivable enemies.[6] The U.S. spends vast sums on outmoded weapons systems and military strategies that have little relevance to America's actual national defense needs, and maintains over 700 military bases around the world.[7] But the tragic events of September 11, 2001, followed by the Iraq and Afghanistan wars, took that American posture and pumped it full of steroids.[8] The U.S. spent at least $1.5 *trillion* on the theater of operations in those two wars.[9] Outside that spending, President Bush's 2008 budget froze discretionary spending on most domestic programs even as his more than $500 billion defense budget was the highest since World War II—until President Barack Obama proposed a defense budget for 2010 that was slightly higher than his predecessor's.

Currently U.S. military expenditures are eating up over 4 percent of the country's gross domestic product, compared to less than 2 percent of Europe's GDP spent on its military.[10] That works out to well over 20 percent of the U.S. federal government budget, more than either Social Security outlays or the costs of Medicare and Medicaid combined (and that does not include the huge expenditures on the Department of Homeland Security, the National Security Agency, the CIA, the Veterans Administration, or the parts of NASA and the Department of Energy that are engaged in military-related activities).[11] To put that into perspective, creating a European-like system of universal health care that includes the 47 million uninsured Americans would cost an additional $100 to $150 billion annually, only a fraction of one year's expenditures on the Iraq war. Creating European-like universal child care would cost $35 billion annually; the entire annual budget for the United Nations is only $16 billion.[12] The amount spent by the U.S. government on research and development for alternative energy in 2006 was only $4 billion, while the amount spent on R&D for new weapons was $76 billion.[13]

U.S. militarism has long been a core part of the American Way, doing triple duty as a formidable foreign policy tool, a powerful stimulus to the economy, and a usurper of tax dollars that could be spent on other budget priorities. "Our problems are those of a very rich country which has become accustomed over the years to defense budgets that are actually jobs programs and also a major source of pork for the use of politicians in their reelection campaigns," says Professor Chalmers Johnson, a prominent military critic.[14] Fifty years after Republican president Dwight Eisenhower warned against an insatiable military-industrial complex, the American system is still bedeviled by a classic guns vs. butter dilemma that the vastly less militarized European system has managed to avoid. This gargantuan difference in military spending is one of the greatest gaps between the American Way and the European Way, in some ways the elephant in the living room that overshadows most other aspects of the transatlantic relationship.

One of the underlying themes of this book is examining the appropriate role of the military in the twenty-first century. While Europe is no slouch militarily, it certainly has a much smaller stick than America. Yet, as we will see in chapters 11 and 12 on foreign policy, Europe's very success with its smart power and America's failures with its hard power raise a legitimate question over the best tactics in this post–Cold War, multipolar world. Perhaps the American Way of big-stick diplomacy, which has been practiced with varying degrees of success since the late nineteenth century, has overstretched its usefulness. Not only has it been marginally successful of late, it also is extremely expensive. The European Union's way of foreign policy, meanwhile, uses carrots instead of a big stick; it succeeds not because of coercion but because it is so attractive to other countries who wish to join the E.U. or trade with it and receive investment and foreign aid (Europe has become the world's largest bilateral aid donor, providing more than twice as much aid to poor countries as the United States).[15] The E.U.'s velvet diplomacy also costs a lot less money, allowing those resources to be steered instead into social spending and workfare supports that better support families and individuals.

Having rejected militarization decades ago, Europe's hyperefficient steady state economy is no longer geared to allow such a military orientation, and Europe shows little inclination to reconfigure its economy to allow this anytime soon. Critics of the Europeans' lack of military orientation claim that they are "free riders" on the backs of American military power, but that view is overly simplistic. Europeans have a different view, a different philosophy—born of their history of horrific wars—of the best way to enact peace and prosperity partnerships. And the European Union has had considerable success enacting foreign policy gains over the last two decades, while American foreign policy, leading with its military hand, has been bogged down in its share of quagmires.

## A LANDSCAPE OF ENERGY EFFICIENCY AND CONSERVATION

Not only have Europeans crafted an economy infused with more fairness and equality and less dependence on military stimulus than that of the United States, but they have also embarked on a bold quest to do this in an ecologically sustainable way. I still recall my first time passing through Amsterdam's Schiphol Airport, when my eye was struck by the escalators turning on and off automatically. When no one is standing on the belt, they stop—an eminently sensible thing to do—until a traveler steps forward onto the lip; then a weight sensor detects his or her presence and the stair resumes operation. The logic of it is immediately admirable. The escalators are a model of energy efficiency and design, as are the low-flush, two- or three-button toilets and the motion-sensitive hallway lights in most European hotels, museums, and households, which sensibly click off when nobody is about and click back on when someone enters the room. The bulbs used are the new low-wattage kind that yields the same luminosity for a fifth of the power instead of the incendiary 100-watt fireballs still used in most American living rooms and offices. Seeing as how "Turn off the lights!" was drilled into my head from an early age, I am struck by how the Europeans have mastered this little kind of detail, practically raising energy conservation to the level of an art form.

During the past decade, as the oil chieftains in the Bush-Cheney White House resorted to increasingly desperate strategies to secure more oil, the European landscape was being slowly transformed by new renewable energy technologies that looked like something out of a futurist sci-fi movie—giant high-tech windmills, vast solar arrays, underwater seamills, and "sea snakes" bobbing off the coast, transforming wave motion into enough juice to power isolated coastal villages. Most European advances, though, have been more mundane—just better ways of boosting conservation through greater energy efficiency, better mass transportation, and the incorporation of "green" principles into everything from building design to urban planning. Europe has gone both high and low tech, joining Japan in leading the development of mass public transit, high-speed trains zipping from city to city, and fuel-efficient autos, but also creating thousands of kilometers of bicycle and pedestrian paths crisscrossing the continent.

And Europeans have discovered what a previous generation of American leaders once knew: investment in infrastructure pays dividends in multiple ways that pave the way for the future. While President George W. Bush and other leaders pitted the environment and energy innovation against the economy and loss of jobs, Europeans discovered that greater energy efficiency is actually good for their economy as well as their businesses. Not only have their renewable energy and conservation efforts led to the rise of new technologies and industries, but also those in turn have created tens of thousands of jobs. While businesses have had to make some initial investment in upgrading their facilities, that has resulted in their being more competitive and insulated from energy price spikes. Europe's greater energy productivity enables it to produce the same standard of living as the United States, even though Europeans consume a lot less energy and belch lower quantities of greenhouse gases.[16]

So to Europe's initial social capitalist model of harnessing a robust economic engine to provide broadly shared prosperity and workfare supports for individuals and their families, it now has attached a technological revolution in energy, conservation, and transportation. Those innovations not only decrease Europe's environmental impact, dependence on oil, and carbon emissions that contribute to global warming, but also further spur its economy and increase its productivity.

## THE EUROPEAN WAY: A MODEL FOR DEVELOPMENT IN THE TWENTY-FIRST CENTURY

Much of the drama of nations is told through a rehashing of historical events, with the actors of that drama being the leaders of each epoch. But in sifting through the European story over the last six decades, I found that an equally compelling way to understand it is through a more careful examination of *institutions* and the trajectory of their evolution. Institutions are the means for what President John F. Kennedy called "the practical management of a modern economy." By examining specific fulcrum institutions, we gain a better sense not only of each country's current status in the world but also of its future status. In this insecure age of globalized capitalism and global warming, having the right institutions will make a big difference in how each nation will fare.

Most Americans, including most academics, journalists, and political analysts, whether from the left, right, or center, are not well versed in fundamental European institutions and practices such as codetermination, works councils, supervisory boards, flexicurity, proportional representation, Children's Parliaments, universal voter registration, "shared responsibility" health care, sickness insurance funds, green architecture, cogeneration, cap and trade, civic literacy, and more.[17] Not intimately conversant with these institutions, we fail to grasp how America's and Europe's health care systems are premised on different goals, how our energy infrastructures have different objectives, and how our economic institutions and practices, even our media outlets, project different values. As we will see, Europe's and America's attitudes toward property, individual rights, corporations, the common welfare, the social contract, government, and democratic pluralism have diverged, linked to distinct histories and cultures, even different Christian traditions. And these attitudes have been injected into the institutions on each side of the

Atlantic. It is all these differences in key, basic, fulcrum institutions that, working together as an integrated whole, compose a European Way that is distinctly different from the American Way (or a Japanese, Russian, or Chinese Way).

I am calling these "fulcrum institutions" because they are the crucial ones on which everything else pivots. They play a key Archimedean role by affecting all other policies that shape people's lives. In particular, four fulcrum institutions form the foundation for the rest—the political, economic, media/communication, and workfare institutions. The economic institutions are the core of our daily lives, but in a democracy, ensuring that the political institutions rule the economic, not the other way around, is always a struggle. The workfare support institutions foster equality, fairness, and solidarity, essential features in an insecure age of globalized capitalism, while the media and communication institutions inform the other three, crucially so. Taken together, these four fulcrum institutions play a catalytic role in deciding ever-evolving policies that affect people's daily lives. They incorporate the unwritten rules and social contracts that guide our respective systems. They are as much the "infrastructure" of a nation as are the bridges, highways, energy grid, and telecommunications towers, injected with the values and ideology of each place.

In each of these four, Europe has departed significantly from the American model that dominated for most of the post–World War II era. As we will see, Europe's cleverly designed fulcrum institutions are the end product of decades-long advances in economic restructuring, health care, workfare, energy, transportation, democratic pluralism, consensus building, ecological sustainability, and quality of life. With both the Republicans and the Democrats today lacking in anything like the comprehensive vision that the Europeans have fashioned, the European Way is better suited to today's world.

Many insightful books that have proficiently analyzed Europe or explored the transatlantic relationship, such as Timothy Garton Ash's *Free World,* T.R. Reid's *The United States of Europe,* Chris Patten's *Cousins and Strangers,* and Jeremy Rifkin's *The European Dream,* nevertheless have been mostly silent on the impact of these various fulcrum institutions and practices. These and other books tend to hover at the macrolevel of key events, broad policy, political or historical trends, and the leaders who led the way, and neglect to examine the key institutions that define a particular nation and its political economy. But a certain amount of focus on specific institutions is the difference between viewing the subject matter from thirty thousand feet or coming in for a landing and having a look around. So one of this book's contributions is filling this gap in our knowledge by focusing the lens specifically on certain macro- and micro-institutions that are fundamental to the European Way. While the United States spent the post–World War II era focusing on the strategic global tussle of the Cold War, Europe patiently stitched together these institutions, and they have been quietly incubating for decades.

Ironically, "old Europe" is a political youngster with relatively new institutions and laws, whereas the United States is the country that is looking increasingly sclerotic with outdated institutions and laws, many of them rooted in the eighteenth and nineteenth centuries.

## THE MEDIA GET IT WRONG—AGAIN

What has been ironic about the remarkable rise of this European Way is that you would never learn much about it by reading or watching the American media. While gazillions of newspaper reports, magazine cover stories, and television newscasts have been devoted to overawed coverage of China's rise—some with marvel and others showing "yellow peril" alarm—Europe's rise mostly has been ignored. At worst, Europe has been portrayed as being in perpetual crisis. To Americans, the words *Europe* and *crisis* go together like Holland and windmills or Great Britain and the queen. Media reports have used *Europe* and *crisis* in the same story so many times that if you type those words into Google's search engine, over fifty-eight million hits pop up.[18] Even before the economic crisis of 2008–9, the European economy (and especially the economies of Germany, France, and Italy) was regarded as in a state of continuous crisis, written off by most American analysts as a clumsy, sclerotic basket case, a "sick old man" condemned to long-term decline. Here's a small sample of the mid-decade brassy headlines that appeared in mainstream U.S. media outlets, trumpeting the imminent collapse of Europe:

> "The End of Europe"; "Europe Isn't Working"; "Will Europe Ever Work?"; "What's Wrong with Europe"; "The Decline and Fall of Europe"; "Old Europe Unprepared for New Battles"; "Western Europe Is Cursed"; "Reforms in Europe Needed"; "Is Europe Dying?"; "The Rise of the Fortress Continent"; "The Decline of France"; "Political Crisis Paralyzing Europe"; "Europe's Long Vacation Is Ending"; "Why America Outpaces Europe"; and "Europe Turns Back the Clock."[19]

Those sorts of gloom and doom headlines prevailed in the American media starting in 2003 and lasting until late in 2006, when—surprise, surprise—it was discovered that the European economy actually was surging and had equaled and then surpassed the U.S. economy. In fact, an article published in the *international* version of *Newsweek* on November 20, 2006, blared the headline "The Great Job Machine: Despite Its Laggard Reputation, Europe Continues to Grow Faster, and Create More Jobs, than America"—yet that story never appeared in the *domestic* version of *Newsweek*.[20] Another article in *BusinessWeek* reviewing health care systems in the United States, France, and the United Kingdom gave the nod to France as having the most efficient and affordable system. But it was never published in the U.S. print edition. To this day, the patriotic U.S. media continue to shield Americans from injections of reality that are badly needed to understand our country's relative decline in the world.[21]

The fourth estate, which according to democratic theory is supposed to act as a watchdog of government, too often acts as stenographers to those in power, deferring to official explanations and reinforcing stereotypes that misinform the public. This happens in all countries to some degree, including those in Europe: French president Nicolas Sarkozy's cozy relationships with powerful French businessmen who own media interests have raised concerns over his political interference in the news, and Italian prime minister Silvio Berlusconi is a media magnate himself, using his private media and entertainment empire to further his political career. But as we will see, Europe's much better funded and independent public broadcasting sector provides an important journalistic balance to the private corporate media, a balance that is mostly lacking in the United States.

In the minds of many Americans, even intellectuals and journalists who should know better, Europe is synonymous with France, so France's shortcomings become those of an entire continent. The riots of France's minority youth from the *banlieue* suburbs in November 2005 became the proof and pretext for condemnation of an entire continent, even though no other European country suffered such domestic unrest. After bombarding their audiences with "sick man Europe" stories for the first half of this decade, did American journalists note Europe's surge and shifting economic tide? Hardly at all. The U.S. media went noticeably silent on the subject, and Europe's economic rebound in 2006 through the first half of 2008 was mostly a nonevent in the United States.[22]

In fact, to hear the American media tell the story, Europe always has been in crisis. Gloom and doom news reports date back to the early 1990s, warning that the German economy, the largest in Europe, was "slumped at the razor's edge."[23] There were dire predictions of impending declines in personal income and shorter vacations, as well as forecasts of rising unemployment, crime, and taxes to "a level not seen since the Weimar Republic."[24] Yet by the late 1990s a prospering Germany had become the world's leading exporter and further reduced the length of its official workweek for the same amount of pay, adding to Germans' leisure time and further surpassing the United States in the level of workfare benefits and economic security enjoyed by its people. Not content with being wrong once, the media in 1999 warned that the "sluggish E.U. economies" would foil the introduction of the euro.[25] Yet within a short time the euro had surpassed the dollar in strength and by 2008 was trading over 50 percent higher than the dollar, as any American tourist discovered when you received so few euros in exchange for your 98-pound-weakling dollars.

The truth is, just as the American media misreported Iraq, weapons of mass destruction, the housing bubble, and an imminent economic meltdown, the crystal ball gazers in the U.S. media have a terrible track record when it comes to Europe.[26] To go back and read their gloomy predictions regarding Europe from the spring of 2006 and to see how far off the mark they were only a few months later is almost comical. As a result of this substitution of national myth for reality, news traveling across the Atlantic has failed to keep up with actual conditions on the ground. But this has only kept U.S. leaders and the public from understanding the world and America's place in it, and from recognizing that Europe has evolved a new set of fulcrum institutions and a new way of structuring one's society. We are witnessing a momentous shift that holds great promise, even as it fosters a new dividing line between the United States and Europe that cannot be swept easily under the carpet of either the Oval Office or the Palais Elysée.

In the next two chapters, we are going to take a closer look at the economic engine that powers Europe's social capitalism and delve into its specific institutions and practices (such as codetermination, supervisory boards, works councils, and flexicurity), as well as industrial strategies that have been deployed to harness European capitalism's tremendous wealth-creating capacity.