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Obama chases European mirage that's made in US

Amity Shlaes

"THAT'S how they do it in Europe." This is the biggest conceit behind the reform plans President Barack Obama will take to the healthcare summit with Republicans later this week.

Democrats, for example, assume that even if their consumer-rules proposals such as creating a health-insurance rate authority are recognised as the price controls they are, the proposal is still passable. That's because European healthcare systems have the equivalent of price controls — namely, curtailments in supply. Yet the region's hospitals still appear to be functioning, at least when viewed from the other side of the ocean.

Europe has also been on the minds of federal and state policymakers as they try to prune down commercial banks to a simple deposit-taking function like postal accounts in Germany or Japan.

But emulating Europe isn't a worthy project. For one thing, Europe is in more trouble than its currency suggests. The region's entitlement and pension burdens exceed those of the US. Greece's fiscal crisis reminds us that the euro is more vulnerable than the challenged dollar. But here's the interesting reason copying Europe won't work: Europe only functions as well as it does because it in turn copies the US. Their longstanding dance has had only two steps: the US generates ideas, and then Europe implements them.

Copycats

The person with perhaps the most insight into this is David Audretsch, who studies the quality of economic growth. (The Council on Foreign Relations, where I work, accepts grants from the Kauffman Foundation, as do some of his projects.) Audretsch directs the Institute for Development Strategies at Indiana University and has been affiliated with Germany's Max Planck Institute of Economics.

When it comes to Europe watching America, he says, "It's monkey

see, monkey do."

Three data sets supply some evidence. Between 1980 and 2000, the United States consistently spent a larger share of its economy on non-defence research and development than France, Italy, Germany, or the UK. The gap in overall research and development between the US and European nations has stayed constant during the past 10 years.

Patent rates are a second measure of innovation. Between 2002 and 2008, the annual number of patents granted in Germany was about 11,000. California alone produces twice as many.

In 2008, the US saw 92,000 patents granted, about the same number as the rest of the world.

Benefits of innovation

This fruitfulness benefits the rest of the world in meaningful ways. Non-governmental organisations (NGOs) complain about the prices US companies charge for HIV drugs. But the NGOs wouldn't be able to dispense AIDS drugs at all if US pharmaceutical companies hadn't invented them.

Third, there's the quality of European and US universities, which is harder to quantify. Anecdotally, we know the reality: nothing American — not an East Side two-bedroom apartment, not a condo by the slope in Utah's Deer Valley, not even US citizenship — is coveted more by Europe's professional class than getting their children admitted into an Ivy League college.

The *Times of London* gives four UK universities high spots in its ranking but the top of the field is dominated by US schools.

Webometrics, a research group based in Spain, sought to measure universities' influence and quality by analysing their presence on the Web, looking at both research papers and less formal scholarly communication. In the Webometrics ranking, the top 26 schools are American. Cambridge University is No 27.

There's no point in bragging about any of this. For one thing, the rest of the world is catching up to the US in the patents department. In the future Japan and South Korea might supplant the US as the main source of Europe's supply of innovative ideas.

Still the issue is now, not later, and preserving whatever innovative capacity the US retains. That means, for example, that the federal government not tax consumers extra for purchases of brand name drugs, and not raise taxes on higher earners, as the Obama administration suggests doing. Higher earners after all are generally the same folks who develop patent-worthy products.

Tax policy

It also means keeping taxes low by abolishing taxes on capital gains and on interest and by adopting the lower

tax rates proposed by Congressman Paul Ryan of Wisconsin. We also need to reaffirm the right to intellectual property. One related move that powered the US economic engine over time was the little noticed passage of the 1980 Bayh-Dole Act, a law co-sponsored by Bob Dole and Birch Bayh that made it easier for academics and universities — not the government — to own ideas researchers developed while at publicly funded universities. Scientists cite Bayh-Dole as an event that changed their lives.

US Democrats and European Social Democrats communicate in their closed circuit, not allowing facts like the Conservative Political Action Conference held last weekend or Greece's implosion to penetrate. Still, the realities are ones even they eventually will realise. Economic Europe is a mirage that fades even further even as we walk toward it. And that euro economy the commentators covet was invented in the US.

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