



Should we copy Europe?

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Some Americans look to European countries such as France, Germany and its Scandinavian neighbors and suggest that we adopt some of their economic policies. I agree, we should look at Europe for the lessons they can teach us. Dr. Daniel Mitchell, research fellow at the Heritage Foundation, does just that in his paper titled "Fiscal Policy Lessons from Europe."

Government spending exceeds 50 percent of the GDP in France and Sweden and more than 45 percent in Germany and Italy, compared to U.S. federal, state and local spending of just under 36 percent. Government spending encourages people to rely on handouts rather than individual initiative, and the higher taxes to finance the handouts reduce incentives to work, save and invest. The European results shouldn't surprise anyone. U.S. per capita output in 2003 was \$39,700, almost 40 percent higher than the average of

\$28,700 for European nations.

Over the last decade, the U.S. economy has grown twice as fast as European economies. In 2006, European unemployment averaged 8 percent while the U.S. average was 4.7 percent. What's more, the percentage of Americans without a job for more than 12 months was 12.7 percent while in Europe it was 42.6 percent. Since 1970, 57 million new jobs were created in the U.S., and just 4 million were created in Europe.

Dr. Mitchell cites a comparative study by Timbro, a Swedish think tank, showing that European countries rank with the poorest U.S. states in terms of living standards, roughly equal to Arkansas and Montana and only slightly ahead of West Virginia and Mississippi. Average living space in Europe is just under 1,000 square feet for the average household, while U.S. house-

holds enjoy an average of 1,875 square feet, and poor households 1,200 square feet. In terms of income levels, productivity, employment levels and R&D investment, according to Eurochambres (The Association of European Chambers of Commerce and Industry), it would take Europe about two decades to catch up with us, assuming we didn't grow further.

We don't have to rely on these statistics to make us not want to be like Europeans; just watch where the foot traffic and money flow. Some 400,000 European science and technology graduates live in the U.S. European migration to our country rose by 16 percent during the 1990s. In 1980, the Bureau of Economic Analysis put foreign direct investment in the U.S. at \$127 billion. Today, it's more than \$1.7 trillion. In 1980, there was \$90 billion of foreign portfolio investment -- government and private securities -- in the U.S. Today, there's more than \$4.6 trillion, much of it coming from Europeans who find our investment climate more attractive.

What's the European response to its self-made economic malaise? They don't repeal the laws that make for a poor investment climate. Instead, through the Paris-based Organisa-

tion for Economic Co-operation and Development (OECD), they attack low-tax jurisdictions. Why? To support its welfare state, European nations must have high taxes, but if Europeans, as private citizens and businessmen, relocate, invest and save in other jurisdictions, it means less money is available to be taxed.

Dr. Mitchell addresses this issue through his research at the Center for Freedom and Prosperity (www.freedomandprosperity.org). The OECD has a blacklist for countries they've identified as "tax havens." The blacklisted countries include Hong Kong, Macao, Malaysia (Labuan) and Singapore. Also targeted are Andorra, Brunei, Costa Rica, Dubai, Guatemala, Liberia, Liechtenstein, the Marshall Islands, Monaco, the Philippines and Uruguay. The blacklisted jurisdictions have strong financial privacy laws and low or zero rates of tax.

The OECD member countries want the so-called tax havens to change their laws to help them identify the earnings of their citizens. Most of all, OECD wants these countries to legislate higher taxes so as to reduce their appeal. A suggestion that we should be more like Europe is the same as one suggesting that we should be poorer.

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