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## Jeffrey Sachs: Wall Street Journal Editors: Time to Look at the Data

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**T**hat the *Wall Street Journal* editorial board is filled with corporate apologists is not exactly news, but their daily exaggerations require a response. Recently the editorial writers have taken it upon themselves to defend Goldman Sachs's unethical trading behavior on the grounds that Goldman can peddle any deals it wants and Goldman's clients will just have to beware. This is a remarkable dismissal of the fundamental role of trust that underpins the credit markets. Of course, the word «credit» is derived from the Latin verb *creditus*, to believe, trust, or confide.

[Today's \*Journal\* editorial \(May 7\)](#) claims that Greece «shows that the welfare state model of development, dominated by public unions, onerous regulations, high taxes and the political allocation of capital, has hit the wall.» This is quite an assertion to make since the welfare state model of development has never been represented by Greece, but by the countries of Northern Europe. Rather than picking a straw man, let the *Journal* editorial writers have a look at the leading welfare state models of development, and then tell their readers about which system has hit the wall.

The table below compares the U.S., with Denmark, Netherlands, Norway, and Sweden on several economic dimensions of interest, including the budget deficit, unemployment rate, poverty rate, output per man-hour, and debt-GNP ratio. The table also reports the tax collections as a share of GDP, which are characteristically much higher in the social welfare states than in the U.S. All of the data are [available online from the Organization for Economic Cooperation and Development \(OECD\)](#).

The data are telling. It is the U.S. with by far the

highest budget deficit as a share of GDP, the highest unemployment rate, and the highest poverty rate. America's productivity (defined as the purchasing-power-adjusted GDP per man-hour) is in the middle of the group, lower than in Norway and The Netherlands, and slightly higher than in Denmark and Sweden. The social welfare states have not hit the wall.

I can agree on one point with the *Journal*: the «neo-Keynesian spending spree» should end. That is not a matter of social welfare, but of prudent fiscal management. That's why it's also absurd for the *Journal* to mention today in another editorial that more tax cuts would be the best stimulus!

Someday the *Wall Street Journal* editors will start looking at the real world. They will see that relentless tax cutting in the face of large budget deficits, exaggerated financial deregulation, and unethical Wall Street business practices have contributed starkly to America's current economic crisis. They will also find that the European social welfare states have succeeded in combining high living standards with society-wide sharing of the benefits of capitalism, and that we in the U.S. might learn a thing or two from them.

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**Who Has Hit the Wall? Not the Social Welfare States**

Country	Unemployment Rate as % of 2007	Unemployment Rate (2010, OECD harmonized method)	Primary Rate (Balance of trade 50% of income, 2005)	Output per worker (GDP per worker, US \$ 100, 2005)	Final State Government Revenue as a Share of GDP (2007)
US	-11.2	5.7	17.2	100	20.3
Denmark	-7.5	7.0	5.2	85	55.3
Netherlands	-4.5	4.1	7.7	102	49.0
Average	-6.6	5.3	6.8	100	34.8
Sweden	-2.0	8.7	5.3	89	54.2

Source: OECD data online

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