

Why American Capitalism Succeeds and European Socialism Fails

The following excerpt is taken from a recent Op-ed authored by Anatole Kaletsky and appearing within the February 2, 2006 issue of the TimesOnline. The full piece is accessible at: (<http://www.timesonline.co.uk/article/0,,1061-2020738,00.html>).

“Why does America’s prosperity and self-confidence seem to bear so little relationship to the competence of its government? The obvious answer is that **America, founded on a libertarian theory of minimal government**, has always had low expectations of politicians. **In America, it is not just business that thrives independently of government, perhaps even in spite of government. The same is also true of other areas of excellence** which in Britain are considered quintessentially in the public domain — higher education, leading-edge science, culture and academic research. Because Americans expect so little of their government, they are rarely disappointed. They do not slump into German-style angst when their governments fail to find solutions to the nation’s problems.

This anarchic spirit was summed up by Ronald Reagan: “The ten most dangerous words in the English language are ‘I’m from the government and I’m here to help you’.” In Europe, by contrast, the public expect government to solve all problems, and the media try to hold politicians accountable for everything. The result is a culture of dependency that extends far beyond the welfare state, to business and to the worlds of education, medicine, arts and science.

The American approach has a powerful advantage rooted in human nature: private sector activity is powered by economic incentives, while the State must operate by rules and sanctions. Since incentives, as Adam Smith observed, are much more likely to stimulate creativity and effort than sanctions, private enterprise tends to achieve ambitious objectives, while government often fails.

... **America has a host of public institutions**, ranging from government bodies such as the Federal Reserve and the National Institutes of Health to charities such as the great universities, museums and hospitals that are driven by a sense of public service **that puts British and European bureaucracies to shame.**

The American system recognises that a capitalist economy has areas of market failure where incentives alone will not produce socially desirable results. But American public institutions try to maximise private activity and incentives, rather than rein them in, within their realms — whether it is universities encouraging professors to start businesses, or health administrators creating incentives for drugs companies to do medical research.”