



# Summer Reading

*Our summer reading has focused on the structural problems facing the European economy. Here are two of our favorite selections.*

By Jason R. Koepke

Given the European Union's lackluster GDP growth recently, it's no surprise that people are asking why this has happened, why is the EU lagging behind the US and what can be done to catch up?

Answering these questions isn't easy and is usually left to politicians and their economic advisors. Although the citizens of EU countries can reject major reform efforts, primarily through the ballot box, they're typically left out of the dialogue.

Olaf Gersemann's *Cowboy Capitalism: European Myths, American Reality* (Cato Institute, 2004, \$13.95) is a serious work that could change this and bring any interested reader into the debate. Its greatest strength is that it speaks clearly to those with little economics training. The writing is straightforward and easy to digest, even though it has been translated from the original German edition.

Most important, however, is its attempt to zero in on the basic assumptions that turn Europeans off from making American-style economic reforms. He spends a considerable amount of time challenging these assumptions, including ideas such as: Americans must work three jobs; new US jobs are of poor quality ("McJobs"); and that low US unemployment is a consequence of its huge prison population.

Perhaps the best testament to his success at proving these assumptions (and fears) wrong is that even when he is less than persuasive, he forces readers to rethink their position.

## DIGGING DEEPER

Whereas Gersemann defends and advocates American-style reforms, Martin Neil Baily and Jacob Funk Kirkegaard, in *Transforming the European Economy* (Institute for

International Economics, 2004, \$31.95), argue for a set of reforms they say is more limited.

The authors support significant state spending on back-to-work programs, including skills training and subsidies for those who can't find positions that pay close to what their previous job paid; it's better, and cheaper, to pay people to work than to pay people not to work.

Baily and Kirkegaard present and argue for their prescription to Europe's ills in a more extensive manner than Gersemann. The book contains a discussion of recent economics research and plenty of data.

But it's done in a digestible form. The research is broken down and explained and the numerous case studies both highlight and illustrate the points being made. The book's organization provides a good deal of flexibility for readers so they can focus on what interests them most.

The depth of *Transforming the European Economy* makes it a nice follow-up to Gersemann's work, which serves as an excellent introduction to the debates and issues at hand.

## BUT...

Despite the books' strengths, both have their problems, the most notable of which is a lack of analysis regarding the EU. Baily and Kirkegaard approach the topic in a short chapter on the EU's competition policy. The Union, they argue, is ineffective, too narrowly focused, and unable to carry out the needed

reforms. Instead, change should be a project of the individual member states.

This is both a surprising and problematic argument. The EU has no enforcement capabilities; they rely on the member states to execute and enforce reforms. Baily and Kirkegaard's preference for member-state action, therefore, makes little sense. If the individual countries are unwilling to carry out EU reforms, then they'll be unwilling to

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carry out their own reforms.

In fact, the problem would become worse. Many local and national politicians defend reform programs like these by using the EU as an excuse (e.g., the EU's policies require us to pass this legislation). Few voters want to see a reduction in their benefits and a decrease in job security; this is one reason why liberalization is met with fierce opposition throughout Europe.

The point, however, is that the EU is a critical source, justification, and partner for reform efforts. To make it anything less than an equal player in the reform program would be self-defeating, even if that plan—like those recommended in these two books—could otherwise very well work.

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