The year 1990 marked the beginning not only of a new decade but also of a new post-Cold War order. Perhaps it marked “the end of history,” in Francis Fukuyama’s oft-quoted phrase, for the great ideological battles of the twentieth century among fascism, communism, and democracy were over, and liberalism appeared to have triumphed. Capitalism reigned globally, social democracy was on the defensive, and across the globe right-wing political and economic ideas were gaining adherents. The “evil empire” had collapsed, the United States was militarily unchallenged, and no enemies were in sight to disturb the new pax Americana. After a decade of troubles, the American economy had rebounded, while its European and Japanese counterparts languished. Europe, all of Europe, seemed ripe for full incorporation into an American-dominated global order.

The ensuing two decades, however, were less a story of convergence and cooperation between Europe and the United States than of divergence, disagreement, and at times overt hostility. Economically, politically, and culturally a multipolar global order replaced the bipolar one; only in military terms did the United States continue to reign supreme and alone. Unlike in the late nineteenth and early twentieth centuries, however, the powerful poles are no longer located only in the North Atlantic region. Globalization, measured in the movement of commodities, capital, people, ideas, and cultural products, has returned to levels not seen since before World War I, but the United States and Western Europe are no longer at the center of all exchanges and networks. Manufacturing and finance are dispersed around the globe, and the rise of China is but the most visible symbol of shifting power relations. The United States is once again a nation among nations, even if has great difficulty acknowledging and accepting its diminished role.

In 1989 the political and economic geography of Europe changed, eliminating the constraints on European autonomy imposed by the Cold War. Europeans have increasingly articulated their own aspirations, developed their own economic, political, and cultural projects, and controlled their own destiny. This is most evident in the proliferation of European
Union institutions and policies and in the expansion of the EU itself. Europe, which was an idea shared only by a few in the first half of the twentieth century and which emerged primarily as an economic entity after 1945, has become a much more visible presence not only economically but also politically, legally, and culturally – and outside of Europe as well as within. The definition of a European identity remains contested, but its existence, alongside national affiliations and in opposition to identification with the United States or the Atlantic community, is indisputable.

European states have maintained their particular varieties of capitalism, and even though these have been modified in the face of economic crises and globalization, they remain in crucial ways distinct from the increasingly neoliberal form that has triumphed in the United States and the UK. The European social model with its diverse social policies, generous benefits, and universal coverage persists despite doubts about its viability from within Europe, especially from the UK, and above all from the United States. Nowhere is the transatlantic gap wider than in conceptions of society and social rights. American goods, capital, and mass culture continue to flow into Europe, but they no longer arouse either the hopes or fears they had earlier. The Americanization debates that haunted the twentieth century are over, as a more confident Europe defines itself in terms of itself.

The United States is still the largest single national economy, but its economic power, measured in terms of manufacturing, trade, and foreign investment is eroding and its debts and deficits are rapidly growing. Europe has reached comparable levels of private consumption while providing many more public goods than America does. The United States is no longer at the cutting edge of technological innovation and productivity as it once had been. Throughout much of the twentieth century, America was the model of modernity (or, if one counts the Soviet Union, one of two models) against which Europe measured itself and from which it selectively appropriated and adapted production methods and management techniques, commodities and technologies, advertising and marketing. America no longer plays that role for European states.

A new Europe

The expansion of the EC made the most significant contribution to the widening of the Atlantic, for new institutions were created, new policies implemented, new countries joined, and a more robust European identity emerged. Some of these developments had roots in earlier decades but came to fruition after 1989; others were a response to the opportunities created by the collapse of the Cold War order. There was an
intensification of European economic integration, moves toward greater political cooperation, and the extension of the EU eastward, all of which absorbed the attention of European leaders, enabled Europe to act more autonomously, and positioned it to play a larger role on the global stage. The acceleration of European integration had begun in the 1970s in response to the destruction of Bretton Woods, structural economic crises, and policy disagreements with the United States. It continued in the mid-1980s with the Schengen Agreement and the Single European Act (SEA). In 1985 Germany, France, and the Benelux countries created a territory without internal borders in which people could move without visas or passports and customs inspections. By 2007 all EU members, except the UK, Ireland, Cyprus, Romania, and Bulgaria, were part of this Schengen Area. In 1986 the SEA began the process of creating an internal market in which goods, capital, people, and services would circulate without restrictions. It also encouraged greater cooperation on worker health and safety, research and technical development, and environmental protection.

In 1992 integration took another leap forward with the Treaty on European Union, commonly referred to as the Maastricht Treaty, which completed the single market, opened the way for political integration, and called for the establishment of a single currency by 1999. In 1994 the EC was officially renamed the European Union (EU), and Austria, Finland, and Sweden joined. In 1998 the European Central Bank was established, and in 2000 eleven of the EU’s fifteen members adopted the euro as a common currency. By 2010 twenty-four countries had, including three from Eastern Europe, while Britain, Denmark, and Sweden are still using their national currencies. Efforts to ratify a European Constitution were put on hold when French and Dutch voters rejected it, reflecting a continuing European ambivalence about how much and what kinds of sovereignty should be ceded to transnational institutions. In 2009, however, the Treaty of Lisbon provided a more comprehensive legal framework for the EU that was intended to make it more democratic and transparent as well as more efficient and to enhance “Europe as an actor on the global stage.”

Expansion eastward was not a priority for the EU in the 1990s, but Eastern European states desperately wanted inclusion, for it promised expanded markets and access to technology and loans and would symbolize a return to Europe. The EC/EU was attractive and near, while the

Map 3 European integration
United States was distant and uninterested. But enlargement proved slow, for in order to join, Eastern European countries had to meet the conditions of political stability, democracy, and a functioning market economy and agree to the EU’s terms of membership. Only in 2003 did the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia along with Cyprus and Malta join, while Bulgaria and Romania became members in 2005. As the EU moved eastward, it assumed a position of dominance over economies there; it was an empire by invitation, much like the one the United States had established in Western Europe a half-century earlier.

These multiple changes served to knit the EU member states closer together. As at the turn of the previous century, the bulk of European trade was within Europe, both intra-EU and between EU members and those outside. By the 1990s, even before expansion eastward, over 60 percent of trade by the fifteen EU member countries was with one another, as opposed to 30 percent in the 1960s. Over two-thirds of trade by the Czech Republic, Poland, and Hungary, which were candidates for EU membership, was with the EU, and the EU was responsible for over 80 percent of investment in Eastern Europe. Although American goods flowed into Russia in the early 1990s, that trade dwindled by mid decade due both to Russia’s acute economic crisis and growing economic nationalism. In transatlantic trade Europe was a more important partner for the United States than the reverse. As had been true throughout the twentieth century, Europe accounted for a larger share of world trade than the United States, but both were challenged by the emergence of China as a global economic player.²

Foreign direct investment continued to flow in both directions across the Atlantic and in increasing volumes, just as it had before World War I and from the 1960s on. The United States was the largest recipient of EU FDI until 2005 when non-EU European nations received 35 percent versus 33 percent for America and 23 percent for Asia. The United States continued to be the largest foreign investor in Europe, although its dominance was not as great as in the immediate post-1945 period. Through the European Neighborhood Policy, the EU established or expanded bilateral relations with countries in North Africa and the Middle East as well as with the successor states of the Soviet Union. Although assigning itself a global role, the EU has focused primarily on its relations with the

expanded Mediterranean region and states bordering the Russian Federation. The EU has never considered Russia as a potential member or Neighborhood Policy partner. For the EU America was one economic partner among many rather than the dominant source of investment and trade that it had been in the two decades after 1945.  

By the time the EU had expanded to twenty-seven members in 2005, its population was larger than that of the United States. While its absolute GDP was slightly smaller, when GDP is adjusted for purchasing power parity, the EU was slightly ahead of the United States. In 2005 four of its members, Germany, France, the UK, and Italy, were among the ten largest economies, while Russia, after collapsing catastrophically in the nineties, was the tenth largest. American GDP per capita was $44,362 versus only $27,394 for the entire EU, but that wide gap between Europe and America came mainly from the incorporation of the struggling transition economies of Central and Eastern Europe. Europe, in short, became a major economic player; few in the first decades after 1945 would have predicted this.

For Europeans the widening and deepening of the EU has raised contentious issues about political sovereignty, national identity, the EU’s democratic deficit, and the economic costs and benefits of membership to countries of different sizes and with varied levels of economic development and financial stability. For the United States the only question was whether a transformed EU helped or harmed transatlantic relations and American interests. In the mid 1980s the United States did not take the SEA seriously, but once it was ratified, policymakers and the press feared a “fortress Europe” might emerge. After 1989 American administrations viewed expanded integration more favorably, seeing it as a way for Europe to contain a reunified Germany and fund reconstruction in the East, which the United States could not afford to do. Although President Clinton failed to pressurize Europe into ceasing to trade with Iran, Cuba, and Libya, he and subsequent United States leaders worried less about economic policy disagreements than about diplomatic and military ones.

From the mid 1990s on, there was talk of a new Euro-American economic partnership. In 1995 the United States and the EU signed the New Transatlantic Agenda, one provision of which called for “the promotion of economic relations and expansion of world trade ... and

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building bridges among our business, civic and academic communities on both sides of the Atlantic.” A TransAtlantic Business Dialogue was established to explore the creation of a transatlantic common market, and in 2007 European Commission President José Manuel Barroso, German Chancellor Angela Merkel for the EU and United States President George Bush signed a Framework for Advancing Transatlantic Economic Integration between the European Union and the United States of America. Increased consultation has resolved some economic disputes, but it has not settled conflicts about tariffs, especially agricultural ones, or about intellectual property rights, monopolies, and genetically modified foods. A transatlantic free trade zone, let alone full economic integration, is nowhere in sight. The United States wants maximum openness to European markets but does not want to sacrifice any of its sovereignty.5

Europeans in the making

Has this proliferation of EU institutions created a shared European culture and identity in addition to national ones? Answers vary within and across countries, but a few generalizations can be risked. There are increasingly robust European cultural circuits and exchanges as well as distinctive attitudes and practices that have created a European identity, even if it is thinner than national ones. Economic integration and cultural exchanges within Europe have made Europe less open to American influences than it was in the first postwar decades.

Many forces have contributed to an emerging European culture and identity. There are Europe’s distinctive varieties of capitalism and the European social model, which will be discussed below. Of equal importance are the experience and memory of World War II and the Holocaust, which are shared by countries across Europe, whatever their diverging postwar histories. These have burdened Europeans with responsibility for genocide, war crimes, and collaboration and encouraged national and transnational projects of coming to terms with the past. They have also made Europeans ambivalent about nationalism, wary about the use of force, and hostile to the militarism that had characterized the European Great Powers in the first half of the twentieth century. The very processes of Americanization, especially the spread of American popular culture, contributed to making Europeans more like one another. Whether they embraced, rejected, or redefined rock ‘n’ roll, Hollywood films, Coke,
and jeans, these provided a shared set of products, experiences, and references. Even at the high point of the American Century, however, they did not, as we have seen, make even the most seemingly Americanized countries like Germany a mini United States, for products and ideas also moved among European countries and are increasingly moving within Europe rather than across the Atlantic. Intra-European tourism has grown exponentially since the 1960s and now includes the former communist East as well. Business people and workers move with ease across borders, where they find similar economic regulations and enjoy the social entitlements of the country in which they work. Educational exchanges have proliferated, and the Bologna Process, begun in 1999, is coordinating and standardizing the curriculum and requirements of national university systems across Europe. The aim is to facilitate the movement of students and faculty among EU universities and prepare them to pursue careers anywhere in the EU. Some national newspapers are read across Europe, and TV goes beyond national borders. There is the popular Eurovision Song Contest and a shared love of soccer. These have not supplanted national or class cultures and identities but rather coexist with them.

While Europeans continue to come to the United States to study and work, just as they did in the first post-World War II decades, they now do that in other European countries in increasing numbers. Global migration has escalated markedly since the 1960s, but in the transatlantic world it resembles neither the pre-World War I exodus from Europe to the United States nor the interwar and immediate postwar flow of refugees to America. Europe, above all Western and Northern Europe, has become a mecca for migrants and asylum seekers. Non-EU Europeans move to Western Europe in search of work, persecuted minorities, such as the Roma, seek less repressive conditions in places like Italy and France, and political refugees, especially from the Middle East, seek safety in countries like Sweden and Germany. The overwhelming majority of migrants, however, come from North Africa, sub-Saharan Africa, or former colonies in Asia and the Caribbean. America has become a land of immigration once again, but its documented and undocumented migrants come overwhelmingly from Mexico, Central America, and China. Both Europe and America are becoming much more racially, ethnically, culturally, and religiously mixed as globalization, political conflict, and climate change push and pull workers and their families along new migratory paths.

Yet neither the experience of intensified immigration nor the challenges of multiculturalism are bringing them closer together. Many Europeans and Americans are deeply ambivalent about the changing character of their societies and their economic dependence on workers.
from the global South, but different imperial and colonial histories, conceptions of citizenship and national identity, and constructions of race lead to distinctive responses. Take the transatlantic preoccupation with Islam. Although many Europeans share with Americans a discomfort about the growing presence of Muslims, states define the perceived problem differently. France sees them as a threat to the state’s commitment to laïcité with its rigorous enforcement of the separation of church and state and banning of religious symbols in public, above all the full-face veil. The Dutch insist that Muslims refuse to assimilate to social and sexual norms, and many Germans, including Chancellor Merkel, insist that multiculturalism has failed, even though the possibility of citizenship for foreign workers has only existed since 2000. In Europe Muslims are seen as a challenge to national identity and shared social norms; in America they are viewed as a threat to national security and the Christian identity of the United States, which many insist on despite the legal separation of church and state.

Europe and America began to diverge in other ways in the 1970s and 1980s that profoundly shaped everyday life, politics, and self-understandings. First, whereas Europe became increasingly secularized, the United States moved in the opposite direction. Both the vast expansion of the religious right in America and the colonization of political language, policies, and institutions by fundamentalist religious views occurred in the last Cold War decades and persisted beyond. Regular church attendance remained high, evangelical churches grew at the expense of mainstream ones, and religiosity was viewed as the necessary basis of morality by preachers, politicians, and the growing evangelical populace. Western Europe became “the exceptional case” in matters of religion. Although many European countries have state churches, regular church attendance has remained low, evangelical sects are small and marginal, and the language of politics remains resolutely secular. Religion has revived strongly in some Eastern European countries but is not instrumentalized for political ends as extensively as in the United States.

Germany provides an instructive example of these differences. In constitutional theory, church and state are more separate in the United States than in Germany, where churches get federal funds and religion is taught in the schools. The United States never had a political party comparable to the CDU/CSU, which is officially committed to Christianity and has close ties to both the Protestant and Catholic churches. In the 1950s and early 1960s, Germany seemed as religious as America, if not more so. Both

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shared large Protestant and Catholic church memberships, and religiosity and respectability were closely associated. In both countries religious rhetoric was a key element in anti-communism. (In West Germany religious rhetoric also featured prominently in Christian Democratic attacks on excessively materialistic, morally lax Americanism as well.)

In recent decades, Germany has become more secularized, even if official church membership has not declined significantly. Religion does not permeate everyday life, nor does it pervade the speeches of politicians. Perhaps most importantly, fundamentalism of either a Catholic or Protestant sort has not taken root. Whereas two-thirds of Americans go to church weekly, only 20 percent of West Germans and 14 percent of former East Germans do. The religious language of America’s leaders, the pervasive religiosity of American society, and the ever more pronounced intertwining of church and state, even as their separation is proclaimed, find no counterpart in Europe. In an early 2003 article, Der Spiegel expressed a deep European skepticism about President Bush’s linking of his Christianity to his desire to reorder American global influence. It worried—rightly, as it turned out—that Bush’s religiously based radicalism would be used by Vice President Dick Cheney and Secretary of Defense Donald Rumsfeld for expansionist power politics, justified as a divinely ordained mission. Although religion could be instrumentalized, Der Spiegel acknowledged, one could no longer understand America unless one took it seriously. The article, replete with pictures of Bush addressing evangelical Christians in front of a towering painting of Jesus and of prayers before cabinet meetings, revealed how difficult such understanding is, for Europe’s secular visions of society and politics are far removed from those of a religiously transformed America.  

The rise of the religious right and its growing political influence in America is related to the cultural backlash in the wake of the civil rights movement, the sexual revolution, second wave feminism, and America’s defeat in Vietnam. Many Americans invoke religion to challenge the findings of science on everything from evolution to climate change and to advocate for family values, conservatively defined. Gender anxieties became linked to political and economic ones, and politicians and popular movements sought to recreate the conservative sexual order of the 1950s, dismantle the welfare state, and curb big government. They simultaneously attacked Keynesianism, secularism, multiculturalism, feminism, homosexuality, and the liberalism alleged to foster them. While by no

means free of disagreements over issues of sexuality, family, and feminism, Western European nations were not swept up in culture wars over the issues that proved so divisive in America, such as abortion, the teaching of evolution, and gay marriage. In the 1970s and 1980s the often-bitter controversies about divorce and abortion in countries like Italy did not become linked to attacks on the welfare state or the rejection of modern science. Europeans by and large came to accept sexual liberalization, high divorce rates, and low birthrates, although homophobia is a growing problem in Eastern Europe. They did not link cultural concerns to neoliberalism as Americans did. Both Europeans and Americans insist they are committed to families and children, for example, but as the head of Norway’s Christian Democrats Valgard Haugland explained:

We have decided that raising a child is real work. And that this work provided value for the whole society. And that society as a whole should pay for this valuable service. Americans talk about family values. We have decided to do more than talk; we use our tax revenues to pay for family values.  

American movies still dominate the European market; there are McDonald’s restaurants from Madrid to Moscow, and Abercrombie and Fitch has opened a store on the Champs Elysées in Paris. Since 1989 East Europeans have had access to everything from fast food and clothing to Playboy and American TV programs. Mass consumption spread in the East as it had earlier in the West, but it took on distinctive national forms and was no longer associated primarily with the United States. To be sure, there have been some protests against American goods. For example, French farmers led by José Bové attacked and dismantled a McDonald’s restaurant, viewing it as a symbol of industrialized food and globalization for which the United States was held primarily responsible. For most Europeans, however, American goods and American culture were consumed without the fear of losing their national identity that had haunted so many earlier. On the one hand Europeans were confident about their ability to pick and choose among American products, use them in distinctive ways, and assign them particular meanings. On the other hand, Europeans were drawing from multiple sources within Europe, across the Atlantic, and in the Middle East, Africa, and Asia to enrich their cultures, expand their cuisines, and alter their listening, reading, and viewing habits. Like Americans through much of the twentieth century, Europeans view

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cosmopolitan consumption as a way to enrich their identities without destroying their essence.  

While the United States is a favorite tourist destination for Europeans, they have a differentiated view of American culture and increasingly criticize American politics. A 2003 BBC poll showed that nearly two-thirds of the French, Russian, and British interviewees described Americans negatively as arrogant but positively as free. The British and the French, but not the Russians, viewed American music, TV, movies, and products (food aside) favorably, even as they judged their own country as overall more cultured, as Europeans did throughout the twentieth century. Whereas a majority of Americans praised the traditional family, only 15–20 percent of Europeans did. While many Europeans enjoy and approve of American values and goods, surprisingly few – only 21 percent of Russians, 15 percent of the British, and 7 percent of the French – wanted to live there. (Yet, 96 percent of Americans assume that most non-Americans are eager to do so.)

Europeans no longer look to America as the model of modernity, as they did in the post-World War II decades. An amorphous yet powerful concept of Americanism and the more concrete processes and products of Americanization no longer provide the terms and parameters in which Europeans debate their own future. Americans no longer enjoy the unrivaled level of consumption and prosperity that they did in the 1950s and 1960s; European homes have long since acquired the same appliances and amenities. Indeed, in parts of Europe these are of higher quality and more environmentally friendly, and many European goods find markets in the United States. Politics, economics, and everyday life are seen in terms of a real and imagined Europeanization. The era of American cultural hegemony in Europe is over.

**Toward neoliberalism?**

As Europe became more economically integrated, politically coordinated, and culturally autonomous, did national economies and the EU nonetheless converge on the neoliberal economic model pushed so strongly by the United States and the UK? Many insisted that European autonomy and

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Americanization, now defined as neoliberal globalization, could, indeed must, go hand in hand if Europe were to thrive. One of Thatcher’s favorite slogans was “There is no alternative” — to the liberalization of markets, the deregulation of manufacturing and finance, the privatization of state-owned enterprises, to small government and balanced budgets. Market fundamentalists on both sides of the Atlantic praised free markets, free trade, and free investment and sought to commodify not only goods, services, and financial instruments but also everything from intellectual property to basic necessities like water. Keynes was dismissed and Hayek embraced by those seeking to impose the Washington Consensus, as these policy prescriptions were called, in social democratic Western Europe and the formerly communist East as well as elsewhere around the globe. Countries on both sides of the Atlantic did liberalize their economies, but to very different degrees. Both distinctive European varieties of capitalism and the European social model have persisted, albeit with modifications.

The United States continued to abandon its remaining Fordist mass-production industries, with the exception of the downsized automobile sector, and outsourced the manufacturing of clothes, shoes, appliances, computers, etc. to East and Southeast Asia, Mexico, Central America, and the Caribbean. While European countries moved out of coal, iron, and steel, they have retained more manufacturing. Northern Italy, for example, turned to small-scale industries, characterized by flexible specialization, while Germany retained its traditional mix of mass production and decentralized, small and medium-sized firms that utilize skilled labor to produce quality goods. Late developers like Finland became leaders in new industries like cell phones. Manufacturing has played an especially prominent role in Eastern Europe, for from the mid 1990s on Western European firms eagerly invested in modernizing old factories or constructing new ones in order to produce a variety of consumer durables, using skilled but comparatively low-cost labor.  

Europe did follow the United States lead and eliminate all controls on capital flows. The SEA laid the basis for the creation by 1992 of a fully integrated EU market in which capital, as well as goods and labor, moved unimpeded. This was a marked break with past practice, which had placed limits on capital flows and thus capital flight in order to promote nationally specific industrial and social policies. Although the EU eliminated many regulations on finance and trade, the United States remained the most deregulated economy.

The European financial sector did not develop on a scale comparable to that in the United States, where finance and real estate dominated the economy after the turn of the century and banks and hedge funds developed ever new, more opaque, and highly leveraged investment vehicles like collateralized debt obligations and credit default swaps. Millions of risky subprime mortgages fueled an unprecedented American housing boom. Europeans, with the exception of countries like Iceland, moved later and more hesitantly into these new financial products. While there were housing booms and later busts in some of the more neoliberal European countries like England, Spain, and Ireland, mortgage markets in much of Europe remained more regulated, thereby limiting risky mortgages. Mortgage debt as a percentage of GDP was 70 percent in the United States in the first five years of the new century, a figure higher than in all European countries except the Netherlands and Denmark. Americans saved less and consumed more, often borrowing to do so. While European savings rates declined in Sweden, the UK, and Italy, they did not in France and Germany, the two largest European economies. Household credit as a percentage of disposable income in 2005 ranged from 18 percent in Poland and 34 percent in Italy to 70 percent in Germany and 112 percent in Spain; in the United States it was 132 percent.  

The United States, long suspicious of Western European state-owned enterprises, recommended extensive privatization from the 1980s on. Although countercyclical spending and planning had been more important than nationalized businesses in the postwar European economic model, Britain, France, and Italy had sizable state sectors and everywhere utilities and transport were government-owned. That changed dramatically; in the nineties alone European governments sold off $400 billion worth of banks, factories, and utilities. Thatcher led the way when in the eighties she privatized British Airways, British Aerospace, and British Telecom as well as utilities, railroads, and public housing. In 1985 she broke the miners’ strike and closed many nationalized mines. Public sector employment shrank from 27.4 percent in 1981 to 18.1 percent in 2003. Public spending, which had reached 45 percent of GDP in 1980, dipped below 35 percent in 1990, only to rise again to between 35 and 40 percent for the next two decades. The newly privatized utility firms were not more profitable; the main beneficiaries were the new owners and the financial overseers of privatization, not the taxpayers.  

Between 1981 and 1983 French President Mitterrand tried to buck the neoliberal trend by nationalizing banks and corporations, thereby doubling the size of the state sector, but capital flight led him and his successors to reverse course and reprivatize both newly nationalized enterprises and long-standing ones. Italy privatized ENI, the state oil firm, as well as TV and radio.\(^\text{13}\)

Reacting against the failures of socialism, Eastern Europeans embraced the doctrine of privatization much more enthusiastically than Western Europeans, but actually privatizing communist economies proved difficult. Small firms could be handed over to their workers with relative ease, but it was hard to find buyers for large ones, which were technologically outmoded and often produced goods no one wanted to buy. In many cases, former managers or former high party and state officials took over large firms, thereby “stealing the state” in the words of one analyst. Czechoslovakia set up a voucher system intended to enable every citizen to buy stock in privatizing companies, but it was scandal-ridden, and most people sold their vouchers for immediate cash. Poland and Hungary favored the “shock therapy” of rapid privatization that American economists like Jeffrey Sachs recommended but could find few buyers in the early 1990s. Only in reunified Germany did the government sell off state industries rapidly and at bargain basement prices. Some governments, like Romania’s, did not even try, keeping over 60 percent of industries in state hands.\(^\text{14}\)

In response to slower growth, rising unemployment, business pressure, the admonitions of neoliberal economists, and globalization, European economies did move in a more liberal direction. Yet, fully liberal market economies did not develop, and faith in the market as the ultimate arbiter of all relations, economic, social, political, and personal, did not triumph.

**Coordinated market economies**

Distinctive European varieties of capitalism existed throughout the twentieth century, as we have seen. Although death by convergence on the American model had been repeatedly predicted, especially in the 1950s and again in the 1990s, European economies have retained production regimes, industrial relations, forms of governance, and value


commitments that differ substantially from those in the United States and Britain. The Anglo-American model is labeled liberal or stock market capitalism, while European economies are called coordinated market capitalism or welfare capitalism or they are disaggregated into a Nordic or statist model on the one hand and a continental social market or corporatist one on the other hand. Some of the distinctions are long-standing, others a recent product of the neoliberal turn in Britain and America.

European firms often behave differently from American ones. They have long-term and loyal relations with suppliers and customers, and managers and owners frequently sit on the boards of firms close to them. All this fosters trust and cooperation and limits practices, such as hostile takeovers, that are widespread in America. Capital is more patient, for firms are more likely to secure financing through banks with which they have long-term relations rather than via the stock market, although the proportion of bank financing is declining. In the 1990s roughly 40 percent of stock in the 500 largest firms in the United States and the UK was held by large financial institutions rather than by families or non-financial shareholders; only 15–18 percent was for comparable firms in France and Germany.15

Business and labor are more organized in Western Europe than in America and bargaining between them and with the state is more institutionalized. In Germany, for example, industry and labor are organized in autonomous, self-administered bodies, whose roles are spelled out legally. Firms are governed by the participation of labor and management in works councils. While codetermination is not as extensive in other Western European countries, similar institutions exist in Northern and Western Europe, and the state is frequently more involved in vocational training as well as in worker retraining. Conditions are more varied in Eastern Europe. Corporatist bargaining of a Western European sort has emerged in Slovenia but not elsewhere. While Poland, Hungary, and Romania experienced high strike rates at various points in the 1990s, labor was unable to institutionalize workers’ interests.17

Wage bargaining is coordinated at the plant, industry, and national levels, and in 2000, collective bargaining agreements covered between 70 percent and 95 percent of workers in continental Western Europe, with only Germany (68 percent) and Switzerland (40 percent) falling

15 Eichengreen, European Economy, 419–20.
below. By contrast only 30 percent were covered in the UK and a scant 13 percent in the United States. Collective bargaining was weak in most Eastern European countries during the troubled 1990s. Over the following decade, collective bargaining became more decentralized in Western Europe and emerged at the local and company levels in Eastern Europe. By 2009 coverage rates ranged from 100 percent in Slovenia and the ninetieth percentile in France, Sweden, Norway, Austria, and Belgium, to 63 percent in Germany and 44 percent in the Czech Republic. Poland, Hungary, Slovakia, and the UK were at 35 percent, while Estonia with 22 percent and the United States with 13 percent brought up the rear. European collective bargaining coverage was extensive whether union density was high as in Sweden and Denmark, moderate as in Belgium, Italy, and Norway, or at very low American levels as in France. High coverage encouraged more solidaristic wage policies that narrowed the gap between the highest and lowest paid workers and facilitated wage restraint. Workers across Europe enjoy much higher levels of employment protection than do American ones. The United States traded job security for labor market flexibility, while European countries made the opposite choice.  

Distinct institutions and policies reflect and reinforce value differences. Western Europe has developed a more socially embedded model of capitalism in which economic transactions and institutions are supposed to serve noneconomic ends as well as economic ones and in which economic relations are bolstered by social ties. The maximization of shareholder returns is not their sole raison d’être. In the words of one French commentator, “In America, money is the goal and things are the means to achieve it, while in Europe our goal is to achieve things, with money as the means.” The entrepreneur enjoys much higher social esteem in America than in Europe. While Americans see the state and the market as antithetical, most Europeans accord the state an essential economic role in building infrastructure, promoting economic integration, preserving the environment, and providing health and education. At issue in transatlantic economic debates, argues a leading German economic historian, are not just markets and profits but the very “rules of the game of economic life.” A “Kulturkampf” or clash of civilizations is occurring among the most developed capitalist countries. Nowhere is that more evident than in social policy.  


Persistence of the European social model

From the 1980s on social programs on both sides of the Atlantic were under increasing pressure from slow economic growth, an aging population, globalization, and a widespread preoccupation with containing inflation, no matter what the cost to jobs. Conservative politicians and neoliberal economists in the United States and Britain launched an across the board attack on social rights and benefits as economically damaging, politically objectionable, and morally corrosive. What could not be completely eliminated should be shrunk and privatized. Families and individuals should be responsible for their welfare, not the “nanny state.” In the face of real economic pressures and ferocious ideological assaults, however, most European countries defended their postwar welfare states. Whether they continued to emphasize social citizenship and similar benefits for all as Scandinavian countries did or relied on social insurance and differential entitlements as most Western and Southern European states did, all defended their commitments to universal coverage, social solidarity, and the state’s central role in securing social welfare. Britain is the exception here, but even Thatcher did not privatize the National Health System. Europeans do not view private goods and services as a priori better than public ones, nor the market as always better than the state. The transatlantic social gap widened substantially, for it was no longer just the size of programs and benefits that was at issue but the very existence of social rights and a safety net.

Spending on social programs provides one indicator of these differences. From 1980 on Western and Northern European countries spent a higher proportion of their GDP on social programs than the United States; from the mid 1990s so did Spain, Portugal, and Greece, and after the late 1990s the Czech Republic, Slovakia, Poland, and Hungary did as well. In 1980 no European country spent a smaller proportion of GDP on social programs than America’s 13.1 percent; in 2001 only Ireland did worse than America’s 14.6 percent. By contrast Sweden spent over 27 percent in both years, France increased from 21.1 percent to 27.2 percent, and Italy moved from 18.4 percent to 23.9 percent in the same two decades. Even the neoliberal UK moved from 17.3 percent to 21.5 percent. An aging population drawing pensions and rising unemployment account for part of these increases as do universal health coverage in Europe and Medicare and Medicaid in the United States. Public social spending per capita, however, was slightly less in Ireland and...
Iceland than in America and over a $1,000 per capita less in Spain, Portugal, and Greece. If private social spending, which is especially high in the United States, is included, total social spending on both sides of the Atlantic is closer together. But not everyone can afford to participate in private social programs for retirement or health care. And neoliberal countries like the United States, which have high private social spending, also have a much higher percentage of means-tested assistance and a lower proportion of the population covered by sickness, unemployment, and pension benefits than do societies with low private spending.\(^\text{20}\)

As in the past, healthcare was a key area of transatlantic difference. Both East and West Europeans regard healthcare as a social right and a social good rather than as a commodity. The average sickness and health insurance benefits in the fifteen Western European EU members in 2005 were €1,900 per person, far above the €300–400 in Eastern Europe, but across Europe states paid 80–90 percent of health expenses. In the United States, by contrast, the government pays for only 44 percent of health costs and over 46 million Americans or 15 percent of the population have no health insurance. Moreover, total private and public healthcare spending has increased more rapidly than in Europe and accounts for a larger percentage of GDP.\(^\text{21}\)

Differences abound in other areas as well. In education the United States spends more, but a higher percentage of that is private. In Europe the educational system from preschool through university is overwhelmingly state-funded and free or very low cost, except in England. Old-age pensions present a mixed picture. United States public spending is high, but there are proposals to cut social security benefits, and Americans have long relied on a mixture of social security and private retirement plans provided by employers or state and local governments. These defined-benefit plans are either being eliminated completely or replaced by defined-contribution plans, whose benefits depend on the stock market. European states provide guaranteed pensions, but these are now being supplemented by mandatory pension insurance and in some places by private pensions as well. Everywhere the retirement age is being raised.


Nearly all Western European countries replace more of the net income of sick employees than does the United States. The same is true for those who are unemployed short or long term, although Britain and Germany have lowered unemployment pay and imposed increasingly stringent work requirements over the past two decades. No European country has reformed aid to needy mothers and children along the lines of the American Temporary Aid to Needy Families, which limits benefits to sixty months over a person’s lifetime and imposes work requirements on mothers. Both European countries that encourage mothers to stay home, like Germany, and those that encourage them to work, like Sweden and France, continue to spend much more on family policy than does the United States.\(^{22}\)

The results of these systemic differences are profound. The United States has become a low-tax nation for both corporations and individuals. While Western European and American corporate tax rates were similar until the turn of the century, United States ones dropped sharply thereafter. Western and Northern Europe have higher personal income tax, especially for the wealthy, while income tax in the United States and in most Eastern European countries is less progressive. In 2004 tax revenues were equivalent to two-fifths of GDP in the EU-15; in America the figure was one-quarter. In 2007 the United States spent the smallest percentage of its national budget on social protection of any developed country—one-fifth versus two-fifths for Sweden and Germany and nearly that for Britain. If health, education, and general public services are added in, the American figure remains lower than any European country except the Czech Republic.\(^{23}\)

Europeans pay more taxes but they get more benefits, and this translates into more equality and intergenerational mobility and less poverty. It also creates a broad societal investment in social rights and state social policies. Although income inequality has risen in all OECD countries since the 1980s, the distance between the top 10 percent and bottom 10 percent has grown fastest in the United States. Only Russia comes close in terms of inequality. In 1980 the average American CEO earned 42 times more than the average worker; in 2001 he or she made over 400 times more, while in Britain CEO compensation was 25 times greater, in Sweden 14 times, and in Germany and Switzerland 11 times. Measured in terms of income, the United States has poverty rates comparable to

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\(^{22}\) Adema and Ladaique, “How Expensive,” 43.

Western and Northern Europe, but after taxes and transfer payments are factored in, it has the highest rates. The United States has the highest infant mortality rate of any developed country. Life expectancy is nearly equivalent in the EU and the United States, but this masks longer life expectancy in most Western European countries and considerably shorter ones in Eastern Europe where health systems collapsed after 1989.  

Different social models reflect the relative importance assigned to alternative values – risk versus security, the individual versus society, opportunity versus equality, the market versus the state. In the early and mid twentieth century, Europeans paid little attention to American social policy and were deeply ambivalent about American mass consumption and mass culture. By the century’s end the latter had been incorporated into the daily life of people across Europe. Disagreements now concern the state and societal context in which capitalist consumer economies will continue to develop. Europe and America increasingly articulate divergent visions of the good life and a just society. Indeed, in the United States and Britain the concept of society has been evacuated, for the “ownership society” that is promulgated is profoundly individual or at most familial; the state is only considered legitimate in its military and national security instantiations.

While many American liberals admire the European social model, conservatives like the political commentator Irving Kristol rejected it in toto. Europeans, he argued, have “feminine-maternalistic” welfare states, which seek to protect people and enable them to avoid risks; they impede economic growth, limit military expenditures, and do their “best to emasculate the spirit of nationalist patriotism in all nations of Europe.” The alternative is the American “masculine, paternalistic” welfare state, which tries to do for its citizens what fathers try to do for their children, that is make them “grow up to be self-reliant, self-supporting and able to cope with a recalcitrant world.” Although some Europeans have argued strongly that generous welfare states must be jettisoned in the interests of economic competitiveness and productivity, and most recognize the need to rationalize and trim their social policies, few want to emulate the American model and the values underlying it.


Inconclusive competition

Instead of convergence on the United States neoliberal model, there has been transatlantic competition between distinctive European and American varieties of capitalism and social policies. None, however, have been able to recapture the Golden Age of the 1950s, 1960s, and early 1970s. The United States was not able to restore its former hegemony; Western European states could not revive the growth and employment rates of the postwar recovery and modernization, and the new capitalist economies of Eastern Europe failed to deliver on the enormous hopes placed in them. In the wake of the 2008 financial crisis, countries on both sides of the Atlantic faced ongoing deficits and national debts. They found themselves in a multipolar world, which the North Atlantic no longer dominated.

Take growth. The American economy grew substantially faster than European ones in the 1980s, but growth plunged to near zero in the early 1990s, zoomed up to almost 5 percent during the information technology boom, and plunged again during the 2001 crash before recovering to a respectable 3 percent by 2005. Between 1980 and 2000 real GDP per capita growth averaged 2.1 percent in the United States as opposed to 1.9 percent for Western European countries. Yet, the United States did not outperform all European economies. Ireland, Spain, and Portugal, for example, grew substantially faster from the early 1990s on, and Sweden grew at modestly higher rates from the mid 1990s on. Eastern Europe was a special case, for post-1989 attempts at rapid liberalization and privatization led industrial production to drop by half and GDP by a third; unemployment shot up and the standard of living declined. It took a decade for Poland, the Czech Republic, Slovenia, Hungary, and Slovakia to begin growing again and still longer for the Balkans, Romania, Bulgaria, and Russia. Overall, American economic expansion was steady but not spectacular, for the high-tech boom, which so many Europeans envied, was offset by the net decline in exports. The dramatic success story of these decades lay not in the Atlantic world but in China, whose vast economy grew at double-digit rates from the late 1990s.

The United States gained on the productivity front. By the 1990s Western and Northern European productivity had come within 80–90 percent of America’s but then fell back to 65–75 percent. Some attribute

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American gains primarily to the financial sector and to changes in retail and wholesale trade, such as Wal-Mart. Others credit higher United States investment in research and development in electronics and aerospace, often defense related. European firms, by contrast, focused more on micro inventions and improvements in the chemical, machinery, and textile industries. Many European governments supported ailing industries in the 1980s and early 1990s before promoting high-tech firms and research and development with subsidies and tax breaks.27

United States unemployment exceeded Europe’s through the 1970s, but by the late 1990s European unemployment ranged from 7.3 percent in the UK to over 12 percent in Italy, while it was only 5 percent in America. Thereafter, United States rates remained lower than Western and Northern European ones but only slightly. In Eastern Europe, however, unemployment averaged 12–20 percent in the early 1990s and remained at 10–13 percent in Hungary, Poland, and Russia thereafter. In some areas of the Balkans, two out of every five workers were unemployed. As disturbing as the sheer number of European unemployed was the fact that after the turn of the century a large number (up to one-third in France and one-half in Germany) were long-term jobless. Analysts disagree about whether lower American rates reflected a more robust economic model or resulted from very high rates of incarceration, which removed many of the least educated and skilled from the labor market. Some attribute higher European rates to more generous social benefits, others to excessive regulation that limited job creation. In Germany reunification ended the possibility of employment for many in the former GDR.28

The Washington Consensus preached the virtues of small government, reduced national debts, and no deficit spending, yet debts and deficits were common on both sides of the Atlantic, among countries endorsing neoliberalism and those resisting it. The United States national debt rose steadily as a percentage of GDP from around 40 percent in the mid 1980s to over 60 percent in the mid 1990s and remained there, except for a brief drop at decade’s end. By 2007 government debt averaged 58 percent of GDP in the EU and 66 percent in the euro area, which was slightly above the 60 percent criteria prescribed in the Maastricht Treaty. This masked wide national variations; France and Germany hovered around the average, for example, while Sweden and Ireland were well below and Greece

and Italy far above. Hungary and Poland had substantial debts, but many Eastern European countries did not.\footnote{http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/.../2-22042010-BP-EN.PDF. www.usgovernmentspending.com/federal_deficit_chart.html.}

Balanced government budgets were a particular United States preoccupation but seldom an accomplished fact; Reagan ran substantial deficits, as did both Bush presidencies and only Clinton managed a surplus. By 2007 the annual deficit was 1 percent of GDP. European deficits were higher than United States ones in the 1980s and again in the late 1990s but lower in between. The Euro area mandated that deficits not exceed 3 percent of GDP, but even the most prosperous and stable countries like Germany and France had difficulty meeting that criterion consistently. In 2007 the average EU deficit was 0.8 percent of GDP and for the Euro zone 0.6 percent. While countries such as Sweden, the Netherlands, Finland, Spain, Ireland, and Denmark ran a surplus, Germany and France had modest deficits, Greece, Italy, Portugal, Hungary, and Poland more serious ones. If crises struck, even the most neoliberal governments intervened to limit damage. When the Long Term Capital Management hedge fund collapsed in 1998, for example, the American Federal Reserve pressured banks to bail it out; in the 2001 crash it stepped in again.

And then came the 2008 financial crisis, which began in the United States with the collapse of the subprime mortgage market, spread to American banks and brokerage firms, and then moved to Europe and around the globe. An American and European recession followed. By 2009 the United States debt had shot up to 80 percent of GDP and the deficit had risen to 10 percent. In the EU average deficits were 6 percent of GDP, and national debts spiraled out of control in Ireland, Iceland, and Greece. By 2011 the global economy was once again in danger, and this time the debt crises in the Euro zone led the way. Growth remained flat, unemployment continued to climb, and fears of a lost decade abounded on both sides of the Atlantic.\footnote{www.usgovernmentspending.com/federal_debt_chart.html.}

As in the 1930s and 1970s, there is no agreement about how to handle the crisis. In 2008–9 the United States, Britain, and many continental governments bailed out banks on an unprecedented scale. There was much talk of the return of Keynes, but as deficits and debts continued to rise, politicians on both sides of the Atlantic began prescribing austerity at home and for countries like Greece and Italy, which were in severe financial straits. In the United States, Congress refused to raise taxes, fund infrastructure projects, or revive employment programs like the
CCC. In Europe, more has been done to protect jobs, but the most prosperous countries like Germany have been reluctant to consider issuing Eurobonds that would stabilize weak countries but also increase the interdependence of states in the Eurozone. Economists, politicians, and pundits debated whether Greece, and perhaps Spain, Portugal, and Italy, would default and whether the euro would survive.

In the face of mounting crises and uncertainty about effective cures, it is an open question whether European states can defend their social policies. Prime Minister David Cameron in Britain has no intention of trying, advocating instead “the Big Society” in which national programs have been slashed and individuals and local communities are to be somehow empowered to care for themselves. In the United States the assault on social programs is targeting Medicaid, Medicare, and Social Security, but nothing comparable is occurring on the continent. As in the 1930s, Europe and America have blamed one another for their economic problems, each insisting that the other was not doing enough or not doing the right thing. From the perspective of late 2011, the future is uncertain on both sides of the Atlantic, and the current prolonged crisis is not bringing them closer together.