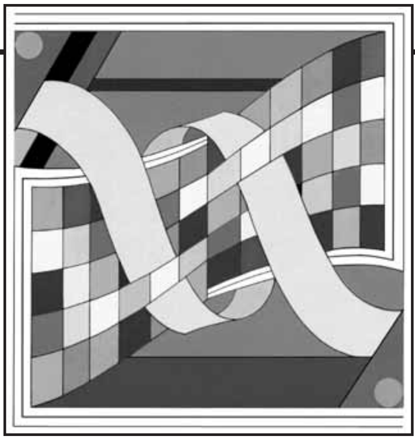

THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
888 16th Street, N.W., Suite 740
Washington, D.C. 20006
Phone: 202-861-0791 • Fax: 202-861-0790
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BOOKS

Olaf Gersemann,
Cowboy Capitalism: European Myths, American Reality,
Cato Institute, 2004.

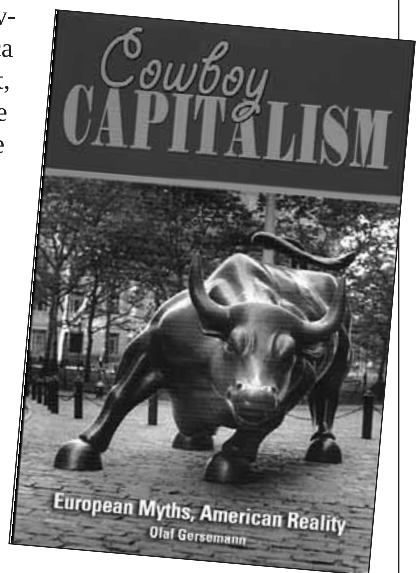
REVIEWED BY PHILIPPE LEGRAIN

Europe's No Basket Case

"Shock! Horror! Cato Institute declares American capitalism superior to European social democracy." That was my cynical initial reaction to *Cowboy Capitalism: European Myths, American Reality,* a new book published by the free-market Washington, D.C.-based think tank that comes recommended by the usual right-wing suspects: Milton Friedman, James Buchanan, and Henry Paulson, the boss of Goldman Sachs.

But my first reaction was slightly unfair. *Cowboy Capitalism* is written by a German journalist, Olaf Gersemann, and was originally intended for a German audience. Its aim was to shake Germans' complacent assumptions about the superiority of their economic model and dispel some of the commonly believed myths about the weaknesses of the U.S. economy. There is no denying that Germany's economy faces serious problems—and the German edition of this book is an important contribution to the debate about how the country should reform.

But the newly published and expanded American edition has a much more ambitious goal. It seeks to demonstrate that the U.S. economy is not only much more successful at delivering higher living standards and employment than Europe's, but that it does so without causing greater injustice and insecurity. As Gersemann puts it, "The message is simple: While U.S.-style capitalism may or may not have delivered results to be proud of, its performance, as measured by economic and social indicators, has clearly been superior to that of its continental counterparts." Unfortunately for him, he fails to prove either point convincingly. Repeatedly, when weighing up the evidence, he gives America the benefit of the doubt, while interpreting the facts about Europe in the darkest light.



Consider his dramatic opening paragraph: "Over the last 25 years the U.S. economy has enjoyed an average annual real growth rate of 2.9 percent. That's 55 percent more than the German economy mustered, 48 percent more than in France." Game, set, and match to Gersemann? Hardly. America's population is growing by some 1 percent per year, while Europe's is broadly stable, so comparing GDP growth rates tell us little about how well each economy is doing at delivering the goods for its citizens. A better yardstick is how fast living standards are rising, for which the growth in GDP per person is a decent proxy. According to my calculations from the IMF's *World Economic Outlook,* GDP per person in the United States rose by 53.7 percent over the past 25 years—an average of 1.7 percent per year—exactly the same growth rate as in Germany and France, and less than the 2 percent annual rise recorded in Italy.

Admittedly, Germany's economy, the original subject of Gersemann's book, has performed poorly in recent years as it struggles with the burden of a botched reunification and the straitjacket of outdated regulations. Over the past

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seven years, GDP per person in Germany has risen by an average of only 1.3 percent per year, compared with 2.1 percent in the United States. But over the same period, France's economy has notched up gains of 2 percent per year, a statistical dead heat with the United States. So it is too soon to write off European social democracy on the basis of GDP statistics alone.

On the contrary, U.S. statistical methods distort the comparison in America's favor, notably by accounting differently for firms' spending on information technology. As *The Economist*, hardly a cheerleader for social democracy, notes in its latest survey of the world economy, studies suggest that Europe's annual GDP growth would be almost half a percentage point higher if it were measured in the same way as America's. Presto—Europe is doing as well as, or even better than, America.

America's economic performance in recent years has also been artificially inflated by an unsustainable fall in its saving rate—driven first by the stock market bubble and sustained by the subsequent housing market bubble—which has temporarily boosted GDP growth. When the U.S. saving rate eventually rises, and growth slows, America's performance will look even less impressive. Europe's growth rate, on the other hand, is likely to improve as its saving rate falls and it reforms its labor and product markets. So Gersemann's claim that "looking forward, the picture for the United States looks far brighter than for the continental European countries" is highly dubious.

Nor is it clear that even in absolute terms America's economy performs better than that of Europe. True, according to OECD figures, France's GDP per person in 2002 was 76 percent of the U.S. figure, Germany's 72 percent and Italy's 71 percent, so that, measured in GDP terms, living standards in Europe appear lower. But comparing GDP per hour worked, France's average productivity levels are 113 percent of America's, Germany's 94 percent and Italy's 93 percent, so European workers perform at least as well as their U.S. counterparts. Part of the reason why America's GDP per person is higher than Europe's is that more Europeans are involuntarily unemployed. But most of the gap—according to calculations by the Conference Board, a U.S. business lobby that is scarcely a fan of European ways—is due to Europeans' shorter working hours. Since the aim of life is happiness, not maximizing GDP, and to the extent that Europeans are choosing to work less and enjoy more leisure as they become more productive, rather than slaving away all day at the office, this is a perfectly valid lifestyle choice that does not imply that Europe's economy is inferior to America's.

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It is simply not true that Europe is a basket case. Nor, therefore, is it true that it needs to remodel itself along American lines—smaller government, lower taxes, less regulation—in order to prosper. Just look at countries such as Sweden and Finland that have high taxes, big governments, large welfare states, and stringent regulations, yet continue to prosper. They consistently top rankings of countries where it is good to do business, attract huge amounts of foreign investment to match, are masters at pioneering new technologies, and enjoy an enviably high quality of life.

Unfortunately, some European countries have shockingly high unemployment rates—and this is a scourge for both the jobless and the economy as a whole, because valuable talent is going to waste. Whereas the U.S. jobless rate is 5.4 percent, Italy's is 8.5 percent, France's is 9.9 percent, and Germany's is 10.7 percent. Worse, long-term unemployment is much higher than in America, especially in regions such as eastern Germany and southern Italy.

Clearly, France, Germany, and Italy need to implement reforms that reduce involuntary unemployment. But there is no basis for Gersemann's assertion that they must deregulate their labor markets along American lines to do so. Well-devised regulations and active labor market policies can boost workers' conditions and security without costing jobs. That is how highly regulated Denmark and Sweden enjoy higher employment rates than America (and similar unemployment rates) without the wrenching insecurity of the U.S. labor market, where workers fear losing their healthcare and pensions if they are fired or if their company falls on hard times.

For a German audience, Gersemann's book is a welcome antidote to lazy anti-American views. But his new edition for the U.S. market simply panders to the prejudices of its right-wing publishers. If only his analysis of the United States was as trenchantly skeptical as his analysis of Europe, he might have written a more balanced—and more persuasive—book. ◆