CHAPTER 8

International comparisons

How does the United States stack up?

To this point we have examined a multitude of mostly domestic economic analyses positioned within a historical context. It is instructive to assess the relative position of the U.S. economy within the context of other similar international economies. This chapter examines international economies that face the same conditions as the United States with respect to trade, investment, technology, the environment, and other factors that shape economic opportunities. An international comparative approach provides an independent yardstick for gauging the strengths and weaknesses of the U.S. economy. In this chapter, the economic performance of the United States is compared to that of 19 other advanced, industrialized countries that, like the United States, belong to the Paris-based Organization for Economic Cooperation and Development (OECD), with an emphasis on the seven largest economies, called the G-7.

The performance of the U.S. economy—high productivity growth and relatively low unemployment—has many European policy, political, and economic analysts vying to emulate key features of the U.S. economy, including weaker unions, lower minimum wages, less-generous social benefit systems, and lower taxes. The international comparisons in this analysis can shed light on this ongoing debate about the advisability of exporting the "U.S. model."

Two dominant themes emerge from this chapter. First, while the United States is, on average, a very wealthy country, it also has a large variance in incomes between those at the top and the bottom of the income scale. Large variances in incomes make it difficult for economic growth to reach those at the bottom. Therefore, while it is true that many people in the United States are well-off, many are not. In fact, inequality is greater in the United States than in any of the other OECD countries. Moreover, inequality in the United States (along with the United Kingdom) has shown a strong tendency to rise, even as inequality was relatively stable or declining in most of the other OECD countries. Poverty and

child poverty rates are the highest in the United States, as is the infant mortality rate. The de-emphasis on redistributive social policies only exacerbates the high levels of poverty and income inequality in the United States.

Second, many OECD countries with strong unions, worker protections, and higher taxes have caught up with, and in many cases, surpassed U.S. productivity while achieving lower unemployment rates. It is telling that so many European countries have been successful and productive within the more "rigid" European economic models. It is not a given that economies that have strong welfare states and labor protections are necessarily less productive and/or inferior to the economic model that characterizes the United States.

Incomes and productivity: the United States is less dominant

The standard of living in the United States has been among the highest in the world for the entire post-World War II period. **Tables 8.1** and **8.2** summarize data on the most common measure of living standards, per capita income, or the total value of goods and services produced in the domestic economy per member of the population, and is therefore a pre-tax measure. Table 8.1 converts the value of foreign goods and services, measured in foreign currency, to U.S. dollars using market-determined exchange rates. A note of caution—because market exchange rates are based on short-term factors and are subject to substantial distortions from speculative movements and government interventions, comparisons based on exchange rates, even when averaged over a period of time such as a year, may yield unreliable and misleading results. Alternatively, purchasing-power parities are used in Table 8.2, which are explained in more detail below.

Referring to Table 8.1, in 1960, the United States had one of the highest standards of living among the 20 countries examined here, trailing only Switzerland, and it was well ahead of most of the European economies that were still rebuilding themselves after World War II. Per capita income grew rapidly in the United States in the 1960s and 1970s, but it rose nearly twice as fast—4.2% versus 2.2%—as the other OECD economies. In the 1980s and again in the 1990s, growth in per capita income decelerated sharply throughout most of the OECD countries, but it held at earlier levels in the United States. More recently growth in U.S. per capita income was just above average compared to the other rich countries. By 2004, per capita income in the United States was $39,728 per year, above the population-weighted average (excluding the United States) of $28,761, but below that of Japan ($42,146) and Norway ($42,832).

Using market exchange rates to convert the cost of goods and services in other countries to a U.S. value can, in some cases, give a misleading picture of relative standards of living. The relatively high level of income in Japan, for example, reflects fluctuations in market exchange rates in response to short-term international capital flows and other macroeconomic factors. However, this does not necessarily reflect long-term differences in national prices and the relative standard of living in Japan and the United States. In reality, prices vary considerably across countries. For example, land and housing prices are generally much lower in the wide-open United States, Canada, and Australia than they are in more crowded European countries and in Japan. To correct for this shortcoming, Table 8.2 uses an alternative set of criteria for converting the value of each country's goods and

TABLE 8.1 **Per capita income using market exchange rates, 1960-2004 (2004 dollars)**

	Per capita income*					Annual growth rates (%)			
Country	1960	1979	1989	2000	2004	1960-79	1979-89	1989-2000	2000-04
United States	$16,522	$24,914	$30,546	$37,721	$39,728	2.2%	2.1%	1.9%	1.3%
Japan	7,625	25,696	34,792	40,796	42,146	6.6	3.1	1.5	0.8
Germany**	9,117	16,959	20,244	25,225	25,823	3.3	1.8	2.0	0.6
France	8,713	16,409	19,813	23,882	24,826	3.4	1.9	1.7	1.0
Italy	5,461	13,732	17,322	20,300	20,912	5.0	2.3	1.5	0.7
United Kingdom	12,497	17,275	21,460	26,731	29,011	1.7	2.2	2.0	2.1
Canada	10,249	18,016	21,383	25,399	26,868	3.0	1.7	1.6	1.4
Australia	$8,344	$15,070	$18,174	$22,614	$24,592	3.2%	1.9%	2.0%	2.1%
Austria	8,322	17,101	20,624	26,397	27,358	3.9	1.9	2.3	0.9
Belgium	8,224	16,368	19,996	24,697	25,792	3.7	2.0	1.9	1.1
Denmark	12,560	22,735	26,085	32,719	33,595	3.2	1.4	2.1	0.7
Finland	5,683	16,203	22,150	25,413	27,578	5.7	3.2	1.3	2.1
Ireland	4,624	10,640	13,848	27,611	31,778	4.5	2.7	6.5	3.6
Netherlands	9,816	17,781	20,493	26,485	26,719	3.2	1.4	2.4	0.2
New Zealand	8,366	11,394	12,898	14,838	16,471	1.6	1.2	1.3	2.6
Norway	9,887	23,240	29,278	40,547	42,832	4.6	2.3	3.0	1.4
Portugal	2,518	6,288	8,472	11,358	11,250	4.9	3.0	2.7	-0.2
Spain	3,444	9,452	11,891	15,734	16,753	5.5	2.3	2.6	1.6
Sweden	10,057	20,783	25,377	29,760	31,927	3.9	2.0	1.5	1.8
Switzerland	22,843	29,271	34,660	37,237	37,007	1.3	1.7	0.7	-0.2
Average excluding U.S.	$8,402	$18,058	$22,860	$27,662	$28,761	4.2%	2.3%	1.8%	1.1%

* At the price levels and exchange rates of 2000 except for 1960, which is calculated at 1990 price levels and exchange rates.
** For all OECD data prior to 1991, Western Germany.

Source: Authors' analysis of OECD (1999, 2006a) data. For detailed information on table sources, see Table Notes.

TABLE 8.2 Per capita income using purchasing-power parity exchange rates, 1970-2004 (2004 dollars)

	Per capita income*					GDP index (United States = 100)				
Country	1970	1979	1989	2000	2004	1970	1979	1989	2000	2004
United States	$19,799	$24,914	$30,546	$37,721	$39,728	100	100	100	100	100
Japan	13,271	17,877	24,205	28,383	29,322	67	72	79	75	74
Germany	14,532	18,760	22,393	27,904	28,565	73	75	73	74	72
France	15,084	19,466	23,503	28,330	29,450	76	78	77	75	74
Italy	13,999	18,435	23,254	27,253	28,073	71	74	76	72	71
United Kingdom	14,703	18,037	22,407	27,911	30,292	74	72	73	74	76
Canada	16,726	21,684	25,736	30,571	32,338	84	87	84	81	81
Australia	$17,314	$19,791	$23,867	$29,697	$32,295	87	79	78	79	81
Austria	14,653	20,290	24,470	31,320	32,461	74	81	80	83	82
Belgium	14,761	19,283	23,557	29,096	30,385	75	77	77	77	76
Denmark	18,634	21,839	25,057	31,429	32,270	94	88	82	83	81
Finland	13,615	17,966	24,561	28,178	30,580	69	72	80	75	77
Ireland	8,968	12,103	15,753	31,408	36,148	45	49	52	83	91
Netherlands	17,129	20,857	24,038	31,066	31,340	87	84	79	82	79
New Zealand	16,368	17,350	19,638	22,593	25,079	83	70	64	60	63
Norway	15,786	22,682	28,575	39,574	41,804	80	91	94	105	105
Portugal	7,647	10,485	14,126	18,939	18,759	39	42	46	50	47
Spain	10,831	13,813	17,377	22,993	24,482	55	55	57	61	62
Sweden	17,882	20,701	25,277	29,643	31,801	90	83	83	79	80
Switzerland	24,381	26,035	30,829	33,120	32,916	123	104	101	88	83
Average excluding U.S.	$14,344	$18,388	$23,005	$28,059	$29,284	72	74	75	74	74

* At the price levels and PPP exchange rates of 2000.

Source: Authors' analysis of OECD (2006a) data.

services into U.S. dollars. These alternative exchange rates, known as purchasing-power parities (PPPs), are not based on international currency market exchange rates but, rather, on the price of buying an equivalent "basket" of goods and services in all countries. While calculation of PPPs presents many practical and conceptual problems, PPPs are a reasonable indicator of the relative price of consumption and arguably a better measure of relative living standards than market exchange rates.

When per capita income is measured on a PPP basis, as compared to market exchange rates, the United States also appears to provide an average standard of living that is well above that of the rest of the OECD economies, including those of the larger G-7 economies in the top panel. This ranking suggests that consumption goods (housing, food, transportation, clothing, and others) are generally cheaper in the United States than in the other economies, and these lower prices help to raise the standard of living in the United States relative to other "more expensive" economies. However, it is worth noting that PPPs do not account for the cost of non-market social goods, such as education, health care, or child care, which are much cheaper or completely covered by public spending in many European countries relative to the United States.

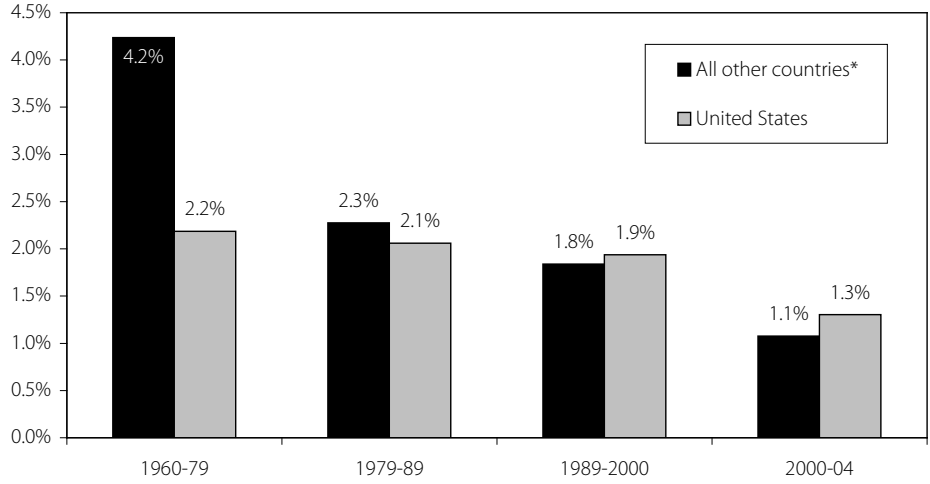
The pattern of growth in per capita income is similar regardless of whether PPPs or market exchange rates are used. For most of the economies examined in Table 8.1, growth in per capita income decelerated sharply in the 1980s. However, throughout the 1990s, about half of the economies experienced accelerated annual growth and half experienced decelerated annual growth from the previous decade. U.S. annual growth rates have steadily declined over the last three decades. This pattern also holds for Japan, France, Italy, Canada, Belgium, Portugal, and the overall average of OECD economies excluding the United States.

Figure 8A graphically illustrates annual per capita income growth rates for four time periods (data are from Table 8.1). Growth rates for the United States are compared to the average growth rates of all the other OECD countries. Annual growth rates were much higher, on average, for other OECD countries (4.2%) compared to the United States (2.2%) from 1960-79. From 1979-89, the growth rates of all other OECD countries (2.3%) slightly outpaced U.S. growth rates (2.1%). However for the next two time periods, growth rates of United States surpassed those of the OECD countries.

Table 8.2 also illustrates other nations' per capita income as a percentage of per capita income in the United States. For example, in 1970, Japan's per capital income was just 67% of that in the United States. By 2004, Japan's per capita income increased to 74% of the U.S. level. Switzerland's per capital income was greater than that in the United States in 1970, 1979, and 1989, but more recently in 2000 and 2004 per capita income in Switzerland fell behind that of the United States. Norway is the only country that had higher per capital income (using PPPs) than the United States in 2004.

The main determinant of an economy's current and future standard of living is the level and rate of productivity growth—the value of goods and services that the economy can produce, on average, in an hour of work. Productivity growth is a necessary component to increase living standards. Productivity is, therefore, the starting point in any explanation of differences in the level and growth of income across countries. **Table 8.3** presents other nations' productivity levels as a percentage of the U.S. level. Historically, the U.S. economy was far more productive than the OECD economies in our sample. For example,

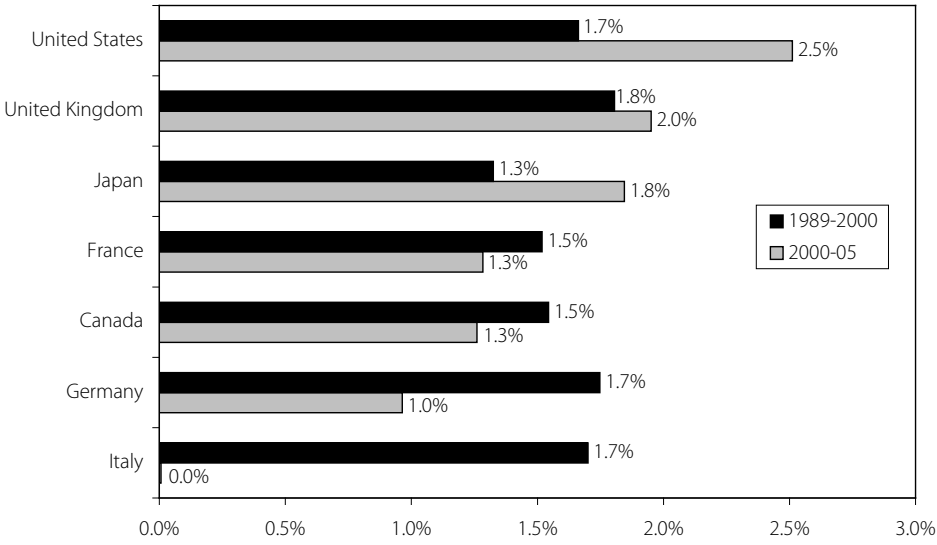
FIGURE 8A Annual growth rates of per capita income using market exchange rates, 1960-2004 (2004 dollars)



*Average of all countries listed in Table 8.2, not including the U.S.

Source: Authors' analysis of OECD (1999, 2006a) data.
For detailed information on all figures and sources see Figure Notes.

FIGURE 8B Productivity growth rates in G-7 countries



Source: Authors' analysis of OECD (2003a and 2005b) data.

TABLE 8.3 Relative productivity levels in the OECD, 1950-2004

	GDP per hour worked (United States = 100)					
Country	1950	1973	1980	1990	1995	2004
United States	100	100	100	100	100	100
Japan	15	47	55	68	72	73
Germany	39	76	88	94	104	92
France	46	77	88	103	106	107
Italy	43	83	97	104	115	92
United Kingdom	61	64	70	74	80	87
Canada	85	86	88	85	86	80
Australia	72	69	72	71	73	77
Austria	–	–	–	–	–	91
Belgium	59	85	102	110	113	113
Denmark	60	81	89	94	97	90
Finland	35	60	64	74	80	86
Ireland	–	46	58	74	83	104
Netherlands	59	92	106	112	113	100
New Zealand	–	81	71	65	63	59
Norway	57	79	101	115	128	125
Portugal	19	40	–	44	50	53
Spain	25	56	69	82	87	76
Sweden	58	79	83	81	84	88
Switzerland	86	96	101	95	86	82
Average excluding U.S.	41	68	78	85	91	86

Source: Authors' analysis of OECD (2003c and 2005b) data.

in 1950, the United States produced more than six times more goods and services in an hour as compared to Japan and over twice as much in an hour as France. However, by 2004, five OECD economies matched or exceeded U.S. productivity—Norway (125%), Belgium (113%), France (107%), Ireland (104%), and the Netherlands (100%).

The pattern of productivity growth summarized in **Table 8.4** closely resembles that of per capita income. The first key feature of productivity growth is the dramatic slowdown after the mid-1970s: growth was much more rapid in the 1960s than it was in the 1980s and 1990s. In fact, other countries had closed the gap with U.S. productivity to a great extent by 1995 (the non-U.S. average being 91% of U.S. productivity, with three other G-7 countries having higher productivity than the United States), but faster U.S. productivity growth over the last 10 years has widened the productivity gap.

Figure 8B illustrates data from Table 8.4 for the two time periods: 1989-2000 and 2000-05. Growth rates were fairly similar for the 1989-2000 period across these G-7 coun-

TABLE 8.4 Labor productivity growth per year in OECD, 1960-2005

Country	1960-73	1973-79	1979-1989	1989-2000	2000-05
United States	2.6%	0.3%	1.2%	1.7%	2.5%
Japan	8.4	2.8	2.8	1.3	1.8
Germany	4.5	3.1	1.4	1.7	1.0
France	5.3	2.9	2.5	1.5	1.3
Italy	6.4	2.8	1.9	1.7	0.0
United Kingdom	4.0	1.6	1.8	1.8	2.0
Canada	2.5	1.1	1.0	1.5	1.3
Australia	3.0%	2.5%	1.1%	2.0%	0.8%
Austria	5.9	3.1	2.4	2.5	1.8
Belgium	5.2	2.7	2.4	1.6	1.2
Denmark	3.9	2.3	1.3	2.4	2.0
Finland	5.0	3.2	3.4	2.9	1.9
Ireland	4.8	4.3	4.1	3.7	3.1
Netherlands	4.8	2.6	1.6	1.4	0.9
New Zealand	2.1	-1.1	1.9	0.7	1.0
Norway	3.8	2.7	1.0	2.7	2.7
Portugal	7.5	0.5	2.2	2.1	0.4
Spain	5.9	2.8	2.7	1.4	0.4
Sweden	3.7	1.4	1.8	2.8	2.0
Switzerland	3.3	0.8	0.4	0.3	0.8

Source: Authors' analysis of OECD (1998, 2003a, and 2005a).

tries—the range was 1.3% to 1.8%. More recently, U.S. productivity growth has rebounded and is significantly above the other countries' rates.

Traditionally, economists have excused the relatively lower U.S. productivity up to the 1990s by arguing that it is much harder to lead than to follow, to innovate than to imitate. In this view, productivity growth was faster outside the United States because other economies were engaged in a constant game of catch-up in which they rapidly assimilated technological improvements pioneered in the United States. While this view may have made sense as late as the 1960s or 1970s, the data on productivity levels in Table 8.3 suggest otherwise after that point. As early as 1980, several European economies had matched or exceeded U.S. productivity levels, and many others had narrowed the gap considerably. By 1995 there were six nations with higher productivity levels. The fact that so many European countries have had productivity levels at or above U.S. levels for a decade or two suggests that these countries' comprehensive welfare and collective-bargaining systems have not stymied income growth or improvements in economic efficiency relative to the more free-market-oriented United States. It is not yet well understood why U.S. productivity has exceeded that of other countries since 1995. It may partially be due to different measures (the U.S. quality adjusts its computer output while

other countries do not). The differences seem to go beyond investment in information technology because the U.S. investments since 2000 have been slight. It seems unlikely that these other countries have seen their productivity growth impeded by their 'social model' post-1995, but not before then.

Some economists have also dismissed the evidence of high European productivity levels as simply a by-product of high European unemployment rates. These economists argue that low-productivity workers find jobs in the low-unemployment United States, thus pulling down the average productivity level of the U.S. economy. Indeed, in Europe, which generally has higher unemployment rates than the United States, low-productivity workers are less likely to work and therefore don't pull down average productivity levels. But this argument still has several flaws. First, three European economies in Table 8.3 that had 2004 productivity levels above the U.S. level—Ireland, the Netherlands, and Norway—actually had *lower* unemployment rates than the United States. (See Table 8.11, which shows that in 2004 the unemployment rate was 4.5% in Ireland, 4.6% in the Netherlands, and 4.4% in Norway.) The very low unemployment rates in these countries did not prevent them from achieving high productivity levels. Second, in the United States in the late 1990s, even as the unemployment rates of low-skill workers fell to historic depths, productivity growth accelerated. Third, in high-unemployment European economies, an important share of unemployed workers had mid- to high levels of formal education. (See, for example, Table 8.12 and the related discussion.) This suggests that average productivity would not be significantly affected in a negative way if unemployed workers became employed.

Table 8.5 combines 2004 data from Table 8.3 and 8.21 to illustrate how productivity levels would potentially change if currently unemployed workers in each country were included in the workforce and each had zero productivity—this is an extreme but conservative assumption. The adjusted productivity levels are calculated by assuming that in those countries where unemployment rates exceed that of the United States, the unemployed are employed but produce no output. In France, for example—a country that in 2004 had high unemployment (9.6%) and productivity equal to 103% of the U.S. level—adjusted productivity is calculated by subtracting the U.S. unemployment rate of 5.5% from France's 9.6% unemployment rate, which leaves 4.1%. Next, to obtain adjusted productivity, subtract the 4.1% from the initial productivity level of France: 107 - 4.1 = 102.9. Hence, France's adjusted productivity was 102.9 (rounded to 103 in Table 8.5)—which is still above the U.S. level. This analysis shows that the high unemployment rate in France does not explain their high productivity level relative to the United States. It is also worth noting that France achieved its relatively high productivity even as it lowered the standard workweek to 35 hours. Thus, adjusting for differences in unemployment did not alter the basic conclusion that a number of advanced countries now have higher productivity levels than the United States.

Of the five countries that had productivity levels higher than the United States in 2004, all of them had adjusted productivity levels higher than U.S. levels. The adjusted productivity of Spain—which had an unemployment rate of 10.9%—fell the most, from a relative productivity level of 76% of the U.S. level to an adjusted level that is 70% of the U.S. level.

TABLE 8.5 Productivity and unemployment rates in OECD, 2004

Country	Productivity (US=100)	Unemployment rate	Adjusted Productivity*
United States	100%	5.5%	–
Japan	73	4.7	73
Germany	92	9.5	88
France	107	9.6	103
Italy	92	8.0	89
United Kingdom	87	4.7	88
Canada	80	7.2	78
Australia	77%	5.5%	77%
Austria	91	4.8	92
Belgium	113	7.9	110
Denmark	90	5.4	90
Finland	86	9.0	82
Ireland	104	4.5	105
Netherlands	100	4.6	101
New Zealand	59	3.9	60
Norway	125	4.4	126
Portugal	53	6.7	52
Spain	76	10.9	70
Sweden	88	6.4	87
Switzerland	82	4.4	83

* Assumes unemployment above the U.S. rate corresponds to employed workers with no ouput

Source: Authors' analysis of OECD (2005b) data.

Employment and hours worked: differing labor/leisure preferences

The per capita income figures in Tables 8.1 and 8.2 appear, at face value, to be at odds with the international estimates of productivity levels in Table 8.3. Per capita income in the United States—the value of goods and services produced annually per person—is generally much higher relative to the other OECD economies than is the U.S. productivity level (i.e., the value of goods and services produced in one hour of work in the United States). These differences between per capita income and productivity levels stem from two important differences across countries: the share of the total population employed and the average number of hours worked each year by those with jobs.

The U.S. economy employs a greater share of its working-age population, and its workers work, on average, more hours per year than workers in any other rich, industrialized economy. This additional work raises per capita income in the United States relative to other economies with roughly similar productivity levels but lower levels of employment and lower average annual hours worked. Supporters of the U.S. model have long argued that the ability of the United States to generate a greater volume of work, whether mea-

TABLE 8.6 Employment rates in OECD countries

					Percentage-point change		
	1979	1989	2000	2004	1979-89	1989-2000	2000-04
Male							
United States	73.8%	72.5%	71.9%	69.2%	-1.3	-0.6	-2.7
Japan	78.2	75.1	72.5	69.6	-3.1	-2.6	-2.9
Germany*	69.8	65.9	61.7	57.8	-3.9	-4.2	-3.9
France	69.6	61.2	59.0	58.7	-8.4	-2.2	-0.3
Italy	66.3	59.9	56.5	57.1	-6.4	-3.4	0.6
United Kingdom	74.5	70.4	67.5	66.9	-4.1	-2.9	-0.6
Canada	74.3	71.7	68.3	68.6	-2.6	-3.4	0.3
Australia	75.3%	72.1%	68.7%	68.8%	-3.2	-3.4	0.1
Netherlands	74.3	65.1	71.9	71.0	-9.2	6.8	-0.9
Sweden	73.7	70.9	64.3	63.1	-2.8	-6.6	-1.2
Female							
United States	47.5%	54.3%	57.7%	56.0%	6.8	3.4	-1.7
Japan	45.7	47.4	46.4	45.5	1.7	-1.0	-0.9
Germany*	38.4	39.7	44.6	44.6	1.3	4.9	0.0
France	40.5	41.2	43.9	45.7	0.7	2.7	1.8
Italy	27.3	28.6	30.5	34.2	1.3	1.9	3.7
United Kingdom	45.3	49.7	52.5	53.5	4.4	2.8	1.0
Canada	45.6	53.9	56.1	58.3	8.3	2.2	2.2
Australia	40.7%	48.8%	52.6%	53.8%	8.1	3.8	1.2
Netherlands	29.2	37.4	52.2	54.0	8.2	14.8	1.8
Sweden	57.2	61.7	56.1	56.1	4.5	-5.6	0.0

* For all BLS data prior to 1999, Western Germany.

Source: Authors' analysis of BLS (2005) data.

sured in terms of number of jobs or hours of work, is an essential feature of the U.S. model. To address this contention, this section takes a closer look at international employment rates, average hours worked, and unemployment rates.

The United States did, indeed, employ a greater share of its working-age population (men and women combined) than seven of the other nine countries listed in **Table 8.6**. In 2004, the United States employed 69.2% of its male working-age population—third only to the Netherlands (71.0%) and Japan (69.6%). That same year, 56.0% of women were employed in the United States—third to Canada (58.3%) and Sweden (56.1%). Employment rates may vary because of differences across economies in school enrollment rates for adults, early retirement rates, and women's non-market responsibilities, especially child care.

Table 8.6 shows a different pattern over time for employment rates of men and women. Generally, among working-age men, employment rates have been falling since 1979. There

TABLE 8.7 Average annual hours worked in OECD, 1979-2004

					Change in hours		
	1979	1989	2000	2004	1979-89	1989-2000	2000-04
United States	1,861	1,878	1,858	1,824	17	-21	-33
Japan	2,126	2,070	1,821	1,789	-56	-249	-32
Germany	1,758	1,589	1,443	1,426	-169	-147	-17
France	1,755	1,608	1,496	1,441	-147	-112	-55
Italy	1,697	1,654	1,613	1,585	-43	-41	-28
United Kingdom	1,815	1,782	1,701	1,669	-32	-81	-32
Canada	1,800	1,770	1,768	1,751	-30	-2	-17
Australia	1,904	1,870	1,855	1,816	-34	-15	-40
Austria	–	–	1,582	1,550	–	–	-32
Belgium	–	1,612	1,545	1,522	–	-67	-23
Denmark	–	1,466	1,467	1,454	–	1	-13
Finland	1,870	1,803	1,750	1,736	-67	-53	-13
Ireland	–	1,919	1,688	1,642	–	-231	-46
Netherlands	–	1,452	1,368	1,357	–	-84	-11
New Zealand	–	1,832	1,817	1,826	–	-15	9
Norway	1,514	1,440	1,380	1,363	-74	-60	-17
Portugal	–	1,867	1,691	1,694	–	-176	3
Spain	2,022	1,822	1,815	1,799	-199	-7	-16
Sweden	1,530	1,565	1,625	1,585	34	60	-40
Switzerland	–	–	1,603	1,556	–	–	-47
Average excluding U.S.	1,874	1,774	1,656	1,628	-90	-116	-28

Source: Authors' analysis of OECD (2005b) data.

were large decreases in male employment rates over the 1980s. The reduction continued throughout the 1990s and less so in the first part of the new decade. Among working-age women, employment rates rose between 1979 and 1989 in every country, and increased substantially in Canada, the Netherlands, and Australia. From 1989 to 2000, all countries, most exceptionally the Netherlands (14.8), had increases in female employment rates, with the exception of Sweden (-5.6) and Japan (-1.0). Employment rates for women decreased for two countries from 2000 to 2004—the United States with -1.7 and Japan with -0.9 decline—but remained the same or increased for the other eight countries.

Table 8.7 is a listing of average annual hours worked in OECD countries. In 2004, workers in the United States worked, on average, more hours per year (1,824 hours) than workers in any of the other countries except New Zealand. The historic leader in annual hours worked—Japan—now worked fewer hours than the United States (1,789 hours compared to 1,824 hours) in 2004. Japan has reduced average hours worked by 16% between 1979 and 2004. Workers in Norway and the Netherlands worked the least amount of hours per year.

TABLE 8.8 Per capita income compared to OECD average

		Difference from OECD average attributed to:		
	Per capita income (OECD average=100)	Productivity	Hours worked per person	Labor utilization
United States	130.2%	11.7%	15.2%	3.2%
Japan	96.8	-18.2	9.1	5.9
Germany	93.6	11.1	-11.4	-6.1
France	99.9	27.0	-13.2	-13.9
Italy	90.3	9.6	-2.9	-16.5
United Kingdom	100.9	-3.3	3.6	0.6
Canada	104.2	-11.0	7.6	7.6
Australia	106.6%	-8.1%	12.0%	2.7%
Denmark	105.2	7.7	-8.7	6.2
Finland	100.1	-5.4	8.4	-3.0
Ireland	119.4	20.0	0.2	-0.7
Netherlands	93.3	4.6	-18.2	6.9
New Zealand	81.0	-33.4	9.1	5.2
Norway	132.7	47.2	-23.0	8.5
Portugal	59.3	-46.2	2.5	3.0
Spain	84.7	-16.2	28.8	-28.0
Sweden	101.9	2.9	-1.1	0.1

Source: Bivens (2006).

The data on employment rates and average hours worked suggest that more of the U.S. population (as a share of the U.S. working population) contribute more hours to GDP than was the case in most other OECD countries. European nations, on the other hand, chose to take their productivity gains in the form of reduced hours—through shorter workweeks, longer vacations, and earlier retirements. This is an explicit policy choice—France, for example, reduced its workweek from 39 to 35 hours in January 2000.

The calculations in **Table 8.8** help to reconcile the differences between the United States and the other economies' productivity levels on the one hand, and their per capita income levels on the other. The last three columns in Table 8.8 break down the variation in per capita income that diverges from the OECD average of 100. For example, the per capita income in the United States was 130.2% of the OECD average of 100. Therefore, per capita income in the United States was 30.2% higher than the OECD average. The 30.2% is further broken down by productivity, hours worked per person, and labor utilization (employment-to-population ratio). For the United States, 11.7% of the 30.2% of per capita income above the OECD average was attributable to higher productivity, 15.2% to more hours worked per person, and 3.2% to slightly higher employment rates. Portugal had the lowest per capita income—59.3% of the

TABLE 8.9 Work and leave policies in weeks in the OECD

Country	Full-time employees		
	Average annual work	Statutory minimum vacation	Actual holiday and vacation
United States	46.2	0.0	3.9
Japan	–	–	–
Germany	40.6	4.0	7.8
France	40.7	5.0	7.0
Italy	41.1	4.0	7.9
United Kingdom	40.8	4.0	6.6
Canada	–	–	–
Australia	–	–	–
Austria	39.5	5.0	7.3
Belgium	40.3	4.0	7.1
Denmark	39.4	5.0	7.4
Finland	38.9	4.0	7.1
Ireland	43.9	4.0	5.7
Netherlands	39.6	4.0	7.6
New Zealand	–	–	–
Norway	37.0	4.2	6.5
Portugal	41.9	4.4	7.3
Spain	42.1	4.4	7.0
Sweden	36.0	5.0	6.9
Switzerland	42.6	–	6.1

Source: Alesina, Glaeser, and Sacerdote (2005).

OECD average, or, put differently, Portugal's per capita income was 40.7% less than the OECD average. The -40.7% divergence from the OECD average of 100 can mostly be attributed to a -46.2% productivity gap. Norway's per capita income is 132.7% of the OECD average; their productivity difference was the highest (47.2%), but they also had the lowest hours worked per person (-23.0% of the OECD average). The basic lesson of these employment and hours data is that a significant portion of the apparently higher standard of living in the United States comes not from working more efficiently than other comparable economies, but simply from more people working and doing so for more hours.

An important complement to work is leisure. **Table 8.9** reveals one important reason for international differences in hours worked—generous annual vacation policies in Europe. Again, these data show that U.S. workers worked more than workers in other countries. U.S. full-time workers averaged 46.2 weeks of work per year—followed by Ireland (43.9) and Switzerland (42.6). Full-time workers in Sweden and Norway worked the least—36 and 37 weeks per year, respectively.

In Europe, the statutory minimum vacation was four to five weeks per year (shown in column 2). Interestingly, the United States has no statutory vacation time. Employers are free to offer vacations or not. Perhaps even more revealing is the actual amount of holiday and vacation time taken. On average, full-time U.S. workers get just under four weeks of paid holiday and vacation time. For Europeans, actual holiday and vacation time exceeds statutory vacation minimums by several weeks. For instance, the statutory minimum in Italy was four weeks, but the actual time taken was just under eight weeks. It seems the labor/leisure decision in Europe is structurally different than in the United States.

The capacity of the U.S. economy to sustain high employment rates is an important economic accomplishment. **Table 8.10** puts U.S. job creation into historical and international context. The table shows the annual employment growth rate in 20 OECD economies over three periods: 1979-89, 1989-2000, and 2000-04. Australia (2.4%) had the highest annual growth rate in employment from 1979 to 1989. The United States, at 1.7%, was above the OECD average of 0.8%, but was lower than four other countries. During this period only Ireland (-0.5%) had a negative annual growth rate in employment. During the 1990s, the United States again had better than average growth (1.4% versus the average of 1.0%), but six countries had as-strong-or-better annual growth rates in employment—most notably Ireland at 3.8%.

From 2000 to 2004, the United States had lower-than-average growth rates in employment—0.4% versus the average of 0.7%. The United States was in recession for most of 2001 and a subsequent jobless recovery continued into 2003—therefore job creation was tepid (see Chapter 4). Eleven countries had equal or higher annual growth rates in employment compared to the United States from 2000 to 2004, with Spain leading the list with high annual increases of 3.8% over this period.

Table 8.11 reports the unemployment rate in 20 OECD countries for 1979, 1989, 2000, and 2004. Over the late 1990s, many OECD countries experienced falling unemployment rates. The jobless rate remained low in the United States in 2000 (4.0%), and eight other countries had rates below 5%—Switzerland (2.7%), the Netherlands (2.9%), Norway (3.4%), Austria (3.7%), Portugal (4.1%), Ireland (4.3%), Denmark (4.4%), and Japan (4.7%). In 2004, unemployment rates in 13 countries were worse than they were in 2000. For that same year, nine countries had unemployment rates lower than the 5.5% U.S. rate.

Table 8.12 assesses an important claim about the causes of higher unemployment rates in some European countries; specifically, the claim by some economists that Europe's labor market institutions—such as strong unions, high minimum wages, and generous benefits—have priced less-skilled workers out of jobs. If this were the case, one would expect the unemployment rates of less-educated workers and better-educated workers to be relatively close to one another in the United States, where relatively weak unions, low minimum wages, and poor benefits would have less of an effect on the employment prospects of less-educated workers (in other words, where compensation can fall so as to promote more jobs for the less-skilled). Conversely, one would expect the unemployment rates of less-educated and better-educated workers to be relatively farther apart in Europe, where labor market institutions would, by conventional thinking, disproportionately hurt job creation for less-educated workers. Yet the data in Table 8.12 run completely counter to this expectation.

TABLE 8.10 Employment in OECD countries, 1979-2004

	Employment (thousands)				Employment change (thousands)			Annual growth rate (%)		
	1979	1989	2000	2004	1979-89	1989-2000	2000-04	1979-89	1989-2000	2000-04
United States	98,824	117,342	136,891	139,252	18,518	19,549	2,361	1.7%	1.4%	0.4%
Japan	54,790	61,280	64,460	63,290	6,490	3,180	-1,170	1.1	0.5	-0.5
Germany	26,120	27,469	36,236	35,876	1,349	8,767	-360	0.5	2.6	-0.2
France	21,392	21,842	23,698	24,259	450	1,856	561	0.2	0.7	0.6
Italy	20,057	20,833	20,874	22,146	776	41	1,272	0.4	0.0	1.5
United Kingdom	25,080	26,549	27,058	27,845	1,469	509	787	0.6	0.2	0.7
Canada	10,669	12,986	14,759	15,950	2,317	1,773	1,191	2.0	1.2	2.0
Australia	6,079	7,715	8,990	9,578	1,636	1,275	588	2.4%	1.4%	1.6%
Austria	3,051	3,342	3,743	3,732	291	401	-11	0.9	1.0	-0.1
Belgium	3,660	3,670	4,093	4,139	10	423	47	0.0	1.0	0.3
Denmark	2,439	2,610	2,692	2,689	171	82	-3	0.7	0.3	0.0
Finland	2,246	2,494	2,326	2,356	248	-168	29	1.1	-0.6	0.3
Ireland	1,151	1,099	1,664	1,829	-52	565	165	-0.5	3.8	2.4
Netherlands	4,821	6,065	7,758	7,990	1,244	1,693	232	2.3	2.3	0.7
New Zealand	1,262	1,532	1,808	2,017	270	276	209	2.0	1.5	2.8
Norway	1,862	2,014	2,246	2,258	152	232	12	0.8	1.0	0.1
Portugal	3,854	4,377	4,997	5,087	523	620	91	1.3	1.2	0.4
Spain	12,109	12,558	15,425	17,875	449	2,867	2,451	0.4	1.9	3.8
Sweden	4,180	4,442	4,159	4,213	262	-283	54	0.6	-0.6	0.3
Switzerland	3,095	3,704	4,089	4,185	609	385	96	1.8	0.9	0.6
Average excluding U.S.	25,621	27,912	30,387	30,414	2,219	2,697	231	0.8%	1.0%	0.7%

Source: Authors' analysis of OECD (2006b) data.

TABLE 8.11 Unemployment rates in the OECD, 1979-2004 (percent of civilian labor force)

	Standardized unemployment			
Country	1979	1989	2000	2004
United States	5.8%	5.3%	4.0%	5.5%
Japan	2.1	2.3	4.7	4.7
Germany	2.7	5.6	7.8	9.5
France	5.3	9.1	9.5	9.6
Italy	5.8	9.7	10.4	8.0
United Kingdom	4.7	7.1	5.4	4.7
Canada	7.5	7.5	6.8	7.2
Australia	6.1%	6.0%	6.3%	5.5%
Austria	–	–	3.7	4.8
Belgium	9.1	7.4	6.9	7.9
Denmark	–	6.8	4.4	5.4
Finland	6.5	3.1	9.8	9.0
Ireland	–	14.7	4.3	4.5
Netherlands	5.8	6.6	2.9	4.6
New Zealand	–	7.1	6.0	3.9
Norway	2.0	5.4	3.4	4.4
Portugal	–	5.2	4.1	6.7
Spain	7.7	13.9	11.3	10.9
Sweden	2.1	1.5	5.6	6.4
Switzerland	–	–	2.7	4.4
Average excluding U.S.	4.2%	6.6%	7.0%	7.1%

Source: Auhtors' analysis of OECD (2001e, 2003b and 2005) data.

The unemployment rate for workers with less than a high school education in the United States in 2003 was almost three times higher than the rate for college-educated workers—only Austria (4.0), Germany (3.5), and Belgium (3.1) ratios were higher. The ratio of high school-to-college unemployment rates was 1.8 in the United States, which was higher than all the other countries except Finland (2.1), Germany (2.0), and Belgium (1.9). Thus, Europe's strong labor market institutions do not appear to have priced less-skilled workers out of the market. If anything, the European institutions appear to be associated with substantially *lower* relative unemployment rates for less-educated workers.

TABLE 8.12 Unemployment rates in the OECD by education level, 2003

Country	Unemployment rate			Ratio of:	
	Less than high school	High school	College	Less than high school/ college	High school/ college
United States	9.9%	6.1%	3.4%	2.9	1.8
Japan	6.7	5.4	3.7	1.8	1.5
Germany	18.0	10.2	5.2	3.5	2.0
France	12.1	7.5	6.1	2.0	1.2
Italy*	9.0	6.4	5.3	1.7	1.2
United Kingdom	6.9	3.9	2.4	2.9	1.6
Canada	10.9	6.5	5.2	2.1	1.3
Australia	7.0%	4.3%	3.0%	2.3	1.4
Austria	7.9	3.4	2.0	4.0	1.7
Belgium	10.7	6.7	3.5	3.1	1.9
Denmark	7.2	4.4	4.7	1.5	0.9
Finland	11.1	9.2	4.3	2.6	2.1
Ireland	6.3	2.9	2.6	2.4	1.1
Netherlands*	3.8	2.2	2.1	1.8	1.0
New Zealand	4.9	2.9	3.5	1.4	0.8
Norway	3.9	3.6	2.5	1.6	1.4
Portugal	5.7	5.1	4.9	1.2	1.0
Spain	11.2	9.5	7.7	1.5	1.2
Sweden	6.1	5.2	3.9	1.6	1.3
Switzerland	6.1	3.3	2.9	2.1	1.1
Average excluding U.S.	9.7%	6.4%	4.5%	2.2	1.4

* Data for Italy and Netherlands are from 2002.

Source: Authors' analysis of OECD (2004a, 2005b) data.

Workers' wages and compensation: some getting ahead, some falling behind

The vast majority of workers in the OECD countries examined here rely heavily on their wages and other work-related benefits for their economic security and well-being. The level, growth, and distribution of wages and benefits are important economic indicators that provide insight into international differences and similarities. **Table 8.13** shows the inflation-adjusted annual growth rates of worker compensation (wages plus fringe benefits) in the private sector. Keep in mind that real wage growth stagnation or decline hampers any standard of living improvements. The first detail to notice is that growth rates vary considerably across countries and across time. In the 1980s, the United States put in the

TABLE 8.13 Real compensation growth per year in the OECD, 1979-2005

Country	1979-89	1989-2000	2000-05
United States	-0.2%	0.8%	1.7%
Japan	1.3	0.3	0.1
Germany	0.9	0.8	-0.5
France	1.1	0.2	0.9
Italy	1.3	0.7	0.5
United Kingdom	1.5	1.9	3.4
Canada	0.5	1.2	0.4
Australia	0.0%	1.0%	0.6%
Austria	1.6	1.2	0.3
Belgium	1.2	1.6	0.6
Denmark	0.5	1.1	1.1
Finland	3.1	1.5	1.9
Ireland	1.3	1.7	1.4
Netherlands	-0.3	0.6	1.0
New Zealand*	-1.0	3.3	2.1
Norway	0.4	1.7	2.3
Portugal	-0.6	3.4	1.1
Spain	1.7	1.3	0.2
Sweden	1.0	2.4	2.5
Switzerland	1.3	0.8	0.6
Average excluding U.S.	1.1%	0.9%	0.7%

* For New Zealand 2000-05 is 2000-03.

Source: Authors' analysis of OECD (2003a and 2005a) data.

fourth-worst performance, with average compensation *falling* about 0.2% per year—way below the average *increase* of 1.1%. The U.S. average from 2000 to 2005 was 1.7%, well above the OECD average of 0.7% in real compensation growth. Four countries fared better than the United States, most notably Norway with 2.3% growth. Note also that Germany had negative real compensation growth from 2000-05.

The most extensive international data on compensation covers a narrower group of workers—production workers in manufacturing (representing between 12% and 22% of employed workers) for whom there is more extensive data, which allows us to examine compensation growth that excludes the very high earners. It is often mistakenly thought that U.S. manufacturing's lack of international competitiveness is due to prohibitively high labor costs relative to other countries. **Table 8.14** shows that even in 1979 that wasn't always the case, and in 2004 it was less so. Table 8.14 compares hourly compensation in manufacturing in OECD countries to the corresponding levels in the United States. National compensation rates were converted into U.S. dollars using market exchange rates

TABLE 8.14 Relative hourly compensation of manufacturing production workers, 1979-2004, (U.S. = 100)

	Using market exchange rates				Using purchasing-power parity			
Country	1979	1989	2000	2004	1979	1989	2000	2004
United States	100	100	100	100	100	100	100	100
Japan	60	88	112	95	56	63	78	76
Germany	124	123	120	147	101	121	133	127
France	85	88	78	103	69	86	93	91
Italy	78	101	70	88	100	109	94	83
United Kingdom	63	74	85	107	69	79	89	92
Canada	87	103	84	92	94	101	101	96
Australia	83	87	73	100	76	82	96	99
Austria	88	99	97	122	86	105	115	110
Belgium	131	108	102	129	92	109	120	118
Denmark	117	102	111	146	84	84	107	104
Finland	83	118	99	132	70	91	109	111
Ireland	55	68	65	95	59	74	73	76
Netherlands	126	105	98	133	101	111	115	117
New Zealand	51	53	40	56	61	59	61	57
Norway	114	128	115	150	77	96	112	110
Portugal	19	21	23	30	34	37	38	34
Spain	59	63	54	74	66	76	79	78
Sweden	125	122	102	123	88	95	102	98
Switzerland	117	117	107	131	89	97	95	95
Average excluding U.S.	82	93	92	105	77	88	95	93

Source: Authors' analysis of BLS (2001 and 2005) data.

(columns 2-5) and purchasing-power parity (columns 6-9). Market exchange rates reflect the relative value of American goods, services (including labor), and assets in international markets; therefore, the compensation figures here capture the relative costs to an employer of hiring U.S. labor and thus reflects aspects of competitiveness. In 1979, seven countries had manufacturing compensation rates above the U.S. level. By 2004, 11 countries did. From 1979 to 2004, manufacturing compensation converged closer to the U.S. average. In 1979, 1989, and 2000 the U.S. compensation level was above the OECD average, but by 2004, the U.S. compensation level fell below that of the OECD average.

In terms of purchasing-power parities (which better reflect the ability of the compensation levels in each country to guarantee a specific standard of living), U.S. workers fared better than most of the other countries in the earlier periods. In 1979, manufacturing com-

TABLE 8.15 Annual growth in real hourly compensation in manufacturing in the OECD, 1979-2004

	1979-89		1989-2000		2000-04	
Country	All employees	Production workers	All employees	Production workers	All employees	Production workers
United States	0.1%	-0.7%	1.1%	0.1%	2.6%	1.8%
Japan	1.8	1.4	1.7	2.0	1.0	0.4
Germany	2.5	2.1	2.1	1.5	0.6	0.1
France	1.9	2.1	1.5	1.1	1.8	1.5
Italy	1.0	1.8	0.3	-0.3	0.5	-0.2
United Kingdom	3.0	1.8	2.1	1.5	2.2	2.8
Canada	0.3	0.1	0.0	0.7	0.0	0.0
Australia	–	0.6%	–	1.5%	1.7%	3.0%
Austria	–	2.1	–	1.4	-	0.3
Belgium	1.3%	1.4	1.0%	1.9	1.6%	0.6
Denmark	1.4	-0.1	0.9	2.6	2.6	1.3
Finland	–	3.2	–	2.8	–	2.7
Ireland	–	1.9	–	1.7	–	2.6
Netherlands	1.4	0.5	1.4	1.0	1.7	1.6
New Zealand	–	-0.8		0.8	-	0.5
Norway	1.0	0.9	1.9	1.6	2.7	2.2
Portugal	–	1.5	–	1.7	–	0.5
Spain	–	1.3	–	1.5	–	1.3
Sweden	1.1	0.9	1.8	1.4	2.5	1.2
Switzerland	–	1.3	–	0.2	–	0.7
Average excluding U. S.	1.9%	1.5%	1.6%	1.3%	1.2%	1.0%

Source: Authors' analysis of BLS (2006d) and OECD (2006b) data.

pensation on a PPP basis was highest and about the same in the United States, Germany, Italy, and the Netherlands.

The OECD average increased between 1979 and 2000—signaling a contraction of the compensation gap—rising from just 77% to 95% of the U.S. level. By 2004, manufacturing compensation in the United States (100) had fallen behind that of Germany (127), Belgium (118), the Netherlands (117), Finland (111), Austria (110), Norway (110), and Denmark (104). Italy was even with and surpassed the United States in 1979 and 1989, but has been slipping ever since—down to 83 in 2004.

Table 8.15 looks more carefully at the growth of real hourly compensation in manufacturing. Growth in compensation was determined on a purchasing-power basis over the periods 1979-89, 1989-2000, and 2000-04. The table examines growth in compensation

over the three periods separately for all manufacturing employees and for production workers only. During the 1980s, the United States, at just 0.1% per year, had one of the lowest rates of growth in hourly compensation in manufacturing among OECD countries where data were available. Among U.S. production workers in the 1980s, real hourly compensation actually fell 0.7% per year, compared to average growth in the other advanced economies of 1.5% per year. Production worker compensation also fell in New Zealand (-0.8% per year), and Denmark (-0.1% per year), but rose in every other country examined here. Between 1989 and 2000, the United States again turned in one of the worst performances in compensation growth for all production workers—with a 0.1% per year growth rate (only Italy was lower at -0.3%). Outside the United States, hourly compensation for production workers grew 1.3% on average per year.

The beginning of the new millennium saw U.S. compensation growth surpass OECD averages for both overall manufacturing and production workers. The 2.6% growth rate of U.S. manufacturing workers was well above the OECD average of 1.2%. Several other countries had large increases in annual compensation growth rates for all manufacturing employees, including Norway (2.7%), Denmark (2.6%), and Sweden (2.5%). Compensation increases were less, in most cases, for production workers. Italy (-0.2%) and Canada (0.0%) posted the lowest growth in compensation for production workers from 2000 to 2004. The United States (1.8%) was above the average of 1.0% growth for production workers, but that rate was far below the 2.6% growth for all U.S. employees in manufacturing. This disparity signals that non-production manufacturing workers are fairing much better than their production counterparts.

The large gap in the growth rates in hourly compensation for all manufacturing employees (which includes both production and non-production white-collar and supervisory workers) and the negative-to-stagnant growth rates for production workers in the United States through the 1980s and 1990s were other manifestations of growing wage inequality in the United States.

The majority of manufacturing workers are production workers. The wide disparity between growth in production workers' wages and wages overall means that manufacturing supervisors and other, non-production workers' wages have far outpaced production workers' wages. In short, the hourly compensation data suggest that manufacturing compensation grew more slowly and more unequally in the United States than it did in other OECD countries over the 1979-2000 period. While it is good news that wage growth was positive in the United States for both total manufacturing and production workers over the 2000-04 period, the disparity in those growth rates is telling.

Household income and inequality: higher incomes and inequality in the United States

To this point, much of the data presented has been on an individual or per capita basis. For example, the per capita income figures in Tables 8.1 and 8.2 were economy-wide, annual averages. Averages, such as these, may be deceiving because they mask inequalities and the fact that economic outcomes can strongly diverge for different populations within a na-

TABLE 8.16 Household income inequality in the OECD

Country	Gini coefficient		Change in Gini coefficient		Ratio of 90th to 10th percentile
	1989	2000	Percent change	Point change	
United States	0.338	0.368	8.2%	0.030	5.4
Japan	0.315	–	–	–	4.2
Germany	0.257	0.252	-2.0	-0.005	3.2
France	0.287	0.288	0.3	0.001	3.5
Italy	0.303	0.333	9.0	0.030	4.5
United Kingdom	0.336	0.345	2.6	0.009	4.6
Canada	0.281	0.302	7.0	0.021	4.0
Australia	0.304	0.311	2.3%	0.007	4.3
Austria	0.227	0.260	12.7	0.033	3.2
Belgium	0.232	0.277	16.2	0.045	3.3
Denmark	0.254	0.257	1.2	0.003	3.2
Finland	0.210	0.247	15.0	0.037	2.9
Ireland	0.328	0.323	-1.5	-0.005	4.6
Netherlands	0.266	0.248	-7.3	-0.018	3.0
Norway	0.231	0.251	8.0	0.020	2.8
Spain	0.303	0.340	10.9	0.037	4.8
Sweden	0.218	0.252	13.5	0.034	3.0
Switzerland	0.307	0.274	-12.0	-0.033	3.4
Average excluding U.S.	0.285	0.281	4.4%	0.017	3.8

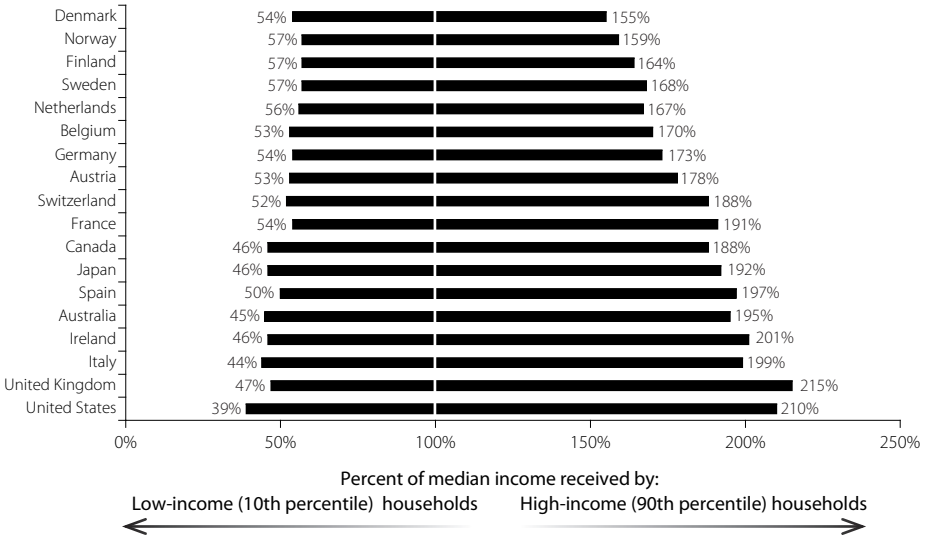
Source: Smeeding (2006) and Luxembourg Income Study (2006a).

tion. This section moves the discussion into the arena of inequality and the distribution of income across different economies. Because individuals make important decisions about employment and consumption as part of a family or broader household, much of the analysis in this section will examine household data.

Table 8.16 uses two measures of household income inequality for OECD countries. The first inequality measure is the Gini coefficient, an inequality measure that ranges from zero (perfect equality of income across households) to one (all income is concentrated at the very top of the income distribution). In 1989 and 2000 the United States had the highest Gini coefficient and both were well above the OECD averages. Finland had the least amount of inequality with Gini coefficients of 0.210 in 1989 and 0.247 in 2000. Gini coefficients increased over the two time periods for all countries, except Germany, Ireland, the Netherlands, and Switzerland.

The second measure in Table 8.16 is the "90-10 ratio," which measures how many times more income a household in the 90th percentile has in income compared to a house-

FIGURE 8C Relative income comparisons in the OECD*



* The gap between the income of the top 10% and the bottom 10% of households.

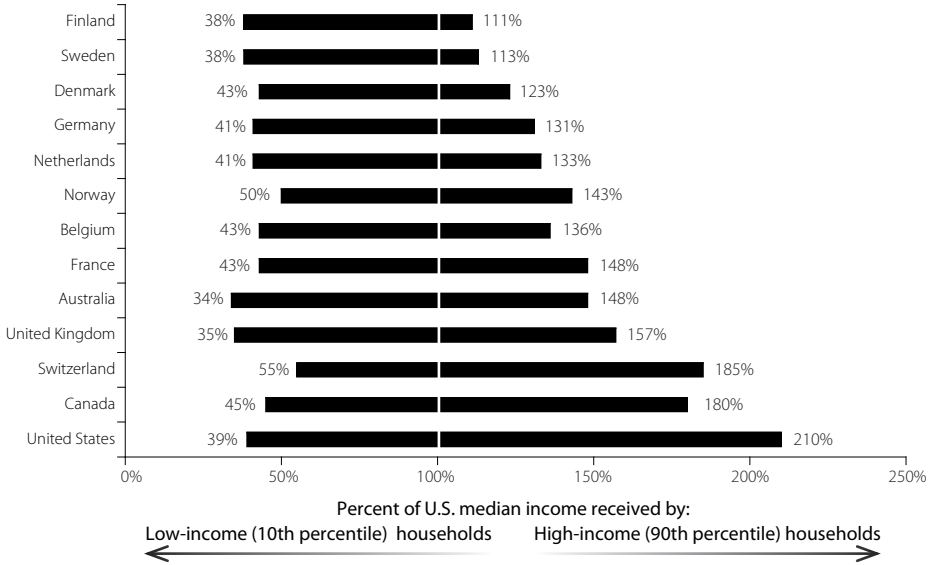
Source: Smeeding (2006).

hold in the 10th percentile. The higher the ratio, the more inequality exists. Again, the U.S. ratio was the highest and much higher than the OECD average ratio. The countries with the least amount of inequality by this measure were Norway and Finland. Whether measuring inequality by Gini coefficients or 90-10 ratios, the United States exhibits the greatest degree of inequality. The next two figures build on the inequality analysis.

Figure 8C shows the income spread in each nation between the 90th and 10th household income percentiles expressed as ratios of the nation's median (50th percentile) income. In the United States, a household in the 10th percentile of the income distribution received just 39% of the income of the median household (the household exactly in the middle of the income distribution). In the other 17 economies, the 10th percentile household received between 44% (Italy) and 57% (Finland, Norway, and Sweden) of their median national income. At the other extreme, the 90th percentile household in the United States made 210% of U.S. median income, a level surpassed only by the United Kingdom (215%). Denmark (155%) and Norway (159%) are well below the OECD average of 171%. Subsequently, the ratio of the 90th to the 10th percentile is largest for the United States (5.4) and smallest for Norway (2.8) and Finland (2.9).

Figure 8D compares low- and high-income households of each nation to the median in the United States, an analysis that also accounts for differences in the absolute standard of living across countries. Low-income (10th percentile) households in the United States made only 39% of the U.S. median income in 2000. It is interesting to note that, although

FIGURE 8D Share of U.S. median income received by low- and high-income OECD households, 2000*



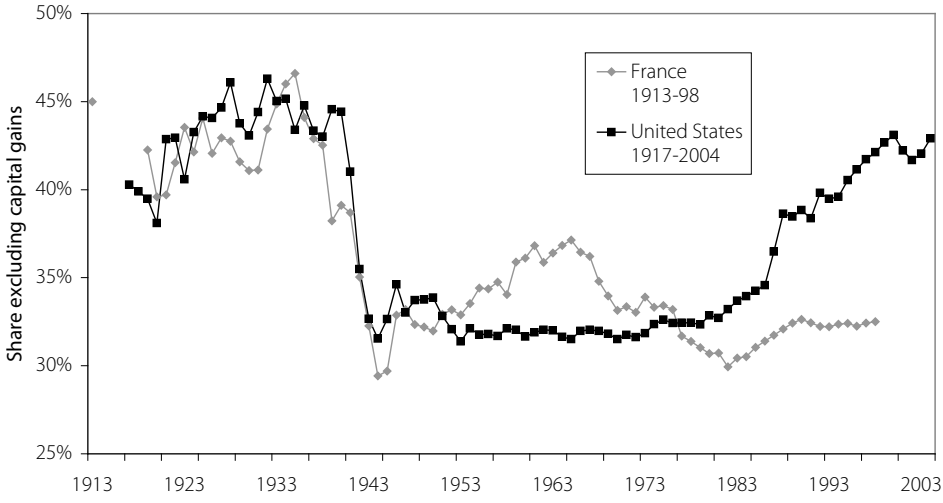
* These relative income measures compare the gap between the top 10% and the bottom 10% of household income in each country to the U.S. median income in purchasing-power-parity terms.

Source: Smeeding and Rainwater (2001) and Smeeding (2006).

the United States has higher incomes than other countries, those at the 10th percentile in the United States have income levels comparable to that of low-income households in countries that are less wealthy than the United States. Four countries—Australia, the United Kingdom, Finland, and Sweden—had household income at the 10th percentile, close to the 39% of the U.S. median. To the extent that these countries provide more social and economic support to their citizens than the United States, these numbers provide a somewhat incomplete comparison regarding the living standards of low-income people. Further in this chapter are figures regarding transfers and social spending, specifically regarding child poverty (Figures 8G and 8H) and health care (Figure 8I). Not surprisingly, high-income households were much better off in the United States (210% of the median income) than in the rest of the countries. The next closest was Switzerland, where high-income households were 185% of the U.S. median.

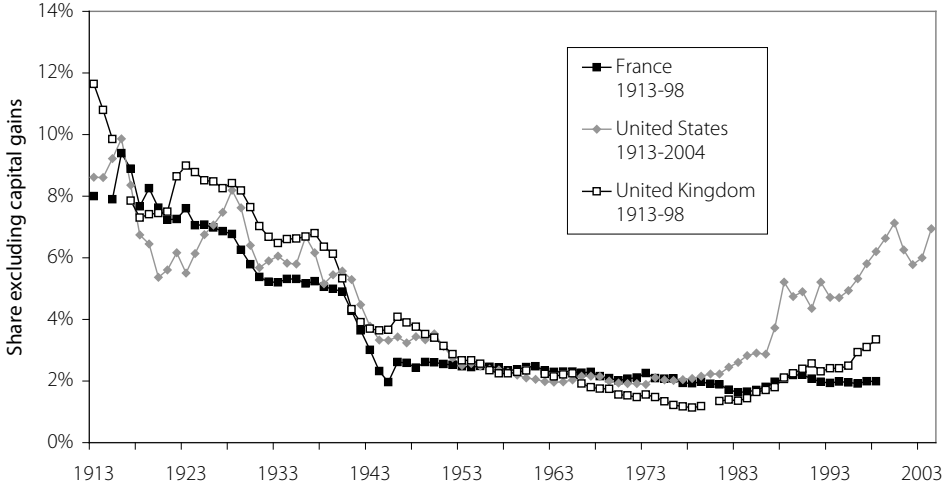
Figures 8E and **8F** show historical distributions of the top decile and the top 0.1% income shares. For the United States, both of these shares fell from 2000 to 2003. This time frame encompassed the stock market collapse of 2000 and the 2001 recession that was followed by a lengthy jobless recovery well into 2003. Since 2003 both of these shares have rebounded and continued their upward trend. This reversal signifies that the decrease in shares at the start of the 2000s was cyclical and not due to a structural shift.

FIGURE 8E Top decile income share in France and in the United States



Source: Piketty and Saez (2001).

FIGURE 8F Top 0.1% family income share in France, the United States, and the United Kingdom



Source: Piketty and Saez (2001).

The top-decile income share was larger in France than in the United States, for the most part, after World War II until the late 1970s but generally tracked the U.S. trend. However, the U.S. top-decile share of income rocketed upward to close to an all-time high in 2000, at 44%. France's top-decile income share held steady over the last 20 years and was lower at the end of the period than in the 1960s.

A look at the top 0.1% income share (Figure 8F) shows a similar pattern, although the post-WWII fall was not as drastic as in Figure 8E. There was a steady decline in the top 0.1% income share for all three countries (France, United States, and United Kingdom) from 1913 through WWII until the mid-1980s. In 1998, the top 0.1% income share was 2.0% in France; this percentage had been somewhat stable and slightly decreasing since the 1940s. The top 0.1% income share was 3.3% in 1998 for the United Kingdom, and it had been trending upward since the late 1970s. For the United States, the top 0.1% income share was 7.4% in 1998—this share increased enormously from the late 1970s to 1998. Both of these figures illustrate the income inequality that exists in developed countries and how it has worsened much more in the United States relative to France or the United Kingdom.

Poverty: the United States has highest levels

Many would argue that is isn't how well off the affluent are in a society that matters most of all, but how the most vulnerable fare in a society that is the relevant measure of societal well-being. So far we have shown that the United States has relatively high per capita income accompanied with a significant degree of inequality. Moreover, the large inequality gap in the United States is associated with higher levels of poverty relative to a majority of the OECD countries because economic growth does not reach the poor. **Table 8.17** summarizes international data on poverty rates. Following the standard methodology for international comparisons, the table defines the poverty rate as the share of households that received 50% or less of the median income in each country. In the United States, this threshold amounted to an income that was much higher than the official poverty rate (see Chapter 6). (Figure 8D, which compares the income of the 10th percentile household in each country to the U.S. median income, provides an indication of the absolute standard of living of low-income families across the OECD countries.)

Like the official U.S. definition of poverty, the poverty rates in Table 8.17 take into account cash transfers and are adjusted for family size, but unlike the U.S. definition, they also account for taxes and tax credits. The United States, with 17.0% of its total population living in poverty, had the highest level of overall poverty among the 17 countries examined here. Ireland (16.5%) and Australia (14.3%) followed the United States. The United States was also unique in that it had the highest rate of child poverty (21.9%) and the third-highest rate of elderly poverty (24.7%). Finland (5.4%), Norway (6.4%), and Sweden (6.5%) had the lowest overall poverty rates.

It is informative to know how much of a difference transfers make regarding outcomes such as poverty. **Figure 8G** illustrates this difference in child poverty rates before and after taxes and transfers. As mentioned, the data in Table 8.17 are post-transfer (some of the rates in Table 8.17 do not exactly match those in Figure 8G because of varying reference years; see Table and Figure Notes). The pre-transfer OECD average child poverty rate (excluding

TABLE 8.17 Poverty rates in OECD countries, 2000

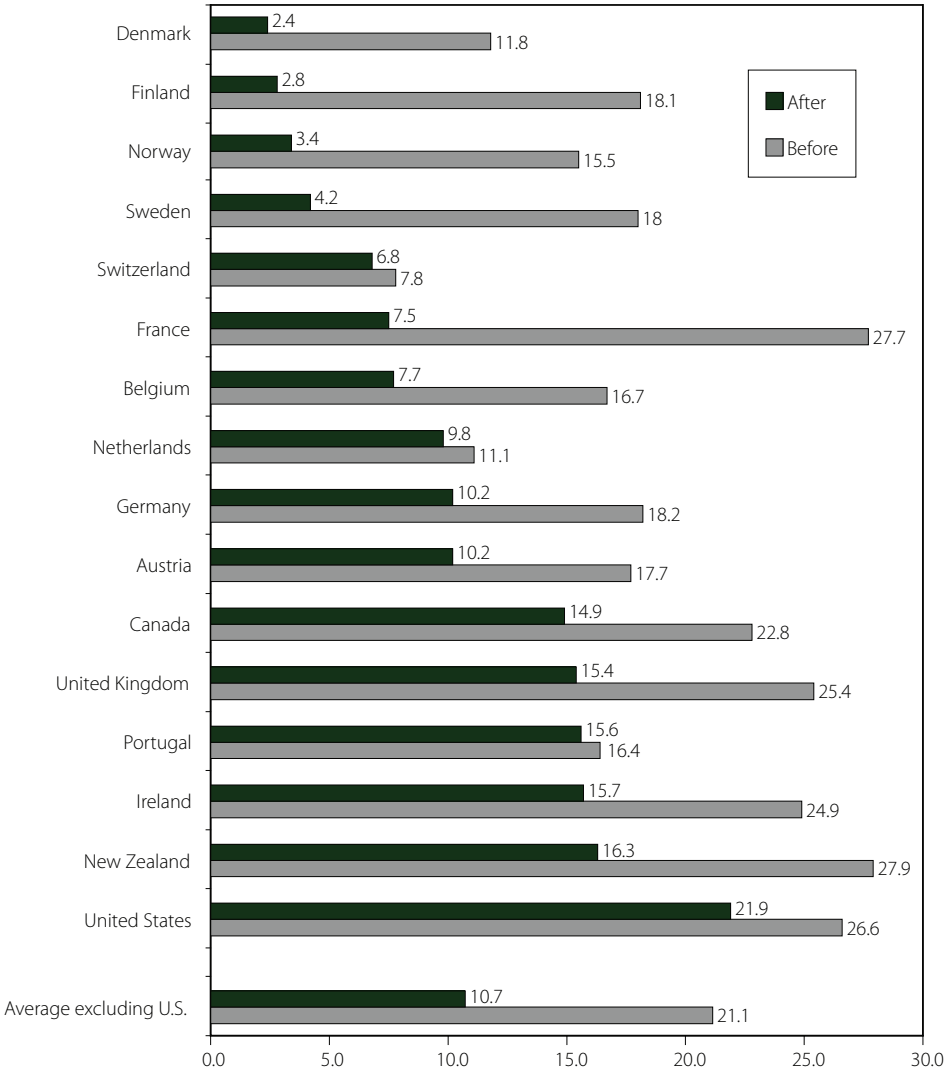
	Poverty line (50% of median)		
Country	Total poverty	Children	Elderly
United States	17.0%	21.9%	24.7%
Germany	8.3	9.0	10.1
France	8.0	7.9	9.8
Italy	12.7	16.6	13.7
United Kingdom	12.4	15.3	20.5
Canada	11.4	14.9	5.9
Australia	14.3%	15.8%	29.4%
Austria	7.7	7.8	13.7
Belgium	8.0	6.7	16.4
Denmark	9.2	8.7	6.6
Finland	5.4	2.8	8.5
Ireland	16.5	17.2	35.8
Netherlands	7.3	9.8	2.4
Norway	6.4	3.4	11.9
Spain	14.3	16.1	23.4
Sweden	6.5	4.2	7.7
Switzerland	7.6	6.7	18.4

Source: Luxembourg Income Study (2006b) data.

the United States) was 21.1%—which declined by over 10 percentage points post-transfer to 10.7%. The U.S. rate was 26.6% pre-transfer and only fell by 4.7% to 21.9% after transfers. The usual suspects—Denmark (2.4%), Finland (2.8%), Norway (3.4%), and Sweden (4.2%)—had the lowest incidence of post-transfer childhood poverty.

Whereas Figure 8G illustrates the predictive relationship of transfers on child poverty, it does not have information about spending levels. **Figure 8H** builds on the analysis of childhood poverty by further examining the incidence of child poverty in relation to social expenditures. The diagonal line in Figure 8H illustrates that countries that had higher social expenditures, as a percentage of GDP, also had lower poverty rates among children. The negative relationship between social expenditures and child poverty is clearly evident. The United States stands out as the country with the lowest expenditures and the highest child poverty rate. The paucity of social expenditures addressing high poverty and growing income inequality in the United States is not due to a lack of resources—high per capita income and high productivity make it possible for the United States to afford social welfare spending. Although strong growth in the United States benefited low-wage workers and their families, inequality has continued to rise. In the United States, growth has generally

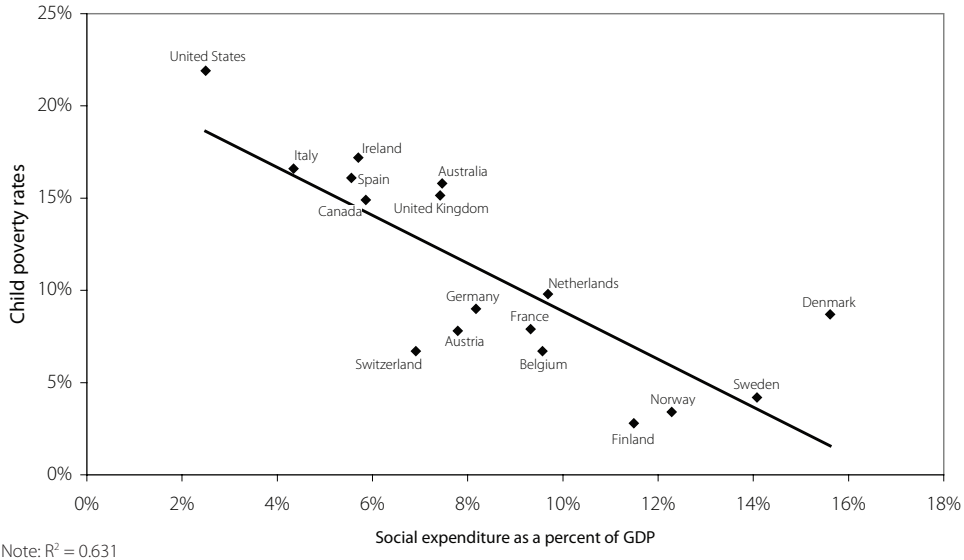
FIGURE 8G Child poverty rates before and after taxes and transfers, 2000



Source: Corak (2005).

not been shared equally in terms of wages paid by firms or through redistributive social policies. These and other relatively low expenditures on social welfare, such as health care, are implicated in the high poverty rates in the United States.

FIGURE 8H Social expenditure versus child poverty



Note: $R^2 = 0.631$

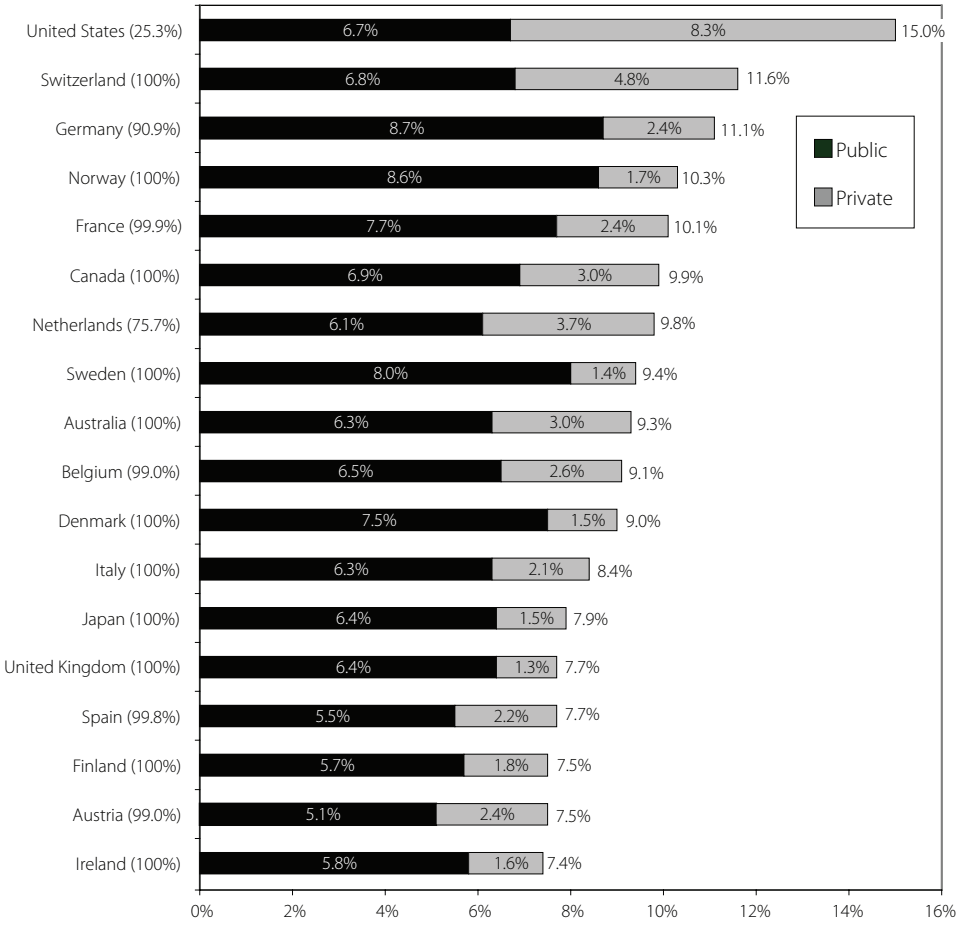
Source: Authors' analysis of OECD (2004b) and Luxembourg Income Study (2006b) data.

Health care: a problem of distribution in the United States

One of the most pressing issues in the United States is health care. The United States spends more on health care and has worse average outcomes of all our OECD countries. Americans who have adequate health insurance are provided good health care. But in the United States, many people have no health insurance whatsoever. For the most part, Americans rely on either private health insurance—through an employer or through direct purchase—or government-provided health care. In 2004, about 16% of people in the United States did not have any form of health care insurance coverage. As Chapter 3 points out, the incidence of employer-provided health care has been decreasing. At the same time, the government has been cutting back on government-provided health care. Moreover, these cutbacks are happening as the price of purchasing health care on the market is out of the realm of possibility for most low- to middle-income workers, let alone those who are among the unemployed or disenfranchised. This section takes a look at health care spending and outcomes across OECD countries.

Figure 8I illustrates the amount of public and private expenditures on health care as a percentage of GDP. The United States spent more on health care per capita than any of the other countries. In total, the United States spent 15.0% of its GDP on health care—Switzerland (11.6%) and Germany (11.1%) were second and third in spending. The countries that spent the least were Ireland (7.4%), Austria (7.5%), and Finland (7.5%). Strikingly, it was only in the United States that private expenditures were greater than public expenditures on

FIGURE 8I Public and private expenditures on health care spending, 2003 (Percent of GDP)



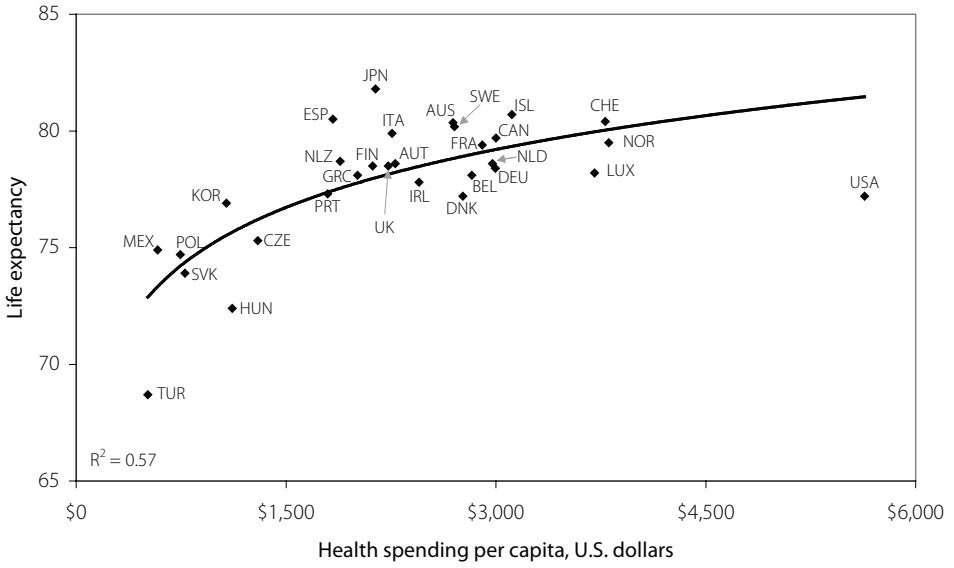
Note: Percentage of population covered by public health care spending appears in parentheses by the country name.

Source: OECD (2004b) data.

health care. Overwhelmingly, for the other OECD countries, public expenditures on health care accounted for the majority of overall spending on health.

Located in parenthesis next to each country in Figure 8I is the percentage of people with health coverage provided by public health care spending. In Austria, where a mere 5.1% of its GDP was spent on public health care, 99% of people there were covered. Comparatively, the United States spent 6.7% of its GDP on public health care, but just 25.3% of people were covered.

FIGURE 8J Life expectancy at birth and health spending per capita, 2003



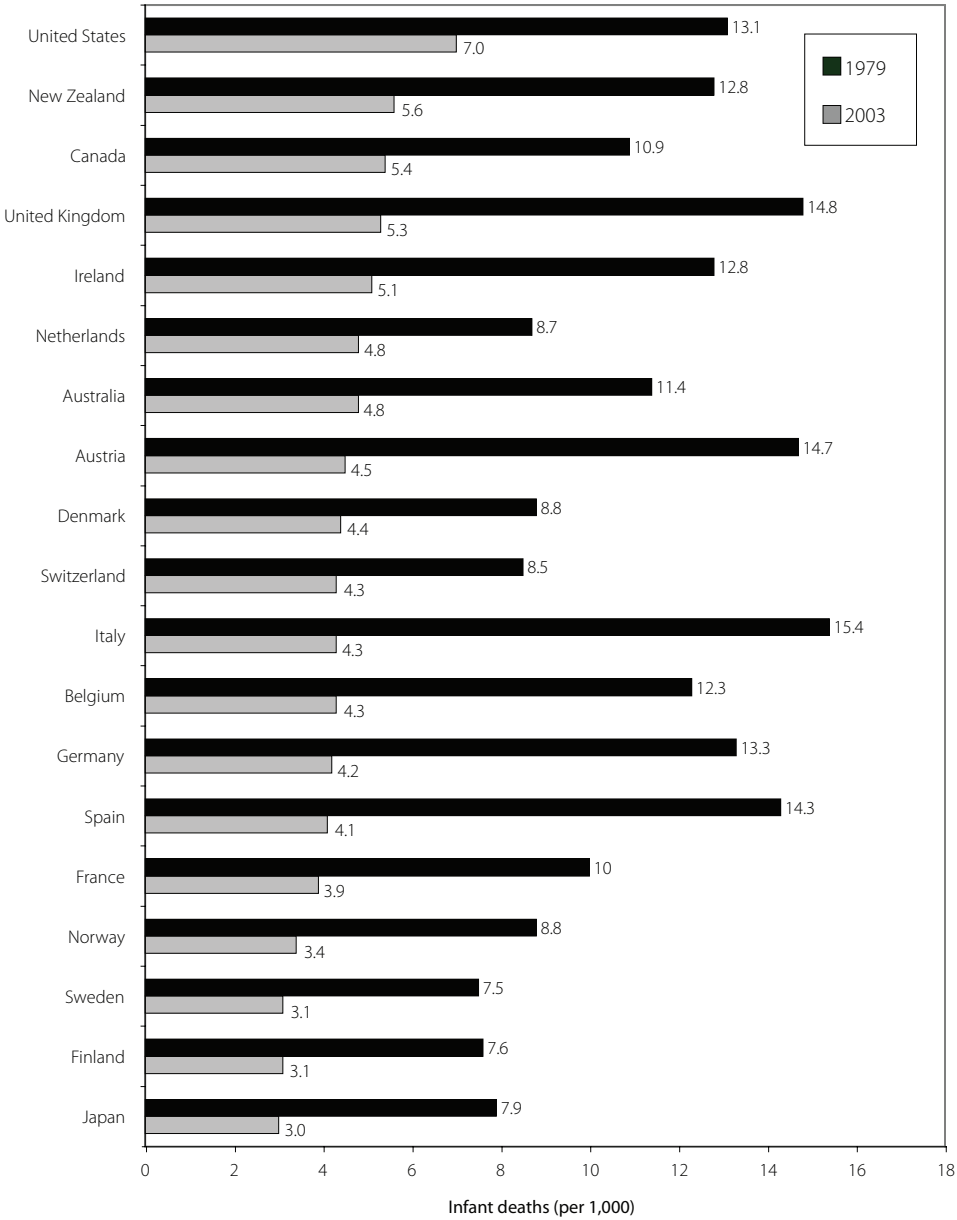
Note: See the Figure Notes section at the end of the book for a guide to the country abbreviations.

Source: OECD (2005c) data.

Of course, health spending is not the whole of health care. An essential question is: what is the relationship across countries between health care spending and outcomes? Based on OECD data, **Figure 8J** illustrates the simple relationship between life expectancy at birth and per capita health care spending. Higher per capita health care spending is generally associated with a higher life expectancy—as is indicative of the positive slope of the line. However, this relationship tended to be less pronounced at higher per capita spending. The United States was a clear outlier. It had the highest per capita health care spending, but its life expectancy was lower than that of any of the OECD countries analyzed in this chapter except Denmark. The United States and Denmark had the same life expectancy (77.2 years), but the United States spent twice as much as Denmark on health care.

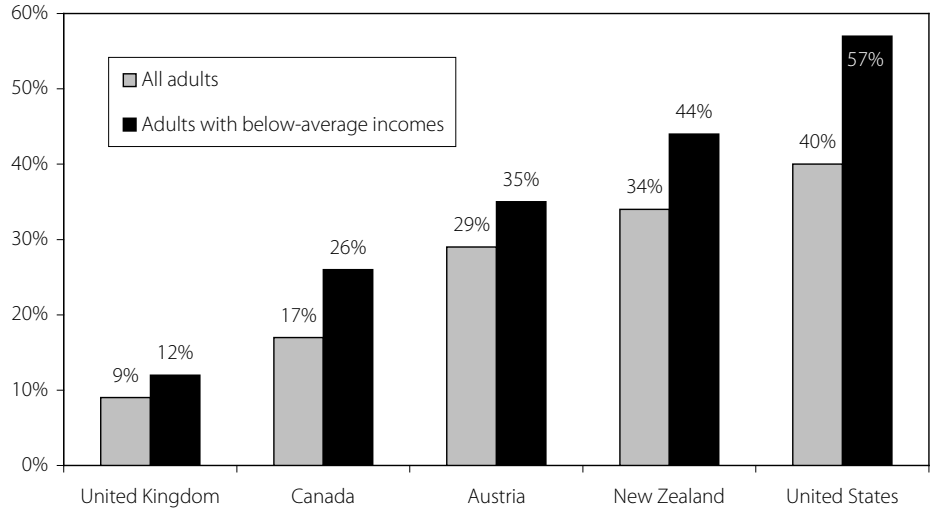
Another important health outcome is infant mortality rates. As **Figure 8K** indicates, in 1979 infant mortality rates (per 1,000 live births) were very high for many OECD countries. The highest rates were in Italy (15.4), the United Kingdom (14.8), and Austria (14.7). Moreover, the lowest rates at that time were Sweden (7.5), Finland (7.6), and Japan (7.9)—all of which were higher than the highest rates in 2003. Hence, all countries made significant progress in reducing infant mortality between 1979 and 2003. As with life expectancy, the U.S. infant mortality rate—while it decreased nearly 50% from 1979 to 2003—was the highest amongst these OECD countries in 2003. In

FIGURE 8K **Infant mortality, per 1,000 live births**



Source: OECD (2005c) data.

FIGURE 8L **Percent going without needed health care due to costs**



Source: Commonwealth Fund (2004).

2003, Japan (3.0) had the lowest infant mortality rate, while Italy, Spain, and Austria decreased their rates by approximately 70% during this period.

Although there are many factors that influence health outcomes, it is clear that the distribution of health care goes a long way in explaining the differences in the health outcomes described here—especially given the money spent on health in the United States. Many in the United States enjoy premier health care while others have none. Compared to the United States, other countries are more committed to the health and well-being of their citizens through more universal coverage and more comprehensive health care systems.

The Commonwealth Fund International Health Policy Survey offers some insight into health care costs and health care received. **Figure 8L** charts responses to a survey question of whether adults went without needed care due to costs. The lighter bars included the responses from all surveyed adults and the darker bars represent the responses from adults with below-average incomes. Forty percent of adults surveyed in the United States reported they went without needed care due to costs. This percentage increased to 57% for the respondents with below-average incomes. For all adults and those with below-average income, survey respondents in the United Kingdom reported the lowest incidence of forgone needed health care due to costs. This is true despite the fact that the United Kingdom spent a relatively low 6.4% of its GDP on public health that covered 100% of its citizens. All of the other countries surveyed had a smaller share than the United States in the overall and low-income populations that went without health care because of costs, even though the United States spends a larger share of its income on health care.

Evaluating the U.S. model

The United States is clearly one the richest, most productive economies in the world. However, compared to other advanced economies, our more market-driven model yields highly varied results regarding the living standards of our citizens. We have more inequality, higher post-transfer poverty rates, an expensive-yet-underperforming health care system, and workers who work more than European workers and have far fewer paid days off.

Supporters of the U.S. economic model generally acknowledge the relative inequality in the United States but argue that our model provides greater mobility, stronger job growth, and greater dynamism than do more interventionist economies. Conversely, the argument goes, the economies that have less flexibility and greater labor protections suffer under such a regime. The evidence, however, provides little support for this view. As the data reviewed in this chapter reveal, there is a wide diversity of economic outcomes, and many "interventionist" economies do as well or better than the United States on some key macroeconomic measures, from productivity to job growth, to poverty and health care.

Due to the highly unequal distribution of income in the United States, low-wage workers and low-income households are almost universally worse off in absolute terms than their low-wage, low-income counterparts in other, less-affluent OECD countries. Furthermore, as discussed in Chapter 2, the United States has less mobility than several of its European counterparts.

The U.S. success in employment creation is often exaggerated. U.S. job growth rates since 2000 were lackluster by its own historical standards and far worse than several other OECD countries with various kinds of labor market institutions. From 2000 to 2004, unemployment rates generally increased for most OECD countries. However, half of the countries had unemployment rates lower than in the United States in 2004. Perhaps most importantly, the pattern of unemployment rates in OECD countries was completely inconsistent with the idea that labor market institutions had priced less-educated workers out of jobs—the "flexible" U.S. labor market had the highest relative unemployment rate for less-educated workers among all the OECD countries.

In the United States, it is possible to work full-time, full-year and still live in poverty. In the United States, poverty and child poverty rates are the highest of all the countries studied. How can it be that the wealthiest country in the world—the United States—has such appallingly high child poverty rates? Certainly, part of the explanation has to be the lack of policy focus to alleviate such problems in the United States.

The U.S. health care system, which hinges greatly on employer-provided health care, is clearly underperforming. Despite much higher expenditures compared to other countries, the United States still has the highest infant mortality rates and lowest life-expectancy rates of all the other developed countries studied here. The problem, once again, is distributional in nature. Those with the resources in our country have access to world-class health care; those without are often left behind.

Another mistake made by those who advocate for the U.S. model is to ignore the different preferences for labor and leisure between the United States and Europe. Institutionally, European countries have mandated vacation time for its workers, whereas the United

States has not. In essence, some countries have chosen to translate their higher levels of productivity into more leisure, while the United States has tended to use such efficiency gains to boost consumption of goods. As a result, Americans work a great deal more than their European counterparts. Hence, while it is true that the United States is one of the richest countries, as measured by per capita income, half of that advantage is due to more hours worked. Moreover, U.S. productivity levels no longer lead all OECD levels, even after adjusting for unemployment.

Given these caveats, along with the lack of correlation between a given model and particular outcomes, countries should not assume that the highly deregulated, high-inequality U.S. model is the most successful economic model. Other countries with much less inequality and more regulated markets have relatively impressive macroeconomic outcomes, while others have mixed outcomes (France, for example, has higher productivity levels than the United States, yet much higher unemployment). Moreover, unlike the United States, many of the citizens in other countries have a deep respect for the role of the government in their lives, and they look at the U.S. model with a more jaundiced view than policy makers touting the U.S. model.