

# Views

## Social democracy in America?

Given its problems, is U.S.-style capitalism giving way to the European economic model?

**Klaus F. Zimmermann**

The mere suggestion that the United States increasingly displays the characteristics of a European-style social democracy appears like heresy to quite a few Americans — and something to be avoided at all costs.

Others argue the opposite, finding that the United States has long had a comfortable social safety net — and has therefore been a de facto, undeclared social democracy for some time.

Whatever the merits of these contradictory findings, the interesting question is whether U.S. society, in light of the economic challenges it faces and the resulting changes in the country's socio-economic landscape, can escape becoming ever more "social-democratized."

Such a development would represent a remarkable closing of ranks across the Atlantic. For in Europe, one finds that virtually all political parties embrace social democracy. This is true even for many conservative governments — not just in Scandinavia, but also in France and Germany — which have embraced the originally German idea of a social market economy in which free market excesses are tempered with support for those who are falling through the cracks.

Many Americans are tempted to describe this as European "socialism" and view it as antithetical to longstanding American business and personal values, including the horror of accept-

ing government hand-outs.

It is important to note that the reality in Europe is quite different from how it is often characterized in America. As a result of global economic integration, significant reforms have been made to the comfy welfare state of old. Cutbacks in unemployment benefits, even in countries like Germany — Europe's largest economy — have resulted in a considerably less-comfortable safety net and more U.S.-style economic adjustments.

Perhaps the greatest issue involving the global recovery is the change that is in store for the U.S. economic model. In the past, except during the Great Depression, the great American job machine would always kick into action — doing so much faster than in other industrialized countries. In clear contrast to continental Europe, this reliable market mechanism kept U.S. policymakers from having to deal with the scourge of long-term unemployment, and the related challenge of pursuing active labor-market policies, including retraining costs.

Much of the evidence from the current recession suggests that there are real doubts about the U.S. labor market regaining its vigor any time soon. American companies have shed significant numbers of jobs, but are inclined to further maximize the productivity of current staff before adding to their payrolls. With 20 percent of working-age American males currently out of work, the need for more support payments rises.

It is misleading to argue that it is only in America, not in Europe, that people see a connection between effort and re-

ward, and prefer low taxes to keep as much of their earnings as possible. The European welfare state spread its wings not because Europeans were soft-headed, but because economic transformations led to job losses in entire sectors, such as coal and steel, and people needed some encouragement for their personal future.

In the past, any proposition for the rise of social democracy in the United States

was cast aside as unrealistic. And there was a good reason for that, as Americans relied on an innate sense of turning the corner and discovering another frontier on the horizon that would resuscitate their fortunes and reinvigorate the nation's pursuit of a free market model.

However, that relentless optimism — based on the ethos of a culture in continuous global ascendance and always intent on uncovering new horizons — may prove hard to rekindle. America's new normal may well be that it is not so exceptional anymore — that it may be discovering the limits of its economic dynamism, just as Europe did decades ago. The net effect is a considerably higher need for social support.

The inclination to avert such an outcome with facile talk about the U.S. federal government turning to "socialism" may be an enticing rhetorical device, but it is not a constructive way to deal

with the underlying challenge, which is both human — and very real. Nor is the categorical claim that it is fiscally impossible to afford such a structural change in American society.

From a European perspective, two easy — and probably unavoidable — things need to change: First, contrary to popular claim, many of the social benefits being awarded by the U.S. tax code and budget actually accrue not to those in dire straits, but rather to people comfortably situated in the American middle class. The tax deductibility of home mortgage interest is but one example.

The other required change is that, while there has been a consensus for social spending in the United States for some time, the same is not true on the other side of the ledger — agreeing to higher taxes to cover the costs of the redistribution measures.

The main reason why the U.S. budget is so out of balance is because the government typically spends several percentage points more each year than what it takes in in revenues, a balance that is bound to worsen significantly over the next decade. That stark fiscal mismatch supports the claim of those who argue that America in many ways has already become a social democracy.

Unlike the other main practitioners around the world, though, in the American case it is an un(der)funded social democracy.

**KLAUS F. ZIMMERMANN** is director of the Institute for the Study of Labor in Bonn and president of DIW in Berlin.