Contact: Mark Primoff
(845) 758-7749
primoff@bard.edu

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EUROPE SHOULD EMULATE BIG GOVERNMENT SUCCESSES OF U.S. ECONOMY, NEW LEVY INSTITUTE STUDY SAYS

Public Investment, Private Credit, and other Keynesian Stimulus Initiatives Are Keys to Full Employment in Europe and Reviving Growth in the United States

ANNANDALE-ON-HUDSON, N.Y.—The "American Model" serves as a reference point in discussions of economic policy around the world. The American economic structure is often considered to be the paradigm of the free market in its purest form, especially in light of the high growth and low unemployment rates experienced during the boom of the 1990s in the United States. In a new study from The Levy Economics Institute of Bard College, Senior Scholar James K. Galbraith contends that America's success during the 90's boom is due more to big government—spending on health care, education, and pensions—than free market policies or conservative fiscal and monetary policies. He argues that European policymakers would be wise to explore and adapt these overlooked and critical Keynesian elements of the American economic structure.

In his public policy brief, *What is the American Model Really About? Soft Budgets and the Keynesian Devolution*, Galbraith maintains that the American model has become a battleground for Europeans, a struggle between those who would destroy European social democracy, those who would defend it, and those who would adapt it as best as possible. The problem, Galbraith argues, is that the commonly-held European conception of America's economic might—being driven by free trade, deregulation, privatization, balanced budgets, tight monetary policy, and the free setting of prices and wages—is a fantasy. He contends that public support—in the form of government spending and tax incentives—for health care, higher education, housing, and pensions in the United States outpaces that in many countries in Europe and is a key to the growth and unemployment levels during the 90s boom.

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"All in all, the public sector underpins in one way or another activity in well over half of the American economy, and in so doing helps to sustain and stabilize the growth of the economy as a whole," said Galbraith, who stresses that direct and indirect impact that Social Security, mortgage programs, public universities, and easy access to private credit, have on the U.S. economy. "The point to emphasize is not that the United States is full of hospitals, universities, housing, and pensioners. So, too, obviously is Europe. It is rather that in United States these sectors are funded by a bewildering variety of financial schemes involving public support in myriad direct and indirect ways, including direct appropriations, loans, guarantees and tax favors."

For Europe to take steps to fully realize its economic potential across the continent as a whole and absorb millions more people into gainful employment, Galbraith suggests establishing a handful of EU-funded pan-European universities, a European-wide pension system that would pay all European elderly on the basis of continentwide average productivity, a system to increase the income of the lowest paid members of the EU work force, analogous to the U.S. Earned Income Tax Credit, as well as efforts to expand private access to credit through loan guarantees, home-buyer subsidies, and a secondary mortgage market.

"In sum, Europe needs public investment, private credit, and direct transfers to lower-income populations, both working and nonworking," writes Galbraith. "To achieve higher economic growth, the objective of full employment must be not simply part of the European Charter, but a core objective of all policymaking institutions. This includes the fiscal authorities and the ECB. It must be more important in practice than either price stability or fiscal balance, and the authorities must recognize that fiscal balance is a consequence, not a cause, of full employment."

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Public Policy Brief No. 72, *What is the American Model Really About? Soft Budgets and the Keynesian Devolution*

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