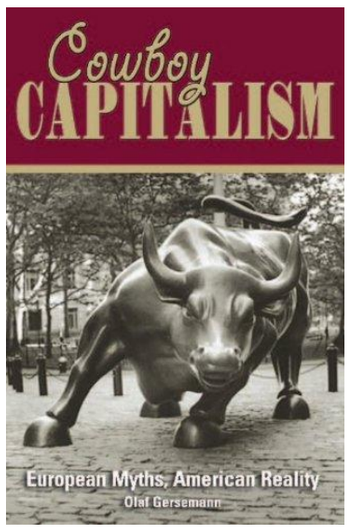


kindle

Cowboy Capitalism: European Myths, American Reality

van Gersemann, Olaf

Gratis Kindle Instant Preview: https://read.amazon.com/kp/kshare?asin=B004XOZ680

17 Highlights | Geel (17)

Highlight (Geel) | Locatie 371

> • Between 1970 and 2003 the number of people employed in the United States rose by 58.9 million. That’ s the equivalent of a 75 percent increase. In the three European countries, employment increased by fewer than 17.6 million people, or by 26 percent. • Almost half the increase in Europe was due to German reunification. In 1991 alone, the first year in which the former German Democratic Republic (East Germany) enters the statistics, employment in the three countries, taken together, rose by 8.3 million. • Growth in employment in Europe has been especially disappointing since the beginning of the 1990s. In 2003 the number of people employed was only 2.2 million higher than in 1991. Over the same period, employment in the United States grew by 18.9 million.

Highlight (Geel) | Locatie 460

> In the long run, though, increasing prosperity can stem from only one source, increased labor productivity. When output grows, there can be just two causes: Either the input of work is increased, for example because the employed work overtime, because the jobless find work, or because the workforce grows as a result of high immigration or fertility rates. Or labor productivity increases, that is, the output per hour worked goes up.1 However, the workday can’t be lengthened endlessly, and although unemployment can, theoretically at least, fall to zero, it can fall no lower. Only labor productivity can be increased indefinitely. Labor

Highlight (Geel) | Locatie 467

> High productivity growth ensures that wages can grow fast without unit labor costs and inflation spiraling out of control. Workers in America are richer than their predecessors a hundred years ago, not because they work more (they don’t) but because they are so much more productive. With regard to productivity, in the long

Highlight (Geel) | Locatie 475

> Luckily, however, the United States did experience a productivity boom the beginnings of which reach back to World War I.3 In Europe the wave of increased productivity growth started only after World War II, but it was subsequently even more impressive. That is the reason for the already described convergence of European per capita incomes with that of the United States in the 1950s, 1960s, and 1970s. After 1973, however, the era of strong productivity growth in the United States came to an abrupt halt for reasons unknown to this day. Of course, it seems reasonable to attribute the halt to the oil crisis of 1973–74. But why, then, didn't productivity growth pick up again when the real price of oil fell back to its precrisis levels in the mid-1980s?4 America's

Highlight (Geel) | Locatie 483

> The pace of productivity growth in the American business sector did quicken again. Annual labor productivity growth rates between 1974 and 1995 were as low as 1.51 percent on average; between 1996 and 2003, on the other hand, they reached an annual average of 3.09 percent.5

Highlight (Geel) | Locatie 489

> During the 1970s growth in labor productivity declined in Germany as well (Figure 3.1).6 But in 17 of the 22 years between 1974 and 1995, Germany's productivity growth was higher than America's. Especially at the end of the 1980s, the German-American gap was large. At that time, the German economy benefited from a surge in productivity growth. That surge was further strengthened by the reunification of the country in 1990 and the shutdown of the most inefficient factories in East Germany.7 At the time, Germany looked poised for continuing high productivity growth. "At the beginning of the '90s, productivity perspectives in Germany were viewed with optimism," reports the Bundesbank, Germany's central bank: "German unification and the opening of central and eastern Europe seemed to have opened new opportunities for increased specialization on larger markets and thus for more rapid growth of productivity."8 Either the opportunities did not actually exist or, which is more likely, they were just not seized.

Highlight (Geel) | Locatie 501

> 9Growth of labor productivity in Germany, however, has been trending down ever since the end of the short boom reunification brought. While labor productivity in the United States, as mentioned, grew by 3.09 percent between 1996 and 2003, Germany had to make do with 1.60 percent. That divergence is significant. At a constant level of labor input, an annual labor productivity growth rate of 3.09 percent would imply a doubling of per capita income within 23 years. A country where the rate is only 1.60 percent achieves an increase of only 44 percent over the same period.

Highlight (Geel) | Locatie 510

> That discrepancy is counterintuitive. One would have expected higher gains in Germany: • The reconstruction of East Germany (see Chapter 4) should have caused increased growth in productivity. • Traditionally, the highest productivity growth can be attained in manufacturing, which accounts for a much higher proportion of GDP in Germany than in the United States (see Chapter 4).11 • In the job creation boom of the last two decades, labor force participation in the United States increased significantly. Especially immigrants and women were integrated into the workforce. Those groups tend to lower the level of productivity because they have, on average, either less education (immigrants) or less work experience (women). In 2002, for instance, roughly a third of foreign-born citizens had no high school diploma; among natives, the share is 13 percent.12 In Germany, by contrast, the trend is for less-qualified workers to be pushed out of the workforce. That has, statistically, a positive effect on the level of productivity because only those workers who are actually employed enter the calculations.

Highlight (Geel) | Locatie 524

> The U.S. service sector in particular enjoyed high productivity growth. This is remarkable since it is often assumed that the potential for increasing productivity in the production of services is limited. That, if correct, would condemn high-income countries to sluggish GDP growth since consumption shifts toward services as economies mature—a phenomenon known as “Baumol’s disease.”13

Highlight (Geel) | Locatie 540

> Today’s new technologies are adopted much faster than was the dynamo. But to implement them efficiently is an even greater challenge. “Computers are not dynamos,” David writes. “The nature of man-machine interactions and the technical problems of designing efficient interfaces for humans and computers are enormously more subtle and complex than those that rose in the implementation of electric lighting and power technology.”15

Highlight (Geel) | Locatie 545

> Despite that challenge, the ICT revolution has, in some ways at least, surpassed earlier technological revolutions. The British economic historian Nicholas Crafts, for instance, has calculated that the contribution of ICT to economic growth in the United States over the last 25 years “has exceeded that of steam and at least matched that of electricity over comparable periods.”16 “The Solow productivity paradox stems largely from unrealistic expectations,” Crafts concludes. “The true paradox is why more should have been expected of ICT.”17

Highlight (Geel) | Locatie 795

> Indeed, empirical studies confirm that the sluggishness in countries like Germany and France is not the result of asymmetric shocks but a voluntarily chosen lot. A study by the International Monetary Fund, for instance, has shown that if only unemployment benefits, the taxation of labor, and employees’ protection against dismissal were reduced to the American level, unemployment would decrease by more than three percentage points (Figure 4.3) and economic output could increase by 5 percent. The effect would double if product markets, too, were liberalized by as much as they have been in the United States.22

Highlight (Geel) | Locatie 841

> Service-sector jobs are often and gleefully defamed. Service jobs, it is said, are for the most part mundane, low-paying “McJobs.” However, the opposite is true, as 1998 numbers for OECD countries show. For every 100 jobs for low-skill workers, manufacturing provided 97 jobs for medium- or high-skill workers. The service sector provided jobs for 229 medium- and high-skill workers for every 100 low-skill jobs. In producer services, the ratio was even more impressive at 100 to 417. What is more, 19.4 percent of the service-sector workers had a university education; in manufacturing the share was just 8.2 percent.24 Every so often, it is also said that even a modern economy needs a strong industrial base because the service sector produces nothing tangible and therefore can't be the foundation of an economy. Even Adam Smith, the otherwise sharp spiritual grandfather of capitalism, thought so. Only industrial work, wrote the Scottish philosopher in 1776, can be “productive.” The work of a service provider, however, “adds to the value of nothing.” Why Smith erred can be shown with an example. In the past, almost everyone who worked for the agricultural sector also worked in agriculture. In today’s modern economies, only a few percent of workers are employed in agriculture. But many service providers work for this sector—for example, software engineers who write the programs that help farmers manage their business or scientists who develop genetically modified seeds. Thus, as an economy matures, employment

Highlight (Geel) | Locatie 1080

> Put simply, a current account deficit occurs when a nation consumes and invests more than it produces—and therefore needs to borrow money from abroad. In America that is the case. In 2003 the current account deficit reached a record high of almost $542 billion.6 That is equal to almost $1.5 billion per day—and close to three times the amount of private net capital flows into emerging countries.7 Current account deficits get corrected. The consequence is usually that the growth of economic output lags behind its long-term potential for about three to four years. For industrialized countries, such a correction typically sets in when the deficit reaches 5 percent of GDP; in 2003 the U.S. current account deficit stood at 4.9 percent.8 There is another problem: although the U.S. current account deficit financed private investment in the late 1990s, it now serves for the most part to pay for growing budget deficits. The difference is important since investment outlays for, say, IT, tend to boost potential output. A deficit put to such use can, under certain circumstances, be sustainable for a rather long time. After all, as debt rises, so does the debtor’s ability to pay it off. The situation looks different when, as is now the case, the current account deficit stems from plugging holes in the federal budget. Money spent on tanks creates short-term demand, but it does not increase the growth potential of an economy. Money spent on security measures at airports or monitoring container ports may well even lower that growth potential.9 The End of the Dividend The fall of communism in Eastern Europe did not cause the boom in the United States, but it certainly fueled it. The end of the Cold War allowed for a drastic reduction in military expenditures. From a share of 6.2 percent of GDP in 1986, defense spending fell to 3.0 percent in 1999-2001,10 an essential prerequisite for the federal budget to run surpluses starting in 1998.

Highlight (Geel) | Locatie 1103

> Empirical evidence suggests that that effect is considerable. A study by Federal Reserve economist Thomas Laubach, for instance, shows that long-term interest rates fall by a quarter point when the expected budget deficit drops one percentage point in relation to GDP.11 The reduction of the deficit in the late 1990s could, therefore, have lowered interest rates by anywhere from 100 to 200 basis points—an enormous stimulus for a modern economy. With September 11 came the turnaround. The Bush administration's original plan to follow Ronald Reagan in using tax cuts to enforce spending discipline (see Chapter 4) was defunct. In real terms, government consumption and investment expenditures were 10.2 percent higher in 2003 than they had been in 2000. A large part of the story is the increased Pentagon budget. According to government estimates as of early 2004, national defense spending will, on average, amount to 3.8 percent of GDP in fiscal years 2003 through 2005.12 Add to that rapidly rising increases in public expenditures for homeland security. That growth in government spending—rather than lower revenues due to tax cuts, the stock market slump, and the economic slowdown—is the main cause of the roaring deficits. If, for instance, revenues had been the same as they were, while federal spending had grown by only 2 percent annually between 2000 and 2003, the budget deficit in 2003 would have been $116 billion, less than a third of the actual $375 billion budget deficit. Keeping nominal spending constant would have led to a deficit of no more than $7 billion in 2003.13

Highlight (Geel) | Locatie 2054

> The two features described—the lack of price controls and the out-of control tort system—are in good measure responsible for the high cost of the U.S. health care system. If, for instance, liability laws were reformed and at the same time expenditures for drugs were cut in half through price controls, America' s health care expenditures as a share of GDP could be reduced by about two percentage points. That would leave the U.S. health care system hardly more expensive than the German one, making health insurance more affordable for millions of Americans (at the price, as argued above, of a very high cost in terms of pharmaceutical progress forgone.)22

Highlight (Geel) | Locatie 2201

> hit the poor harder than the rich. That the U.S. tax code appears more progressive doesn't mean it actually is more progressive. Of course it isn't. Marginal tax rates are lower in the United States than in France, Germany, and Italy, and the top tax brackets are reserved for much higher incomes. In the end, the reason for the discrepancy in the transatlantic comparison remains an object of speculation. Two explanations, though, come to mind: The progressive nature of the tax codes is undermined by tax exemptions that favor high-income earners, especially in Germany. It is also likely that the discrepancy reflects the incentives to work fostered by low marginal tax rates in the United States and the disincentives to work fostered by much higher ones in Europe.
