

Chapter III

Equality, Opportunity, Stability

The European Socioeconomic Model, the American Model

EUROPE AND AMERICA, while acting together to achieve many goals following the end of World War II, also pursued different domestic policy priorities. Surrounded by the aftermath of war, Europeans readily accepted the strong role of rule from the top down. After almost a decade of threat and turbulence they welcomed, and valued, the promise of stability. As individuals they voluntarily set themselves free from many responsibilities which they might otherwise have assumed themselves. It is in this manner that they became wards of the state. Those Europeans who found security in this approach had a wide array of political champions to choose from.

The contrast with the American state was dramatic. Americans continued to look to themselves, and not to their government, as the guarantor of their freedom. They kept protection of their personal liberties in their own hands and deliberately limited the federal role. They valued the opportunity to choose how best to provide for themselves, to earn the financial rewards of their own labor, to assure that their government worked for them, and not vice versa. Americans had a relationship with their government which was independent of the state, not dependent on it. This freedom gave the individual primary responsibility for his or her economic health and social welfare.

Not all Europeans today, by any means, endorse rule from the top down, and critics of statism in Europe are growing in number. But, with the invariable exceptions, the basic differences in approach have changed little during the past sixty years, since 1945. Americans and Europeans continue to value opportunity, and assess risk, differently.

One result, and a significant one, was described recently by a columnist in the *Financial Times* in London. He was referring to Germany, but his conclusion applies as a whole to the practice of rule from the top down. He wrote that “in a country where the welfare state has taken almost all risk out of life, people have difficulty not only coming to terms with bad luck, but with good luck as well.”²



What has just been outlined is what European political leaders mean when they proudly speak of *the European socioeconomic model*—a prescription for regulated result and economic equality. “Europeans claim,” so wrote French commentator Dominique Moïsi in 2002, “to stand for a multipolar world that shares European values of pluralism, reconciliation, humanism and tolerance. The reality, however, is that most Europeans dream of turning their continent into what would amount to a large Switzerland—a rich, selfish, boring and largely irrelevant place. They speak of the greatness of their *European socioeconomic model*, of its irresistible attraction. But at the first challenge, they are quick to shut the doors of their fragile paradise even to the closest of outsiders.”³

Moïsi’s conclusion does not garner admiration among many European politicians. They are naturally hostile to such criticisms. But they do not attack the authors. They do not need to, because they have invented a straw man to deflect attention from themselves. They call it the *American model*. This phrase, already briefly noted, is used by Europeans in a negative way to describe a society riven with inequity, with fancy houses for the rich and ghettos for the poor, with health care for some but not for others, with widespread homelessness in the richest country in the world, populated by fat Americans who consume fast food and drive gas-guzzling cars.

An enlightening illustration of this point was sent to me in 2002 by a

Czech mathematician who lives in Prague, and who earned his Ph.D. degree at Rutgers University in the state of New Jersey in the mid-1990s. I asked him if he could give me several examples of things he thought distinguished Americans and Europeans:

We Europeans cling more to the average, while you Americans tend more to go for the extremes. Here are a few examples. Some Americans are so overweight they would be considered monsters in Europe, and yet you also have some of the finest athletes in the world. Most of the richest people in the world live in America, but you have scores of people spending their winter nights on subway vents. Most of the very top universities and research centers in all fields are in the U.S. At the same time some elementary schools are so substandard that it would not be tolerated in any of the European countries. I guess that this overall tendency to go for the average causes us Europeans to be more indecisive to take any action, more careful in considering all the options, while Americans are more adventurous, whether it comes to moving from place to place, quitting a job and finding another one, or perhaps, even in going to war.

The observations are valid. What the writer omitted, however, is that freedom in America brings with it opportunity, hope, and choice, as well as inequalities. Americans do not claim that theirs is a perfect society, which is why millions of Americans, young and old, serve as volunteers every day of the year to help those less fortunate than themselves. But when all is said and done, Americans place a greater value on protecting their freedom of opportunity than on restricting freedom to assure equality of result.

This is a conscious choice of significant consequence. The guarantee of economic security offered by the European practice of rule from the top down does bring with it greater equality, but greater equality has a specific cost that freedom does not. That price is the creation of individual dependency on the state, and a loss of individual liberty. That kind of economic security regulates opportunity, limits hope, penalizes accomplishment, and restricts freedom of choice. Many Europeans consider this a conundrum. They would like to have it both ways. Of course, they know they cannot, but neither do they want to admit it. And, most do not. Europe-

ans accept the imperfections and restrictions, and European leaders consistently compare their asserted social strengths of *the European socioeconomic model* with their asserted social weaknesses of *the American model*.



Rule from the top down has numerous effects, one of which is the existence of a permanent political class. Instructive in this regard is the rationale for establishment of the School for National Administration (ENA: *Ecole Nationale d'Administration*) in France, founded in May 1945. Located in Strasbourg, it was, by any measure, an attractive prospect, born of the recognition during the war that well-educated civil service administrators would play a pivotal role in reconstructing postwar France.

The idea, however, came not from the bottom up, but from the top down. That is to say, the concept presupposed that an educated, permanent civil-service elite would rule more wisely and effectively than private citizens unschooled in the skills of government. So an institution was founded to educate France's political elite in the art of administration on a nonpartisan basis. The institution's graduates, however, known as the *énarques*, soon learned that they all shared a compelling reason to protect the power of the new class they represented. They held a monopoly, and they have guarded it successfully. For example, between 1974 and 2002 two of the three presidents of France, and nine out of 11 prime ministers had attended the ENA, while in French ministries and government institutions several thousand graduates hold permanent civil service positions.⁴

The ENA is a superb example of state power consolidated in the hands of a few. My colleagues look at me incredulously when I explain it, because nothing like it exists in America. But Europeans generally, and in this specific case the French, do not consider their relationship with the state as one of subservience to an elite. Rather they see it as a mutually satisfactory arrangement by which to assure the general and common welfare of the individual. This relationship amounts to an economic entitlement, greatly influenced by the socialist vision of society. Although the contract is proudly described as *the European socioeconomic model*, superior

to *the American model*, it could well be called *the new socioeconomic freedom* that stepped onto the continent out of the ruins of World War II.⁵



Few Europeans or Americans spend much time analyzing the contrasts between their political and economic cultures, and perhaps it is a good thing, because they are so different. Both are concerned, however, with their private privileges and public obligations as citizens. They are also conscious of the freedom they have to determine their own future. What decisively influences their lives is how they think about their own responsibilities as individuals versus the state, about what they can become, and about what they are prepared to do about it.

Americans think of who they are in terms of what they have accomplished, of what they have contributed to their community, of how well they have provided for the education, health, and welfare of their families. This allows them to look at life in terms of what they can still do, of the opportunities that still await them, of how they can help others. Most Europeans think of who they are in terms of being average, and frequently in terms of what cannot be accomplished, in terms of what is not allowed, in terms of what is not possible.

The logical consequence is self-evident, and it accounts for a major difference between how many Americans and Europeans imagine their respective roles in the societies in which they live. This contrast between American optimism and European pessimism was drawn for me by an investment banker in Paris who cited the example of a glass of water. "Americans," he said, "see the glass half full, figure out how to fill it to the top, and have faith in their ability to do it. We see the glass as half empty, with little hope to fill it, regardless of how hard we try. If the attitude toward what you do, or what you want to do, is positive, the glass is always waiting to be filled. But if the attitude is negative, the glass only contains what is left."

These distinctly separate outlooks toward life influence everything Americans and Europeans do, including how their leaders approach the discussion of problems. Europeans are prone to say what they cannot do, and then offer reasons why it is so. Americans often begin a conversation

by saying, “You need to understand that this is a problem, and this is how we are going to solve it.” Is this a further example of the different paths Americans and Europeans take in their effort to arrive at the same place?

Socialism in Europe and America

The tale of socialism in Europe has a lot in common with the story of the glass of water. As an approach to managing government, the promises made and the promises kept are a history of mixed results. Nonetheless, socialism continues to exert a tremendous influence on economic and political life, despite the collapse of corrupt and dictatorial “socialist” governments in central and Eastern Europe during 1989–1990.

The development of the post-1945 economic and political order in Europe and America was significantly influenced by socialism; that is to say, it enjoyed tremendous appeal in postwar Europe, and was absent as a major political force in American politics.⁶ This is a development of enormous consequence that also has its origins in the essential difference. Few Americans, however, are familiar with the history of socialism. But without knowledge of socialism’s influence on the continent, it is not possible for Americans to grasp the rationale or understand the practice of politics in Europe.

It is a common American tendency to equate “socialism” with the phrase “welfare state,” and most reject the idea as inconsistent with economic independence and political freedom. There is something in their psyche that causes Americans to consider economic dependency on the state as a sign of weakness. This is why Americans think accepting welfare is something to be ashamed of, including many of those who take it. In fact, some Americans call it a socialist invention designed to create a dependent relationship. While that contention always stirs up squabbles on college campuses, it is also true that socialism appeals to few Americans because there is no spawning ground.

There are socialists in America, of course, but they play no meaningful role in American political life because, to take root and survive, socialism needs exploitation, abuse, class divisions, and inequality, with no hope for

change. It cannot thrive in a society where equal opportunity is considered more important than equality of result, where economic rewards come from hard work and not from government, where standards of living rise, and where social mobility is always active. In America one consequence is that socialists have never won a national election.



The history of socialism in Europe is almost exactly the opposite. The story begins in earnest at the end of the eighteenth century, when the power of the old aristocracy was disappearing to be replaced eventually with a new aristocracy in the form of elected politicians. The political and economic changes ushered in during the era of 1789–1815 in revolutionary Europe marked, in general terms, the beginning of changes that took place over decades, until the annexation of Austria by Germany in 1938, when preoccupation with the coming deluge of violence interrupted them.

Measured in terms of years, radical change did not arrive quickly, nor was it “social” or “equal.” French revolutionaries, to take one example, succeeded in cutting off many heads belonging to priests, aristocrats and tax collectors—among them the founder of modern chemistry, Antoine Lavoisier—but they did not destroy, at all, the lines separating social classes in that country, nor did class distinctions disappear anywhere else on the continent.

Society remained highly structured as Europe plodded through the nineteenth century. The Industrial Revolution did not merge class differences, but in some cases made them worse, and did succeed in creating a new business and social elite in Europe. It also enriched the ideology of socialism.



In the latter half of the nineteenth century Europeans faced two fundamental choices. One was escape from poverty and drudgery, and in some cases famine; a massive emigration to America took place, to a land of hope and opportunity, not to a land of class divides. The other was to remain in Europe. Many in better-educated and wealthier social and busi-

ness classes prospered, while some of those who were not of that status were attracted to a political movement whose leaders preached the injustice of markets and competition. In their speeches they spoke of an artificial world of equality of result, but not of the free world of equality of opportunity. They demanded rectification of disparities in wealth, improvement of working conditions, an end to management abuses, and abolition of privilege. This was an attractive prospect, and was ardently pleaded, most notably in the writings of German social and political philosophers Friedrich Hegel, Friedrich Engels, and Karl Marx, but also by self-styled intellectuals whom Friedrich Hayek described in a famous monograph as “the professional second-hand dealers in ideas.”⁷

The movement’s rationale was the appealing vision of a social contract. Drawn in part from Rousseau’s political tract of the same name, the contract between the state and the individual promised to strengthen the authority of the former and promote the welfare of the latter, so both would be served. Socialists argued that those who labored—the proletariat—should have the right to make the rules; in other words, to govern by replacing private ownership and management with public ownership and control.

It was a doctrine of hope, in a non-American sense, that called for “a complete transformation of the economic and moral basis of society by the substitution of social for individual control and of social for individualistic forces in the organization of life and work.” The “organization” amounted to a new economic order and political system, deliberately described with the alluring word “social.”



Advocates called it “Socialism.” Eventually they even wrote a song about it, originally in French, entitled “The International.” Few Americans have ever read the words to it, and do not know that they are far more militant than they are social.⁸ “The International,” in fact, was a siren song about a class struggle that would change the world “from its foundations.” The song, however, is out of tune with the history of the socialist promise, still powerful in contemporary Europe.

The promise had tremendous appeal to those who labored in nine-

teenth-century factories produced by the Industrial Revolution, and who felt excluded from sharing in the fruits of their labor. They saw a much better life in the equality socialism offered. That equality would be assured by a “socialist” government that would possess the political power to control the means of production and the selfless altruism to distribute goods equally to all. And for those who suspected how it would work in practice, socialism also contained a hidden reward, but of a very different kind. It was the lure of enormous political and economic power in the hands of those who controlled the operation of the marketplace, via government; an earlier vision of the power European governments amassed while rebuilding the continent after 1945.

The ruling class—the socialists—would dictate equality of result by establishing state monopolies, by nationalizing major industries via confiscation of private property, by controlling how goods would be produced and sold and distributed, and by deciding how the profits would be shared. To make the vision praiseworthy, rather than politically threatening, the promise was often touted as a democratically controlled economy run by the people. Those whose economic and political freedom of choice would be adversely affected, opposed socialism. But those who wanted to gain political and economic control described the system in a different way. They called it a guarantee of the rights of every man to participate in the creation and distribution of wealth. They did not address the artifice that socialism was a new form of old rule.

Those who embraced socialism for its public promises of equality, or for its hidden assurances of dictatorial power, argued that it would produce a just society, without poverty. Few discussed what was obvious to many; namely, the ideology of socialism was based on the assumption that those controlling government had a better idea of what was in the individual’s interest than the individual himself.



Socialism was predicated on the assertion that private businessmen profit and grow rich while exploiting others who remain impoverished, and therefore on the permanent existence of an adversarial relationship between the private interest and the public good. This logic, rather than

breaking down arbitrary and exploitative class structures and distinctions, reinforced them. The individual, according to the socialist view of the world, could not change his lot by hard work, could not reinvent himself, could not succeed, and was condemned forever to his social class.

Thus, the glass was never full, but always half empty, and the individual was powerless to fill it to the top. Caught in this web from which there seemed no exit, the individual nonetheless had a right to freedom from capitalist bondage. Indeed, he was entitled to it, if a means could be found to escape. The logic of the argument was that socialism would bring that emancipation. That logic was also the deceptive genius of the socialist promise.

Freedom without definition was an abstraction, so the claim went, but with definition freedom would become real. “Whose freedom?” Karl Marx asked in a speech on free trade in 1848, and answered his own question: “It is not the freedom of one individual in relation to another, but the freedom of capital to crush the worker.” From this conclusion followed the elixir. Socialists—the new ruling class—believed in the right of the individual to be free from the stifling burden of capital, and therefore would honor this right to freedom by providing the citizen with a social contract. Socialist government would serve the people’s needs; namely, all those needs the people made manifest by expression of their desire to be free, and equal. In other words, socialism would transform the “manifestation” into reality, because mere and mortal individuals were powerless to do so by themselves. The means to do so would take the form of manifestations, demonstrations, protests, strikes and riots, and also of revolution.

The socialist idiom amounted to nothing less, and to nothing more, than a nineteenth-century continuation of eighteenth-century rule from the top down. Given the political conditions of upheaval, which continued into the 1870s in Europe, and the economic turmoil of the Industrial Revolution, it is hardly surprising that, in the course of the nineteenth century, socialist political parties grew stronger until, in the twentieth, socialism gave birth to its heirs in the form of dictators. If there was any doubt that the concept of *social* in socialism had no room for the individual, and that individual lives could be sacrificed for the so-called good of

the whole—if necessary, millions of times over—socialism’s red and black aristocratic children, born in the twentieth century, removed that uncertainty. In Russia they were part of Lenin’s and then Stalin’s red Communist Party of the Soviet Union, which ruled for 73 years from 1917 to 1990. In Germany they were members of Hitler’s black National Socialist Workers Party, which existed for 12 years, from 1933 to 1945, followed by the red Socialist Unity Party that governed the German Democratic Republic until 1990.⁹ And in central Europe, after 1945, they formed communist governments, imposed from above and preserved until 1990 by Soviet military power.



By 1918 Europe’s wealthy landowning classes had been, for the most part, politically emasculated. In their stead had arisen political parties. Political power moved from castles and country manors—the “power houses” of the landed aristocracy—to new, government “power houses” in the cities. In turn, the majority of the parties to which the socialist movement gave birth participated in the electoral process, because they recognized in it a vehicle to take them into the halls of government. Whether the parties called themselves socialist, labor, or communist was a distinction without great practical difference. What was important was that their participation accorded them respect. To reinforce that point, most notably in Germany, they called themselves Social Democrats. Today, to elaborate on the German example, the formal name is still the Social Democratic Party, and the former communist party of East Germany, which ruled until 1990, now styles itself the Party of Democratic Socialism.

European parties of the left, however, were far from alone in the desire of their leaders to rule from the top down. They had a great deal of company from political parties of the center and of the right. Their sights were all set on the same goal. They understood that electoral government, as opposed to governing by divine right, was the twentieth century’s epaulet of political legitimacy. They were *the new aristocrats* without noble names. And they understood—whether of the left, the center or the right—how rule from the top down worked. Of the many tools they employed in mastering their craft, one of the most valuable was that of taxation—on

the sale of goods and services, and eventually on income, capital gains, inheritance, and wealth. Thus, they secured the revenues with which to finance their operation of *the public sector*.

They all recognized the enormous attraction of a social contract between the citizen and government, and they knew as well that those ruling enjoyed certain material privileges. After all, they had been well taught by the social, economic and political practices of their namesakes, the old aristocrats. That world, of course, had never been open to them; indeed, one of its strengths had been that it was closed to all but a few. So the new aristocrats borrowed from the past and operated their political parties as private clubs, to which admission was not guaranteed merely because one wanted to be a member. Approval was required. In turn, out of politicians they made a new class, and membership in it a badge of privilege: in France in 2006 the Socialist Party numbered just 200,000 members, just a little more than 3 percent of the country's population.

By the beginning of World War II Europe's political upper crust had developed politics into a professional occupation. They had laid the seeds for and cultivated new rule from the top down over a period that began in 1789. It grew, for all practical purposes, for 200 years, until the late 1980s, when the revolution in computer and communication technology—known as “the fax revolution” in Europe—began to break apart their monopoly of information, and to undermine rule as practiced by the new aristocrats.



Socialist parties in contemporary Europe, also known as labor parties, play a major role in determining the political, economic, and social agendas of governments throughout the continent. That is not to say that their socialist programs are without opposition. Socialist governments are voted out of office, just as they are voted into office. But they have formed an unwritten alliance with parties of the center and of the right, to preserve the principle of rule from the top down.

Not all European political parties are a part of this unwritten system. The exceptions are Europe's nonsocialist, “liberal” parties, defined in the classic sense that a “liberal” society is one of free markets without the

social engineering of government taxation, redistribution and regulation. Of the eight caucuses in the European Parliament, one, the ALDE Group (Alliance of Liberals and Democrats for Europe), is composed of elected parliamentary members from thirty-five different liberal parties of twenty-two member states of the European Union. These national delegations espouse their own respective political and cultural values, but also cooperate together in the ALDE and share a common vision for Europe. But aside from these exceptions, Europe's parties are part of the system which, to varying degrees, they all practice. When in government, whether they are so-called conservatives or socialists, the common approach taken to assure their respective survival is to maintain the social contract.

Real reform—that is to say, reducing the massive role that postwar 1945 European governments play in the lives of the people they govern—seldom comes as an initiative from the major political parties. When elections take place in Europe there are, certainly, always opposing views presented by liberals and conservatives, by socialists and nonsocialists. European voters, in whatever country they may be, do have real choices to make. But the choices are about people and parties, not about policies and principles. Political parties, whether conservative or socialist, operate on the generally accepted premise that the right of the state to define the limits of freedom is part of the political order.

In France the practice is called *dirigist* or *statist*, a state which directs and provides. Its operation may explain why French National Assembly member Pierre Lellouche observed in the spring of 2000 that if there were to be a French renaissance it would have to come “from outside the political debate and independently of the political class. . . . What the political class is doing is foreign to the real world and basically irrelevant.”¹⁰

An example of what Lellouche meant had already been discussed twenty years earlier in the 1980 American presidential election. Ronald Reagan campaigned with a slogan which in 2005, twenty-five years after he first used it, is still largely absent in European political campaigns. He criticized the *more-government-is-better* policies of the Democratic Party for producing a country that was overgoverned, overregulated, overtaxed, and overspent. His simple message was that there was too much govern-

ment in the lives of everyday Americans. Reagan's slogan expressed one side of the debate about a philosophical issue that seldom takes place in European politics—namely, what is the proper role and size of government.



Change occurs, of course, just as philosophical discussions also take place. But debate on the relationship between the state and the individual is not daily political fare. Even though many Europeans are painfully conscious of the regulated world in which they live, and often reject it in private conversations, few political leaders have the desire and courage to challenge the prevailing order. One who did subscribe to the principle that *less-government-is-better* was Margaret Thatcher, the “Iron Lady” of Great Britain. As prime minister between 1979 and 1990 she was able to transform rule from the top down, and bring about a British renaissance of the kind to which Lellouche would refer ten years later.

That Thatcher was able to dismantle much of Britain's *dirigist* political and economic structure was no accident. She was able to challenge the “Socialist consensus” successfully because she possessed two qualities indispensable to political leadership: courage and conviction. She believed that socialist anti-free market policies, led by labor unions and given life via confiscatory taxes and government monopoly of nationalized industries and services, were limiting opportunity and stifling economic growth. Indeed, in the late 1970s Britain was called “the sick man of Europe,” borrowing money from the International Monetary Fund to pay its bills.

She called the struggle “the second battle of Britain,” and the result best spoke for itself. The tax system was overhauled and the top personal income tax rate dropped from 98 percent in 1978/79 to 40 percent ten years later. Massive industrial restructuring took place in the seven old, basic industries of steel, textiles, coal mining, ship building, ports, agriculture and automobiles. The cumulative effect was that Britain's standard of living, in 1984 the lowest in Europe's common market, became the highest by 2005.¹¹

Since the end of World War II, however, the only major European

country to achieve success has been Britain. The principal reason why is that no other political leader has possessed the skill to deal with the resistance that accompanied Thatcher's attempt to weaken rule from the top down, and few have been willing to gamble their political futures on the outcome of such a venture.

Margaret Thatcher was prepared to take the risk and she succeeded. But Europe's politicians understand the significance of the elementary conclusion that if they cannot win elections they cannot govern. So the majority embrace the concept of *the European socioeconomic model*. What they mean by it is old rule with a new name, and when they use the phrase they are delivering a homage to the benevolent state, sensitive to injustice, acting as a force of equilibrium, keeping the different elements of society in balance and the forces of inequality at bay.



In America a balanced partnership between government and the individual, which serves the welfare of the citizen while preserving the power of the state, is a contradiction in terms. *The European socioeconomic model* is the antithesis of the idea and practice of American freedom. Americans talk about all men being created equal in the eyes of God, about equality in terms of having a right to equal opportunity, and about an equal right to liberty and justice. It is a concept as old as the founding documents of the American republic. How the Declaration of Independence begins reflects how Americans think, even if the last time most Americans read it was when they were in school:

We hold these truths to be self-evident, that all men are created equal; that they are endowed by their Creator with certain inalienable rights; that among these are life, liberty, and the pursuit of happiness; that to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed; that whenever any form of government becomes destructive of these ends, it is the right of the people to alter or abolish it, and to institute new government, laying its foundation on such principles, and organizing its powers in such form, as to them shall seem most likely to effect their safety and happiness.

Government power frightens Americans because they do not trust it. Nor do most Americans believe that it is possible for individuals, in matters of the social-economic commonweal, to be equal partners with the state. This is why the vision of a social contract between the state and the individual, which serves the interests of both, is difficult for Americans to imagine. Or, perhaps it is the opposite. Americans can see it very clearly, and it scares them to death. Either way it prompts Americans to ask such questions as, "How can Europeans let the state take care of them from the cradle to the grave?" "How can bureaucrats and politicians possibly know what is better for the individual than the individual himself?" "Where is their pride of independence?" "Where is their righteous indignation?"

These questions, of course, do disturb some Europeans. That is why there are still Europeans who come to live and work in America; in fact, as a whole more educated men and women continue to emigrate to America than to all other countries in the world combined. They are making use of the right to pursue happiness as they define it and as they make it, free from the constraints of the collective happiness imposed by government control in, for example, Europe.

When immigrants arrive in America they are coming to build happier lives, and they still bring with them, as they always have, their energy and initiative. They bring a will to succeed, and their loyalty to the idea of American freedom. They do not all enjoy success in the same way. Some make good decisions and some make bad ones, and some have more luck than others. But they all are free to choose, to take responsibility for their choices, and to pursue happiness as they define it.



In Europe the principle and practice of the social contract is part of political and economic life. Today, that means all political parties have to finance the contract. The only way they can do that and deliver the contract's entitlements is to use the marketplace as the principal source of income. And that is exactly what they do via regulation and taxes, to a degree unprecedented in America. It is true that nonsocialists advocate far less tax and regulatory control than socialists. But it is also true that most

nonsocialists are firmly committed to the idea of *the European socio-economic model*. To do otherwise and still get elected, is not yet possible.

Winds of political and economic change, however, are blowing across Europe and are turning in surprising directions. In early July 2003 a meeting of European center-right leaders and politicians took place in Strasbourg, the seat of the European Parliament. Then French prime minister Jean-Pierre Raffarin, who replaced socialist Lionel Jospin in the French elections of June 2002, stirred up a hornet's nest when his comments about socialism were widely quoted. He concluded that "France is not yet on the road to heaven, only in purgatory, since we still have Socialists." The response by François Hollande, the secretary-general of the French Socialist Party, may have been less truthful than he intended. "The demonization of the competition," he responded, "reveals a concept of politics that we do not share."¹² It was an ironic conclusion in view of socialist opposition to free and open competition in the marketplaces of ideas, trade, and commerce—a struggle they renewed immediately, following the end of World War II.

The post-1945 Political and Economic Order

In late 1945 Europe and America each faced fundamentally different problems of political and economic recovery and reconstruction. No bombs had fallen on American cities, and Americans were not surrounded with the horrors of physical destruction and the obstacles presented by economic dislocation. But Americans were not free of challenges either, nor were they immune from sorrow; more than 400,000 American men and women died during World War II.

Americans faced formidable problems of their own, as families began to rebuild their private and professional lives. In practice, this meant returning to the operation of a free market economy, and reducing the awesome powers acquired by government to guide the war effort from Washington, D.C. The effort to do so moved forward, little by little; although some historians argue that many of the powers of government amassed during Franklin Roosevelt's administration were never returned

to the American people. But the regulatory controls of wartime were largely abolished; Americans resumed competition in the marketplace, and renewed their search for the American dream.

Tremendous social changes would transform many aspects of American society during the second half of the twentieth century, but one element remained the same.¹³ It was the primacy of the individual, of equality of opportunity, of the freedom to choose—and one of the things Americans chose was participation in a massive and voluntary effort to assist European recovery. They sent blankets, clothing, and food.¹⁴ America forgave French debts, and the Marshall Plan gave the Europeans the financial means to rebuild their economies.¹⁵



The challenges of reconstruction on the continent were immediate, and complicated. Whether to rebuild Europe's cities was not merely a question of deciding to do it. The real question was what role the state should play in establishing a peacetime economy capable of producing goods and providing services.

This issue—how should recovery be managed?—joined the protagonists; namely, the advocates of socialism and central planning and the champions of capitalism and free markets. At the end of 1945 the dominant view among Europeans was that some form of state control of the economy was so obviously necessary that it was beyond dispute. Socialism, so claimed its supporters, would lead to greater social justice and to greater efficiency; only under state control could the industrial economies possibly handle the overwhelming tasks they faced.

In a dramatic portent of the struggle to come, British voters, in elections held in July 1945, replaced conservative party leadership headed by Winston Churchill with that of the British Labor Party under the leadership of Clement Attlee. What followed was a grandiose government program of expanded social services combined with nationalization of heavy industry and transportation. The British historian A. J. P. Taylor wrote of the prevailing mood that “nobody in Europe believes in the American way of life—that is, in private enterprise; or rather those who believe in it

are a defeated party and a party which seems to have no more future than the Jacobites in England after 1688.”¹⁶

Taylor’s view was strongly held, and he was far from alone in his belief that capitalism was morally bankrupt. In Great Britain, the Labour Party had a receptive audience for its solution to Europe’s misery. The party called it creation of a *welfare state* as opposed to a *warfare state*. This emotion-laden comparison found wide appeal among Europeans as a whole, who looked to government, and not to private enterprise, to create equitable social and economic conditions. Indeed, many Europeans, on all sides of the political spectrum, blamed capitalism for the Great Depression and held the marketplace responsible for the second European war of the twentieth century.



There was also another and very different element in play that further sharpened the struggle. It was the claim of legitimacy. That is to say, socialist political leaders in post-1945 Europe asserted a moral right to govern because they, so they argued, had opposed the dictatorship of Nazi Germany as a matter of principle, while others had profited from it. Germany’s Social Democratic Party echoed much of the tenor of the time in the language of their party program, formulated in Hannover in May 1946. A key passage contained the following conclusion:

. . . today’s Germany is no longer in the position to carry a private, capitalistic profit-economy, and to pay profits from exploitation, capital dividends and bond income. . . . Just as socialism without democracy is not possible, so is, on the contrary, democracy in a capitalistic state in continuous danger. . . . German democracy must be socialist, or the counter-revolutionary forces will destroy it once again.¹⁷

There were those in Germany, however, who strongly disagreed with this socialist interpretation of history, just as there were economists throughout Europe who fervently believed in the efficacy of competition and free markets. Less than a year later, in March 1947, the leading conservative party in the three western-occupied zones of Germany, the Christian

Democratic Party (CDU), approved a very different program. It struck a balance between the alleged evils of capitalism and the dangers of socialism, wrapped in an embrace of individual initiative:

. . . the new structure of the German economy must proceed from the assumption that the time of unlimited power of private capitalism is over. But we must also avoid replacing private capitalism with state capitalism, which would be even more dangerous for the political and economic freedom of the individual. A new economic structure must be sought which avoids the mistakes of the past and which allows the possibility of technical progress and creative initiative of the individual.¹⁸

The clash between two different concepts of political and economic order in Germany mirrored the larger one taking place in Western Europe as a whole. Those political leaders and members of the intellectual and opinion-shaping elites who condemned the inequalities of capitalism and championed rule from the top down recognized an unparalleled opportunity to justify the exercise of great governmental powers. Europe had to be rebuilt. No one, so the logic went, had a greater moral claim to the control of recovery and reconstruction than those who recognized the evils of competition and profit. No one, indeed, was qualified to do so except the state, led by the party of socialism.

In short, these figures saw an opportunity in the requirements of recovery, not for freedom, but for establishment of a postwar ruling class. In central and eastern Europe, behind the Iron Curtain, communist parties had already prevailed with control dictated by the Soviet government. But in Western Europe the die was not yet cast, which meant that the political war between the forces supporting a planned economy versus a market economy, initiated immediately in Britain, was just beginning.



Those in Western Europe who opposed central planning feared that if a new ruling class ever got its political grip on the economy it would never let go. They suspected also that its leaders would develop state power in a way that would make Europe's citizens increasingly dependent on govern-

ment to provide for their welfare. If this occurred, they argued, such control would become, over a long period of time, exceedingly difficult if not impossible to reverse.

One of the leading critics was German economist Wilhelm Röpke. Given what was at stake, his message was a powerful one. He argued that

. . . if we seek a pure free market economy based on competition, it cannot float freely in a social, political, and moral vacuum, but must be maintained and protected by a strong social, political, and moral framework. Justice, the state, traditions and morals, firm standards and values . . . are part of this framework as are the economic, social, and fiscal policies which, outside the market sphere, balance interests, protect the weak, restrain the immoderate, cut down excesses, limit power, set the rules of the game and guard their observance. . . .¹⁹

Although Röpke's concerns were not shared by many, neither was his voice an isolated one, and he enjoyed distinguished company; in fact, at the war's end he and his wife had translated Friedrich von Hayek's critique of socialism, *The Road to Serfdom*, into German. There were also others in Europe known to both men. The importance they all attached to the values of the free market was the reason for the initiative taken by Hayek in early 1947. In April, in the tiny village of Mont Pèlerin in Switzerland, more than one thousand meters above Lake Geneva, he brought together an extraordinary group of almost forty economists and thinkers, primarily from Europe, but several also from America. They included not only Röpke, but Maurice Allais, Bertrand de Jouvenel, and F. Trevous from France, Karl Popper and Lionel Robbins from the London School of Economics, Alexander Rüstow and Walter Eucken from Germany, Fritz Machlup and Ludwig von Mises from Austria, T. J. B. Hoff from Norway, as well as two young economists from the University of Chicago, Milton Friedman and George Stigler.

They debated whether to name their group after Lord John Acton (1834–1902) or Alexis de Tocqueville (1805–1859) and finally compromised, settling on the name of the village in which they met. Over the next half century—the Mont Pèlerin Society held its most recent General

Meeting in November 2006 in Guatemala—it became the most influential circle of the twentieth century dedicated to the pursuit of individual freedom and to the operation of market economies. Of those attending that first meeting, four were subsequently awarded, at different times, the Nobel Prize in Economic Sciences: Hayek, Friedman, Stigler, and Allais; and several others who joined the MPS later on have been awarded the prize as well.



That the meeting in 1947 took place at all is remarkable, given that the war had ended less than two years before and that traveling anywhere in Europe posed major logistical problems, especially for the Germans, who needed special permission from the occupation authorities to leave Germany. Those who came, however, all had a great deal in common. Hayek had invited them because they had “held on to the idea of liberal thought during the difficult times of the world wars, of the world economic crisis, and during the expansion of fascism and communism, and . . . have not lost their confidence in the power of the free market.”

Their agenda was dramatically different from the program of the Social Democratic Party of Germany. They discussed the problem and the chances of a European union, free enterprise and competitive order, liberalism and Christianity, employment and monetary reform, wages and labor unions, agricultural policy, and poverty, income distribution, and taxation. On the final, and tenth day, they agreed on the Society’s principles, which went to the heart of the struggle for the postwar European economic and political order:

the position of the individual and the voluntary group is progressively undermined by extensions of arbitrary power. . . . The group holds that these developments have been fostered by the growth of a view of history which denies all absolute moral standards and by the growth of theories which question the desirability of the rule of law . . . that they have been fostered by a decline of belief in private property and the competitive market.²⁰

In 1947 it was still far too early to tell how the struggle would turn out in Europe as a whole. Initially, those committed to individual liberty and

to competition in free marketplaces were able to communicate the power of their ideas. So, for example, in western Germany, thanks in large part to the economic policies of Ludwig Erhard, who later became a member of the Mont Pèlerin Society, the western Germans began to develop in 1948, following their currency reform, the freest market in Europe, after Switzerland.

The operating principle was based on the program presented by the CDU in February 1947. It was labeled the *social market economy* and its achievements were eventually baptized *The Economic Miracle* (*Das Wirtschaftswunder*). The name for this economic system implied a hybrid of the planning and control of the public state with free market policies, serving common social goals. But in fact, it was nothing of the kind. On the contrary, the purpose of the *social market economy* was to enable the individual to participate in all kinds of entrepreneurial activities, in the social, society-related economic life of Germany, and to do so in a country whose government would rule from the bottom up.



Post-war Germany, as post-war Europe, labored under the political pressure applied by those who had a stake in rule from the top down. Slowly, and gradually, economic freedom in western Germany and throughout Western Europe came to be regulated in the form of an unwritten contractual relationship between government and the individual citizen, one imperceptible step at a time.

Battles were fought issue by issue, decade by decade, throughout the 1950s and continuously thereafter, into the 2000s. Throughout, the central question remained the same: government control or private responsibility? Even though it was seldom phrased this way, that is what the struggle was all about, and it touched every conceivable part of society. In the aftermath of the war, all the areas requiring immediate attention were affected, such as housing; transportation by road, rail, and air; road and highway maintenance; communication via mail, telephone, and telegram; and water, gas, and electricity supplies. As time went by the focus was directed to regulation of labor markets, to minimum wages and salaries, to state financing of pensions and retirement plans, to free education, to

national health care, to the regulation of the banking and insurance industries, and so on.

Although the outcomes varied from country to country, the predictable consequences were all there, somewhere: weak currencies, arbitrary constraints on labor mobility exercised by labor unions, destructive and expensive public sector strikes, uncompetitive labor markets, opposition to privately financed university education, nationalizations, a multitude of different government monopolies including utilities, transportation and telecommunication, and complex taxation of wealth, personal income and corporate enterprise designed to generate the monies necessary to feed the steadily growing appetite of the social contract.

As governments acquired more powers, a universal social welfare system emerged, in different shapes in different European countries. The consequence, in West Germany, was that Erhard's concept of the *social market economy* gradually lost its meaning. The "social element" in the market economy, as interpreted by those who endorsed the idea of the social contract between the state and the individual, today dominates marketplaces throughout Europe, including Germany. This explains why the phrase *social market economy* appeared early, and often, in the 2004 draft constitution of the European Union.



When compared with the struggle that took place in West Germany, developments in France were in some ways significantly different, but in others very much the same. There, with the exception of the period of 1945–1946 following liberation, France remained continually at war until 1962. French postwar history was one of decolonialization abroad, and unrest within. The war in Indochina ended with the devastating defeat at Dien Bien Phu in 1954, and the conflict in Algeria continued until independence was granted in 1962. The effects on domestic politics, combined with both violent and nonviolent attempts to control the French national agenda, were turbulent and destabilizing. Between 1946 and 1958 twenty different governments ruled the Fourth Republic. Today the history of this period, outside of France, remains largely unread and unknown.

It was not until Charles de Gaulle won election as prime minister in 1958, and succeeded in writing a new “presidential” constitution, that France had strong leadership under what became the Fifth Republic. His ten years as prime minister and then president, until 1969, were marked by his vision of restoring the glory and grandeur of France. But it was an uneasy period. The war in Algeria split the country in two. It divided political parties, the French army, and religious groups as well. It was also accompanied by several failed assassination attempts against de Gaulle himself. His focus on restoring pride and place to France, built on ending the war in Algeria and reasserting French leadership within Europe, is the history of decisions which led to the collapse of the gold standard, to the initial exclusion of Great Britain from the European Economic Community (EEC), and to creation of a French nuclear capability.

This story of postwar France began with opposition to the German invasion, and subsequent occupation. The death of more than 76,000 French soldiers killed during the first six weeks of combat in 1940 had, as one consequence, the development of a French resistance during 1941, while France was ruled by a puppet government with its headquarters in Vichy, where the United States maintained its embassy until November 1942. When American general Dwight D. Eisenhower wrote his final assessment of the war, he recalled those French men and women without uniforms who made a contribution equal to fifteen divisions. The history of the French resistance was one of bravery and sacrifice, but also one of turbulence among the French themselves, between the Left and the Right. In postwar France it became a political combat waged unabatedly, and one which continues to this day. It is a story of pride, prejudice, and tragedy that is well known in France, less so in Europe, and in America knowledge of it is almost nonexistent.²¹

The French left, which included the French Communist Party (PCF), had a socialist agenda which it forcefully pursued. The postwar Fourth Republic was constantly shaken by interminable political clashes over social and economic issues. One consequence was that the intrusion of rule from the top down into French society was systematically expanded year by year. By 1974 François Mitterrand had succeeded in unifying the centrist and leftist parties—except the PCF—into the Socialist Party. When

he was elected president of the republic, just seven years later in 1981, the socialists dominated French political life. There was irony in the political comparison with America where, one year earlier, the strongest pro-free market president in postwar American history, Ronald Reagan, had been elected in a landslide victory

In contrast to American Republicans, French socialists embarked immediately on a program of further nationalization of French business and industry, which included 38 banks and financial institutions and twelve conglomerates, including electric power, chemicals and pharmaceuticals, electronics and computers, iron and steel, and aeronautics. Even without the nationalizations, the French government already controlled a major share of French industry, including public utilities, post and telecommunications, gas, coal, airlines, and railways. The extent was staggering. Altogether state-owned businesses accounted for about one-fourth of the industrial output and about 30 percent of industrial exports. Moreover, one-half of French businesses with more than 2,000 employees were owned by the state.

In 2005 France was one of two members of the European Union countries using a common currency—the other was Austria—where public spending accounted for more than 50 percent of gross national product. It is precisely here that Americans familiar with French politics see the dramatic effect of the social contract on the relationship between the state and the individual. A survey taken in France in 2004 indicated

that more than 70 percent of French youths would be happy to work as “fonctionnaires,” or state employees. The appeal of security appears greater than that of risk. More energy goes into preserving acquired rights, including steadily lengthening vacations, than creating new enterprises.²²



This “contract” and its heavy financial cost affect not only French economic and political life, but every aspect of the relationship between Europe and America—including military capability. The governments of Western European countries have become skilled cultivators of compromise and practitioners of the special exception, although the verdict is still out

for those countries which won their freedom with the collapse of communism in 1990. While there are Europeans who would like to see the economic powers of government significantly reduced, such a transformation, if it ever comes to pass, would represent a social and political revolution.

The reason is because the majority of Europe's political leaders benefit from maintaining the status quo. Another way to phrase the same conclusion was given in early 2003 by a professor of social and political theory at Britain's University of Buckingham, Norman Barry: "... representative assemblies subject to little restraint will not stand up to pressure groups [such as labor unions]. . . . it is the parties that are now cartelised and it is in their interests to preserve the present order."²³

There are many examples which illustrate what is meant by "the present order." Among those which set forth major differences between the American and European outlooks are productivity comparisons and the related issues of birthrate and immigration, as well as attitudes toward work and retirement.

The idea of a broad government retirement plan is one illustration. In principle there is little disagreement on either continent that government pensions can serve a useful purpose, and when debate does occur it focuses on how to fund them properly. But on another issue, of equal importance to the success of government pension programs, Americans and Europeans differ dramatically.

Driven largely by socialist rhetoric, but also by government practitioners of rule from the top down, Europeans and Americans have, over the last fifty to fifty-five years, drawn different conclusions about the value and purpose of labor. An instructive illustration is that of a highly competent forester in France, in vigorous health, who retired at the age of sixty. When asked why he no longer wished to work he explained to me that when he was fifty-nine he had been visited at home one evening by a functionary of the French social security office who encouraged him "to make way for the young."

In Europe retirement is a reward and the "right" to retire has become an entitlement, while in America the "right" to work as long as one likes is a matter of choice. In short, in Europe the goal of retirement—whether, from the top down, to create employment or whether, from the bottom

up, to cease doing something distasteful—has become more important than the pride taken in work. This manner of thinking is so foreign to the American work ethic that a rational explanation borders on being incomprehensible.



In February 2005 a visitor to the Hoover Institution, an economic reporter for the Italian newspaper *Corriere Della Sera*, asked me if I could account for the difference in productivity between America and Europe. There is a simple answer. Although Europeans produce almost the same amount per hour as Americans, Americans work more. The 35-hour work week does not exist in America—as the American author of *The End of Work* rhythmically puts it, Americans live to work and Europeans work to live.²⁴

There are, however, also other ways to respond to this question. One is provided by some astonishing statistics published by the International Labor Office (ILO) in Geneva in September 2003. Americans were working between nine and twelve weeks more each year than Europeans, and about 80 percent of American men and 62 percent of American women worked more than 40 hours per week. One consequence was that average labor productivity in America grew at about 2.2 percent between 1996 and 2003, double that of the growth rate in the European Union.²⁵ Another way to draw the picture is to note that between 1973 and 1998 American GDP grew at an average rate of 2.9 percent annually, which is 39 percent more than in the EU. During the same period the number of Americans employed increased from 41 to 49 percent, while in Germany and France, for example, the percentages fell to 44 and 39 percent.²⁶

A second consequence is waiting in the wings. Europeans are not only working less, but they retire earlier, their birthrate is declining, their immigration rate is low, and they are living longer.²⁷ Between 1950 and 2000 the average retirement age in the EU decreased to 59.8 from 66. Today, the common practice in Europe is to stop working, at the latest, at age 59 or 60, and often before, at age 55 or even 52, while in America the average retirement age is almost 63 years of age. By 2005 pensions comprised about 21 percent of public spending in the EU while the cost of Social Security in America made up about 4.8 percent.

The problem is easy to see. If Europeans do not change their negative

attitude toward the dignity of labor and develop a positive work ethic, which includes reforming their generous pension plans, two things will happen. First, European GDP (gross domestic product = the total value of goods and services produced) will continue to move forward at a snail's pace. It is currently about 1.25 percent per year; on a per capita basis it is around 30 percent lower than American GDP, the same level as in 1975. Second, if this trend is not reversed EU governments will have no choice but to spend more and more of their budgets on pensions. Where will the money come from?²⁸

Looming in the future is the prediction of a decline in the annual growth rate from 2.1 percent to 1.5 percent by 2015 and to 1.25 percent by 2040.²⁹ If the forecast becomes reality, who will finance *the European socioeconomic model*? It will not be Europe's working taxpayers. Today there are four people working for every retiree, but by 2050, unless the culture of retirement undergoes dramatic change, there will be two workers for every retiree and the median age in the EU will move upward, from 38 to 49.³⁰



Over the last fifty years European politicians have created what today is the present economic and political order of post-war Europe. That order sets the first budget priority for every single country of the now 27-member European Union. The name of that priority is *the European socioeconomic model*. The model, the result of a deliberate choice, presents European governments with a dilemma: to finance budget deficits with tax increases or to reduce government expenditures and thereby weaken the popularity of those ruling from the top down.

There is a parallel, achieved with the same element of deliberateness, in America's postwar history, but with a difference. The relationship between Americans and their government has also developed systematically since the end of World War II. It could be called the American way, whose characteristics are marked by a continuity of spirit, focus and enterprise. That is to say, Americans also have a model. European critics label it *the American model*. But Americans know it by the words and phrases they use to describe the opportunities the model presents, that is, the challenges of hard work, competition, loyalty, risk and reward, going back to

the drawing board when they fail, and finding the strength and courage to succeed.

Europeans might well argue that Americans, with time, will become as jaded in their view of the world as Europeans. But Americans would very likely respond, “That may well turn out to be the case, but we’re not there yet.” In fact, some take the logic of the response one step further, such as T. J. Rodgers, who heads a Silicon Valley company, Cypress Semiconductor: “Europeans always marvel about how optimistic we are. The difference is that in the U.S. we haven’t had a few thousand years of hierarchy to grind out our faith. Here we understand that if we don’t like the future, we’ll just invent a better one.”³¹

For entrepreneurs in Silicon Valley these words all add up to the belief that human capital and individual potential, creativity and invention become real in the arenas of ideas, trade, and commerce. Americans know that risk and reward reign in those marketplaces; they call it the pursuit of happiness. That pursuit is what gives Americans the incentive to get up each morning, to try to make their country, and their lives, a little bit better than the day before. That pursuit is also why they celebrate their day of independence, and why on the Fourth of July many Americans say “Thank You” to all those who have come before and who, each in their own way, have given their hearts, their spirit, their faith, their toil, and their lives for protection, prosperity, and liberty.

This exposition on the political struggle over the postwar European and American social and economic order explains, in part, the historical evolution that draws on different approaches to rule and responsibility as defined by the essential difference. Its effects, in a contemporary context, are not limited to contrasts in our histories, heritage and habits of life. Marks are also left on our economic policies, and found in the operation of our marketplaces and how we use them, but not only there. In Europe, there is an additional aspect of “the present order.” This is the concept and the reality of the European Union. It is not a subject of daily conversation at American breakfast tables, but the European Union is changing the face of the continent. Its success or failure will also change the long-term relationship between America and Europe.