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Commentary

Title:

*"Why I think the U.S. is
More Socialist and Less
Competitive than
Europe"*

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Europe is a Social Market Economy, Not Socialism

It's a common misconception in transatlantic discourse that Europe is a socialist utopia. US politicians often paint this picture, especially during debates over social programs like Obamacare. Ironically, even the American left contributes to this misunderstanding by embracing labels like "democratic socialism," further blurring the lines between these different ideologies.

Socialism and democracy are fundamentally incompatible. As Ludwig von Mises (1944, p. 10) observed, "Capitalism means free enterprise, consumer sovereignty in economic matters, and voter sovereignty in political matters. Socialism means total government control over every aspect of individual life and the unrestricted supremacy of government as the central production board. There's no compromise between these two systems."

While socialism and democracy are incompatible, free societies can implement redistributive policies and fund free education as public investments in social mobility. However, redistribution through publicly provided social safety nets or provisions for free education are far from socialism. On the contrary, democratically agreed upon mandates to participate in social security programs create markets that would not otherwise exist and promote self-reliance. Similarly, public investment in free education is an investment in the generation of positive economic spillovers, widespread social mobility, and social peace.

As for social security, even libertarian economists like Buchanan and Tullock (1962, chapter 13) argue that uncertainty about future economic circumstances, such as illness or economic downturns, can lead people to agree on redistributive mechanisms ("income insurance") within a constitutional framework.

This pre-constitutional consensus on redistribution implies self-interested solidarity among citizens, which is very different from handing over all private property to a central planner. Democratic decision-making processes for public goods represent political freedom, not socialism. Europeans call this view the "social market economy." It is even enshrined in the European constitution, specifically Article 3 of the Treaty on European Union, which states that the Union "shall aim at the sustainable development of Europe based on balanced economic growth, price stability and a highly competitive social market economy" (Official Journal of the European Union, online).

Europe's Path to a Social Market Economy

Europe's economic history is very different from that of the United States. The Industrial Revolution's harsh impact on the working class gave rise to socialist ideologies that portrayed entrepreneurs as exploitative figures. However, this narrative overlooks the contributions of industrialists such as Robert Owen and Robert Bosch, who prioritized employee welfare and philanthropy and used their private capital with a sense of social responsibility.

Europeans also witnessed the devastating consequences of both Bolshevism and Nazism. The social market economy emerged as a political response to the rise of these ideologies and the social unrest they fueled. The rise of socialist political parties and the mass emigration of millions of Europeans in the late 19th and early 20th centuries underscored the need for social reforms.

Bismarck's social insurance programs in 19th-century Germany marked a turning point. These policies, while redistributive, aimed to preserve economic and political freedoms. Again: They are best described as "social," not "socialist."

Social market economists in Europe are well aware of these historical lessons. They prioritize socioeconomic challenges differently from their American counterparts. This is particularly evident in the areas of health care and education, where the differences between Europe and the United States are most pronounced.

Why Europe's Health Care System is More Competitive

Some conservative American politicians mistakenly label European health care systems as socialist. Germany's system, for example, mandates health insurance for all citizens but relies on a competitive market of private and public insurers. This is similar to the US auto insurance market, where individuals are required to have liability insurance.

Would anyone in the U.S. call the liability insurance mandate and the subsequent development of an auto insurance market socialism? What's the difference between being protected from harm caused by another driver and being protected from harm caused by a person carrying a contagious virus?

According to Hale et al. (2024), 7.2% of Americans are uninsured in 2024, a figure projected to rise to 9% by 2030. Assuming that the uninsured have the same health care needs as the insured and still receive care, this implies a form of socialized health care where the insured indirectly subsidize the uninsured through higher premiums and treatment costs.

This socialist or central planning tendency is even more pronounced in programs such as Medicare and the Veterans Health Administration. Conversely, many European countries tie health insurance to pension systems, providing lifelong coverage. Europeans tend to keep the same health plan for life, avoiding the annual hassle of selecting new coverage.

It is sometimes argued that the superiority of the United States' supposedly more competitive economic system is reflected in higher GDP per capita figures. For example, on October 17, 2024, *The Economist* (online) wrote:

“Over the past three decades America has left the rest of the rich world in the dust. In 1990 it accounted for about two-fifths of the GDP of the G7. Today it makes up half. Output per person is now about 30% higher than in western Europe and Canada, and 60% higher than in Japan - gaps that have roughly doubled since 1990. Mississippi may be America's poorest state, but its hard-working residents earn, on average, more than Brits, Canadians or Germans.”

Such comparisons of GDP per capita can be tricky and misleading. To illustrate, let's take a closer look at GDP per capita in combination with health data. In 2023, US GDP per capita (PPP) was \$77,247, while Germany's was \$66,616. However, U.S. per capita health spending of \$12,474 was significantly higher than Germany's \$8,166. In addition, Germany's life expectancy of 80.7 years was more than three years higher than the U.S. life expectancy of 77.4 years (World Bank, online).

Next, let's incorporate this information into the construction of a simple back-of-the-envelope “health expenditure-adjusted GDP.” After all, while spending to fight an obesity or opioid abuse pandemic adds to GDP, subtracting these expenditures from GDP may provide a better proxy for a country's average well-being,

To do this, let's first subtract annual health spending from GDP per capita, which for the U.S. and Germany yields “health spending adjusted GDP per capita” of \$64,773 (\$77,247 - \$12,474) and \$58,450 (\$66,616 - \$8,166), respectively. Thus, the 16% higher GDP per capita of

the United States relative to Germany based on total GDP shrinks to only 11% when looking at “GDP per capita adjusted for health spending.”

Other corrections can be made. Because Germans live 3.3 years longer, they enjoy an additional 3.3 years of \$66,616 in GDP per capita, for a total of \$219,832 in additional lifetime income. Spreading this income over the 77.4 years of U.S. life expectancy would mean that if Germans had to consume their lifetime income over the lifetime of an American, annual GDP would increase by another \$2,840 to \$61,290, leaving the U.S. with only 5.7% more income.

Another widely recognized drawback of GDP per capita is that it is not the most representative measure when the income distribution is positively skewed. In such cases, median GDP per capita would be a more representative measure. When calculating the Gini coefficient for Germany and the United States from the quintile income shares (income share of the lowest, second, third, fourth and highest 20%, source: World Bank, online), the Gini coefficients of Germany and the United States are 29.6 and 37.9, respectively. Thus, income is much more evenly distributed in Germany.

One implication of Germany’s greater income equality is that the average income within the two poorest quintiles is higher than in the United States, suggesting less socioeconomic vulnerability. Only from the third quintile onward is the average income in each quintile higher in the United States. Looking at “health expenditure adjusted GDP per capita,” average GDP is higher in the US only from the fourth quintile onwards. Thus, many Germans enjoy a higher health expenditure adjusted GDP per capita. The table below summarizes average GDP per capita by income quintile.

GDP Per Capita by Income Quintiles in Germany and the USA, Year = 2023

Quintile	Overall GDP per Capita		GDP per Capita Minus Average Health Expenditures	
	Germany	USA	Germany	USA
1	24,145	19,146	15,979	6,672
2	39,622	38,291	31,456	25,817
3	52,623	56,333	44,457	43,859
4	69,648	83,210	61,482	70,736
5	123,509	171,207	115,343	158,733

Source: Author's calculation based on World Bank (online) Data,

In conclusion, labeling the European health care system as socialist shows a fundamental misunderstanding of the term. At the very least, if we argue that a country’s competitiveness can be measured by price and quality, most Germans benefit from a more competitive health care system than the United States. Conversely, the refusal of US conservatives to acknowledge the socialist elements within the US health care system is a blatant denial of reality.

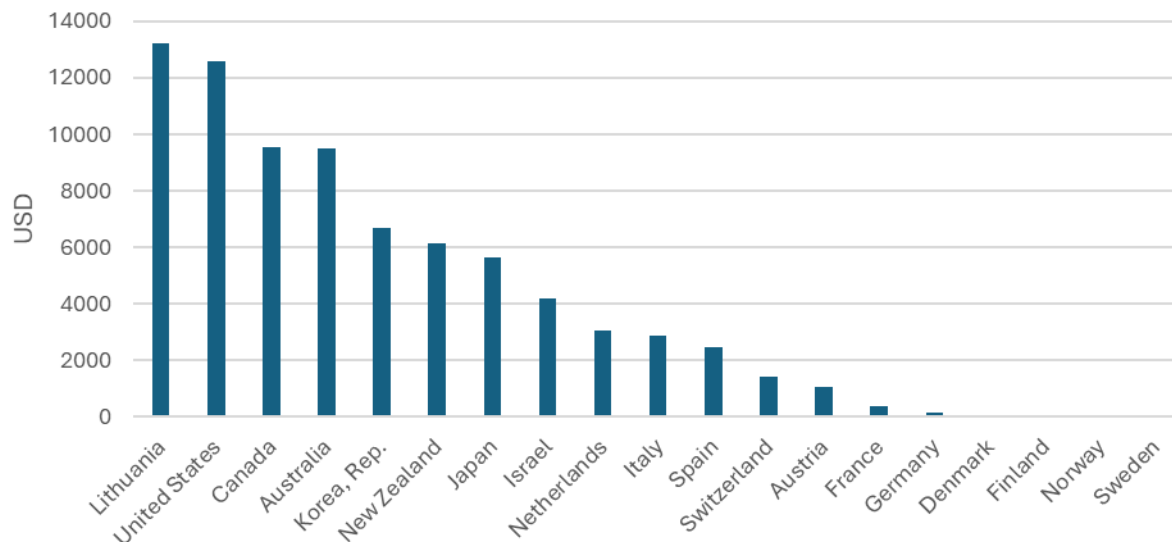
Why Europe’s Free Education System is More Competitive

Another area where the differences between Europe and the United States are dramatic is education. Education, even higher education, is generally free in Europe. Does that make European education socialist?

The standard economic perspective on higher education is that when someone studies to become a doctor, for example, there are both substantial social and private returns to the investment. Therefore, since the investment in a medical degree is at least partially privatized, students should pay for it. The figure below summarizes the “Average (or most common tuition fees charged to national students)” data from the OECD (2024a), which shows that tuition fees in

the US are second only to those in Lithuania and significantly higher than in continental European countries.

Average (or most common tuition fees charged for national students) in equivalent USD converted using PPPs, for full-time students



Source: OECD (2024a, p. 333)

Of course, there is nothing wrong with using the private returns argument to justify tuition. But the devil is in the details. The production of public tertiary education involves very little competition and a high degree of government intervention. In essence, state universities are government-organized cartels and, as such, huge bureaucracies.

Now imagine what would happen if this higher education cartel created a reputation among students that their investment in a degree from a public university was highly uncertain because of the highly competitive academic rigor. It seems plausible to conclude that such a system of higher education does not serve the interests of elected officials or university bureaucrats who, according to standard economic theory, are motivated by budget-maximizing objectives (Niskanen, 1968).

As a result, the measures of success for universities in the United States have become retention, progression toward degree, and increased graduation rates rather than objective learning outcomes. Retention is facilitated by increasingly turning campuses into cruise ship-like entertainment and wellness centers with football teams, swimming pools, and yoga classes. Progression is achieved by lowering academic standards and creating student success centers. These centers create the illusion that more learning opportunities are behind high progression and graduation rates, when in fact it is the lowering of standards.

In continental Europe, where universities are predominantly public institutions and tuition is essentially free, freshmen do not enjoy the wellness-center feel of American universities. European taxpayers could hardly be persuaded to support public universities where the highest-paid employee is a football coach and campuses are equipped with gyms and swimming pools that crowd out local private health clubs. The combination of overcrowded freshman classes and free access to education gives most European universities the legitimacy to be highly selective. Consequently, failure rates are much higher in European countries than in the

United States. In short, many European students can study for free or at low cost, but they are exposed to a high degree of competition among themselves. In the United States, on the other hand, students study at high cost but are largely spared the competitive pressures that European students face.

In 2023, the United States boasted a higher attainment rate of bachelor's degrees among young adults (25-34) compared to Germany, with 29% versus 22%, respectively (OECD, 2024b). This disparity may be attributed to varying perceptions of higher education's value. While European universities offer lower tuition costs, the relatively uncertain path to graduation could deter potential students. Conversely, the perceived higher likelihood of degree completion in the United States may incentivize investment in higher education, even at a greater financial cost, potentially contributing to lower academic standards. This concern is supported by the OECD's "Survey of Adult Skills (PIAAC)," which found that the literacy and numeracy skills of US adults (aged 16-65) fall below OECD averages, whereas Germany's surpass them (OECD 2024c).

In most European and Asian countries, the pride of public education is in public universities. Students who fail in public universities then go to private universities. In fact, the competitive pressure to succeed in public universities in Asia is probably too great. Finally, failure to get into a public university is a major cause of suicide among young people. In the United States, the reverse is true. The national pride of education is in private universities. Those who cannot afford to attend an elite university go to a public university where there is little competition.

Conclusions

Europe's unique historical events shaped its post-World War II economic orders into social market economies. Unlike the United States, Europe prioritizes social safety nets and accessible education. From the perspective of the United States, these priorities can often smack of socialism, while the United States likes to portray its own health care and education systems as competitive. In this Commentary, I have tried to argue that these perceptions are far from accurate. On the contrary, Germany's social insurance mandates have promoted self-responsibility and created competitive markets that provide most Europeans with lower health care costs and higher life expectancies. Similarly, the commitment of most European countries to provide free or at least low-cost higher education is in fact a far more competitive experience for students than it is in the United States.

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