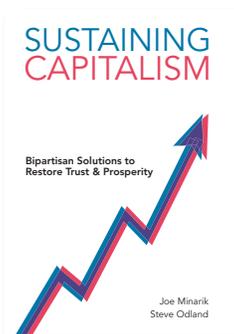




BOOK REVIEW

The Broken American Dream—Viewed through the Lens of Europe

What can Europe learn from proposed solutions for the United States?
by Ilaria Maselli



Sustaining Capitalism: Bipartisan Solutions to Restore Trust and Prosperity
by Joe Minarik and Steve Odland
The Conference Board (February 2017)

Capitalism in Distress—in the United States and Europe

The American Dream is in trouble, but there are ways to fix it. In their new book *Sustaining Capitalism*, authors Steve Odland and Joseph Minarik at the Committee for Economic Development (CED) of The Conference Board detail solutions for restoring trust in the American system. The European dream is not doing much better, as proved by Brexit, rampant Euroscepticism, and the success of extreme-right populist movements in countries that face elections this year.

Sustaining Capitalism provides an opportunity to examine what is wrong with market economies not only in the United States but elsewhere as well, and how capitalism can be fixed to better serve society. The volume celebrates the 75th anniversary of CED, an organization that, interestingly enough for European readers, played a key role in shaping the Marshall plan in the late 1940s. The book is organized in eight chapters, each devoted to a specific problem, plus an introduction and conclusion.

Four Ways to Make Capitalism Sustainable

Sustaining Capitalism makes the rare effort of not only looking at the tough issues that endanger the “American Dream” but also proposing a set of achievable solutions. Restoring faith in the capitalist system and making it work for all, not just for an elite, the authors argue, will not be easy but it is doable. It will take a commitment to good corporate citizenship, greater appreciation of the notion of the common good, and above all a sense of fair play and transparency. The comprehensive list of fixes includes: (1) shifting the business perspective from the short to the long term, (2) addressing the concerns of those who think “the system is rigged” and works only for the benefit of a few, (3) curbing public expenditure and public debt, and (4) reforming education and healthcare systems. The authors provide a set of recommendations and possible solutions for each of the problems identified.

The book starts with simple but powerful and probing questions: “Why are so many Americans disillusioned about our nation’s economy, its basic fairness, and their place in it? Why do they believe that our leaders and institutions have ignored their concerns? The single word that captures their mood is “unfairness.”¹

Against Quarterly Capitalism and Washington DC Cronyism

The widespread sentiment of unfairness has multiple origins: the increase in income inequality, Washington DC cronyism, and the widespread attitude among businesses to look for short-term profits, or what is nicely called in the book “quarterly capitalism.”

Cronyism, that is the collusion between public and private interest, poses several threats to a properly functioning capitalist system. First of all it creates an inefficient allocation of resources that in the long term reduces innovation and economic growth. It does so by favoring industrial concentration and limiting competition. Second, it kills confidence in the system. As the authors explain:

“Reducing the extent to which private interests influence public policy for their own gain won’t solve all that contributes to American disillusionment. But it would help re-instill a sense of fairness in the economic system, reduce public suspicion, and restore trust in our system.”²

According to the authors, cronyism goes hand-in-hand with the expansion of the public sector and the large donations needed to cover the ever-rising costs of election campaigns. Quarterly capitalism adds to the dysfunction.

1 Page 16.

2 Page 30.

“Business short-termism is causing a real harm to capitalism’s sustainability,” explain Odland and Minarik in Chapter three, “Focusing on Long-Term Value.” Obsession with quarterly goals “can create pressure to reduce short-term costs by laying off employees, reducing their training, or cutting other investment, especially in areas that do not show immediate returns, such as research and development.” The recipe is clear: companies need to choose a multistakeholder approach to value creation based on the idea that prosperity cannot be created without caring for customers, suppliers, employees, the environment, and the community. Part of the compensation of senior management needs to be aligned to this goal, metrics need to be created to measure them, and long-term goals should be communicated to stakeholders and the general public.

Examples of multistakeholder approaches already exist: GE’s Ecomagination initiative, Unilever’s sustainable growth strategy, and IBM’s Smarter Planet platform. The chapter is a true wakeup call for the business sector. Making capitalism sustainable requires not only policy reforms but a widespread effort and stewardship among business leaders.

Reforming Education and Curbing Public Debt

The book inevitably touches upon the increasing income inequality that has characterized the US economy during the last four decades. Once again the problem is both economic and social: inequality stifles growth and also reduces social mobility, a fundamental ingredient of the American Dream.

The lackluster performance of the American economy since 2008 does not make the task of reducing disparities any easier. The authors bet on a reform of the education sector as the great equalizer to reduce inequality:

“Seeking equality of outcomes through redistribution does not address the real problem, which is the absence of true equality of opportunity and resulting wage growth. Ultimately, it makes everyone poorer. Giving every worker the skills and the chance to live up to his or her full potential would both raise the bottom and the middle and advance the nation as a whole.”³

The invitation is for a comprehensive reform, from early childhood to university, that focuses on outcomes (what students learn) rather than inputs (number of teachers) or outputs (graduation rates).

Chapter six, “A Prescription for Fiscal Health” is devoted to public finances. Years of public deficit have created a major burden for the US economy: a public debt equal to 73.6 percent of GDP in 2015. The authors see this as a concrete threat for the American economy and one that is difficult to control in case of financial crisis and loss of confidence. A budget that relies on fiscal deficits in normal

3 Page 27.

times not only puts a heavy burden on future generations but also limits room for maneuver when the next recession rolls around. Moreover, in the long term, a stronger intervention of the state in the economy does not increase productivity growth, which is ultimately the only driver of overall economic growth. A long discussion is devoted to the reform of health care programs, whose cost is expected to increase in the coming decades due to the aging of the US population.

What Lessons for Sustaining European Capitalism?

What can European policy makers and business leaders learn from this comprehensive review of how the United States might sustain its capitalist system? For long it has been common wisdom that Europe would be isolated from the “rough” edges of the US capitalist system because of its “softer” approach to capitalism, deeply embedded in the post-World War II creation of social market economies and more generous welfare states. These institutions and policies served Europeans well for a long time⁴ but did not insulate us in recent years from the discontent associated with the distribution of wealth, social exclusion, and cronyism that inevitably translated into a loss of confidence in institutions.

Trust in Europe’s Institutions Has Eroded

If in the past Europe’s approach to capitalism generated more public confidence, now the tide has clearly turned. The decrease in trust in institutions and business, or in “the system” in general, has risen, as it has in the United States. Eurobarometer surveys show that trust has also been declining in Europe, and rather strongly since the 2008 financial crisis. National governments are among the least trusted, but key European institutions, such as the European Commission and the European Central Bank are not spared.

The roots of this discontent are similar to those found in the United States: insufficient transparency of policy making, uneven distribution of wealth, and rising economic and social complexity. The intricate structure of the European Union adds a layer of complexity that makes decision making seem distant and obscure in the perception of citizens. Informal tripartite negotiations or “trilogues” between the European Commission, Council, and Parliament are an example of the opaque practices developed in recent years in Brussels to speed up policy making whenever the three institutions cannot find agreement on a legislative proposal.⁵ The outcome of this approach, however, has been deep distrust. Europeans have the impression that Brussels isn’t there for the people and that cronyism has crept into the system.

4 Crafts, N. and Toniolo, G. (2008), “European Economic Growth, 1950-2005: an Overview”, CEPR Discussion Paper No. 6863.

5 On 26 May 2015, the European Ombudsman opened a strategic inquiry into the transparency of the trilogues. The inquiry is still open.

Many of the recommendations put forward by Odland and Minarik for creating a more level playing field in Washington also apply to Brussels and each European capital, in particular those that refer to strengthening the enforcement of laws and ethical rules that cover members of the parliament, staff, and lobbyists. While addressing the transparency of decision making and lobbying activities would surely help to restore some of the trust, it would unfortunately not be sufficient.

The level of trust in Europe is under additional pressure as national policy makers are ambiguous with regard to their commitment to Europe's integration. For the system to work well its accountability needs to be improved. What this entails exactly is more than open for debate since the Brexit Referendum. On one side are those that think the EU (or a subset of it) needs to deepen its integration; on the other side are those who advocate for a restitution of some powers to the member states.⁶

The Fate of Globalization and Multilateralism

The concerns about whether the "system" still works these days have been fueled by the role of European governments in the aftermath of the recession. Unlike in the United States where fiscal policy was relatively expansionary and monetary policy was very easy until 2015, the rescue of the banking system in Europe went hand in hand with austerity policies aimed at curbing the public debt, combined with a much later response in terms of monetary easing. The debate on whether this was the appropriate response to the 2008–09 and 2011–12 recessions has still not been settled. Some believe that no other reaction was possible because risk premiums on Europe's sovereign bonds increased rapidly; others believe that without austerity, aggregate output in the Euro Area would have fallen less, and even much less in the periphery countries where the impact of the two recessions was more acute.⁷

Independent of who is right in this debate, the clear message for many citizens—who currently find easy answers to their concerns in populist movements—is that while national and European institutions were able to put together funds to rescue the financial sector, no credible approach emerged to deal with rising unemployment and poverty.

There is a widespread feeling among policy and business leaders that the rules of the game that governed world relations in the past decades—globalization and multilateralism—might no longer apply in the coming

6 Acknowledging that the EU is at a crossroads, the European Commission published a [white paper](#) on the future of Europe on March 1, 2017. Five possible scenarios are outlined. They will serve as a basis for discussion among the member states in the coming months.

7 See recent estimates by House C., Proebsting C., Tesar L. (2017), "Austerity in the aftermath of the great recession," NBER 2017.

years. World leaders meeting in Davos last January agreed that we are living through a geopolitical shift not seen since the end of the Cold War.⁸

The current international economic system based on multilateral institutions and trade openness clashes with the rise of populist movements which go against the virtues of capitalism as described in the book. Both Europe and the United States need to face those challenges head-on. On the one hand, this makes the recommendations put forward by the authors as vital as ever. The policy kit the authors favor relies on well-known tools, such as training policies to offset technological displacement of workers and a reduction of fiscal expenditure to relaunch output growth, which have proven their value in the past. On the other hand, there is a chance that we are facing extraordinary times that require extraordinary solutions. In that case, one has to acknowledge the risk that the policies put forth in the book may not be sufficient to regain the confidence of those who continue to feel excluded from the benefits of globalization.

Is the Social Market Economy a Viable Alternative to Sustain Capitalism?

General government expenditure is higher in nearly all European countries compared to the United States, where it amounts to 38 percent of GDP.⁹ The higher presence of the state in the economy is one of the ingredients of what is called the *social (or coordinated) market economy*, an economic system that targets output growth together with social cohesion.

The social market economy has most likely contributed to keeping income and wealth inequalities lower in Europe, compared to the United States. Yet, the increasing trend of inequality observed in the United States over the last four decades can also be seen on the European Continent. The reasons are quite comparable: technological change, offshoring toward markets with lower labor costs, and certain trends in deregulation that have favored the rich and well-educated most. The stronger redistributive capacity through taxation and provision of public goods such as education and health care in Europe put a limit to the rising trend. This is a key difference between Americans and Europeans, which can be traced once more in the policy recommendations contained in the book.

In the book, the authors emphasize that government support of education and health care are important to sustain capitalism but offer this caveat:

8 Stephanie Thomson, The biggest stories from Davos 2017, World Economic Forum.

9 It should be noted that there are large differences among European countries. For example, the difference in government spending (per capita) between Finland and Hungary is larger than between difference between Michigan and Texas. As it is often the case, the European average tells little about the heterogeneity. One can find countries like France, where the state accounts for 57 percent of GDP and countries, especially in Central and Eastern Europe, where it hovers closer to 40 percent.

“Creating the conditions for equality of opportunity to flourish, however, does not mean enforcing equality of outcomes.”¹⁰

Many Europeans would not share this view. European governments and their citizens instead have generally expressed a preference for a stronger role of the state in the welfare system to level off inequality to an extent—with progressive tax systems, larger social safety nets, and government intervention or even provision of services such as health care and education. The latter in particular signals the goal of pursuing equality of outcomes on key issues for personal and social development. Yet, regardless of these efforts, a large portion of the European population, like the American one, feels excluded from the prosperity generated by globalization, even more so in the aftermath of the two European recessions.

Green Sustainability as a Core European Value

Despite the large institutional, cultural, and political differences between the United States and Europe, the volume has many relevant lessons for Europe. However, from the European perspective, the book ignores an important dimension of a sustainable system, which is the environment. Europe has led the effort on this issue for many years until the historical success of the 2015 United Nations Climate Change Conference—better known as COP21. The “green” aspect of sustainability has been embraced by many European corporations, which have treated it as an opportunity to innovate and become world leaders in their sector. Nowadays sustainability is a core value for many companies in Europe. It serves as an anchor to focus on long-term objectives rather than short-term profits, something that is repeatedly stressed in the book.

Stewardship and Coordinated Actions Needed to Rebuild Trust

What would it mean for Europe if the new American Trump administration adopted *Sustaining Capitalism* into its program for the next four years? The proposal from the Committee for Economic Development could put the United States back on a faster growth track. This could reinvigorate global demand and generate higher economic growth across emerging markets and mature economies in a virtuous cycle. There are no signs as yet that the Trump Administration’s intentions are in line with the book’s proposals. For example, the President has promised a reform of the health care system with a smaller role for government, but he also has committed to deeper intervention in fiscal policy and protectionist measures, implying a larger role for government. As a result it is not clear whether the incidence of the state in the economy will be larger or smaller by the end of 2020.

¹⁰ Page 26.

The main lesson from the book, which carries the highest relevance for Europe, is the call for stewardship and a multistakeholder approach. The authors repeatedly underline the crucial role of business in making capitalism work better. How does this translate in European terms?

What Odland and Minarik call “a multistakeholder approach” translates in Europe to a “coordinated market economy.” In the tradition of many western European countries, government, business organizations, and trade unions have played their roles in jointly governing the economy. In Denmark, for instance, there is no statutory minimum wage, and in Germany wage increases are negotiated with the intent of reconciling competitiveness with fairness. The weakening of trade unions (no longer considered as fully representative of the world of workers) and offshoring have weakened this practice in some countries.

A new effort to reinforce this social dialogue and coordinated actions could help to rebuild trust and fairness in the system. At the EU level, this could translate into attributing more responsibility to social partners and stakeholders, moving them away from the European Council which, confronted in the last years with the Eurozone and refugee crisis, did not perform up to expectations.

About the Author

Ilaria Maselli is a senior economist for Europe at The Conference Board. Maselli has also been affiliated with the Brussels-based think tank the Centre for European Policy Studies (CEPS) since 2007; her latest position is research fellow.

Maselli's main area of expertise is the analysis of labor markets, in particular their interaction with education and technological change. She is one of the authors of the recently published book *Let's Get to Work! The Future of Labour in Europe* and developed ground-breaking research on the gig economy. She is also an expert in the macroeconomic performance of the Euro Area. She has worked on several studies for the European Commission on the possibility of creating a European unemployment benefit scheme as solution to improve the architecture of the economic and monetary union.

Maselli holds a master degree in European Studies from the University of Bologna and undertook further training in economics at the University of Leuven.

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