

Should Europe embrace “Cowboy Capitalism” or go its own way?

IMF Book Forum,
Washington, March 24, 2005

Olaf Gersemann

Wirtschafts
Woche
wiwo.de

Q: Should Europe embrace “Cowboy Capitalism”?

A: Yes, the gains are potentially huge, the losses surprisingly small

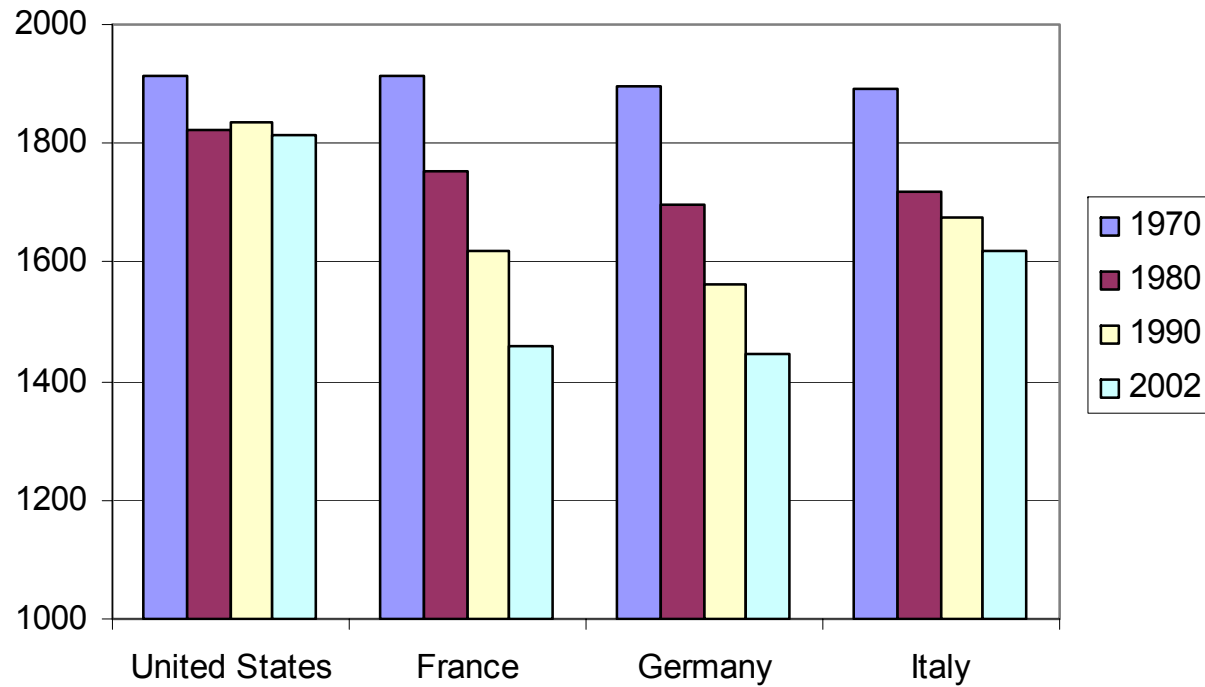
U.S. per capita income

- 36% higher than in France
- 42% higher than in Germany
- 44% higher than in Italy (2003, PPP)

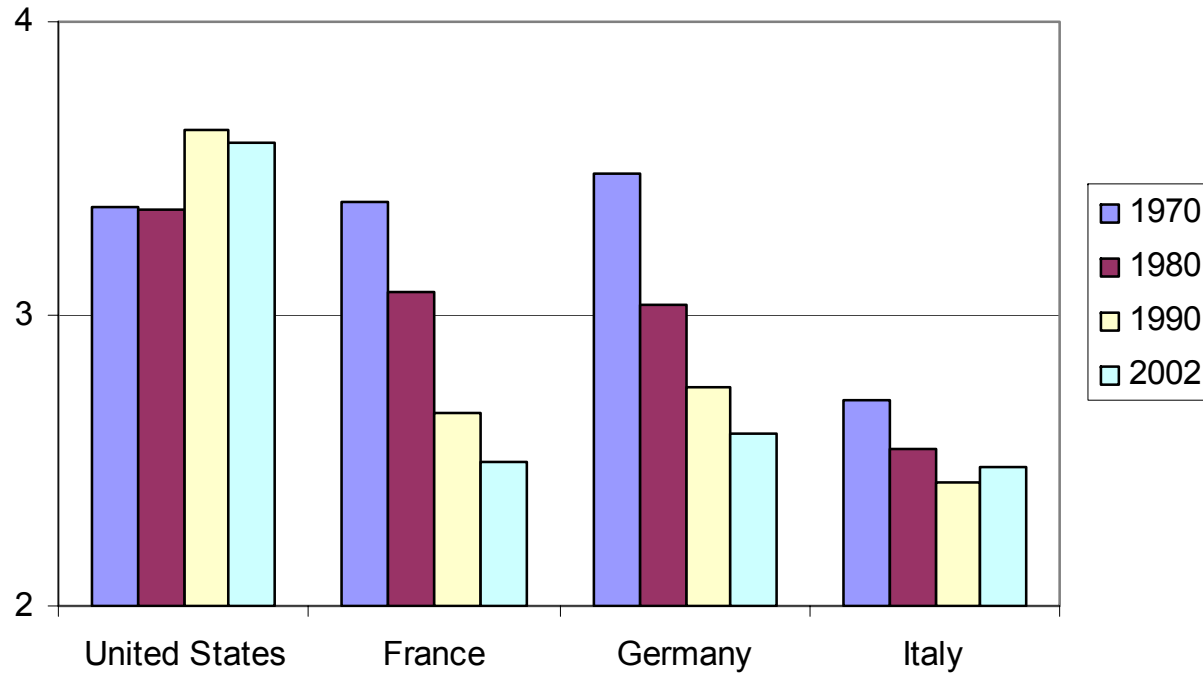
Gap in 1982: between 13% and 27%

Key reason for the divergence: Europe has stopped working

**Hours worked in the United States, France,
Germany and Italy #1:
Per annum and person in employment
(Actual hours worked)**

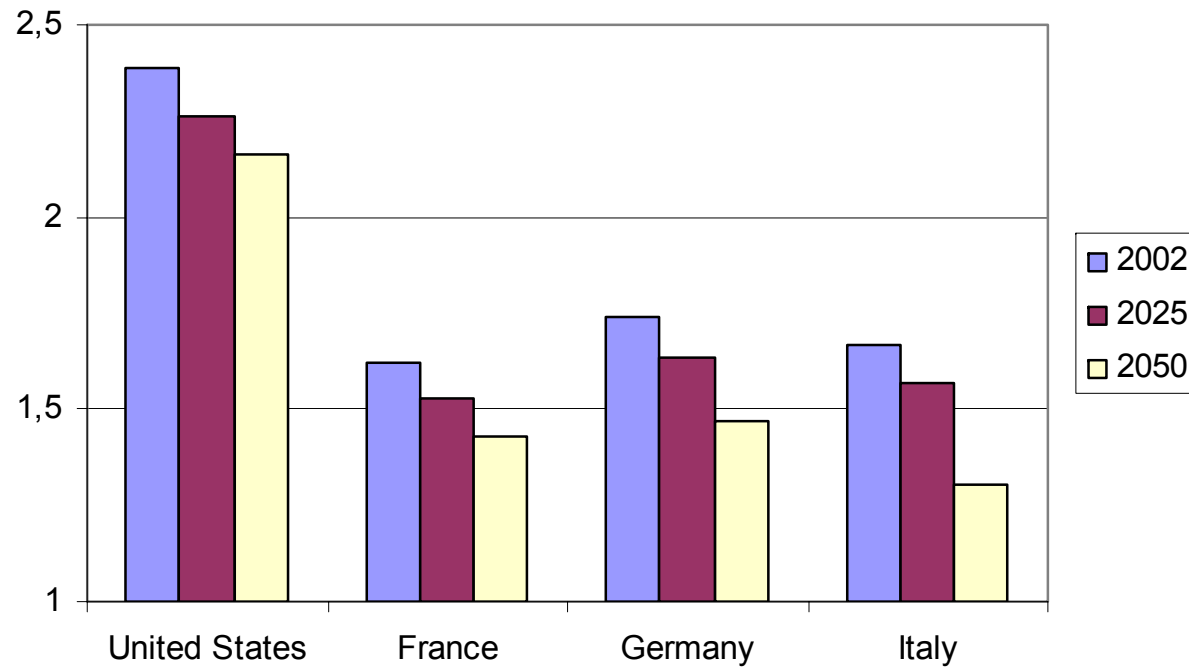


**Hours worked in the United States, France,
Germany and Italy #2:
Per day and person between 15 and 64 years**



Hours worked in the United States, France, Germany and Italy #3: Per day and per capita

(assuming constant employment ratios
and annual hours worked per person in employment)



“I do not want American conditions on the labor market. Social democrats are convinced that it has to be possible for people to live in decency and dignity without having to do three jobs a day and without having no protection against dismissal.”

Gerhard Schröder

“People are working weekends; they’re working two jobs, three jobs, and they’re still not getting ahead.”

John Kerry

Popular stereotypes about “Cowboy Capitalism”

- living standards are declining
- living standards are financed by debt
- poverty is increasing
- new jobs are just “McJobs”
- families need two incomes to make a living

Two jobs to survive?

- 5.4% of employed persons in the US had more than one job in 2004; Germany: 2.4% (2003)

BUT:

- shadow economy
- role of opportunities and incentives
- just 1.6% hold two jobs to make ends meet
- multiple jobholding among high school dropouts vs. PhD's

Q: Why have many European countries failed to generate job growth?

A: It's services, stupid.

Production in six key knowledge-intensive service industries*
1980-2003:

- + 103% in France
- + 118% in Germany
- + 140% in Italy
- + 195% in the U.S.

* business services, communication services, educational services, equipment leasing, financial institutions, health services

Creative destruction v. destroyed creativity

United States:

- of the 20 companies the with the highest market capitalization in 1967, just 11 were still in the top 60 in early 2004
- new: Amgen, Dell, Home Depot, Intel, Microsoft, Oracle etc.

Germany:

of the of the 20 companies with the highest market capitalization in 1967, by early 2004

- 1 had gone under
- 15 were still in the top 20
- the remaining 4 were still in the top 60.

Q: Is Cowboy Capitalism needed to overcome high unemployment?

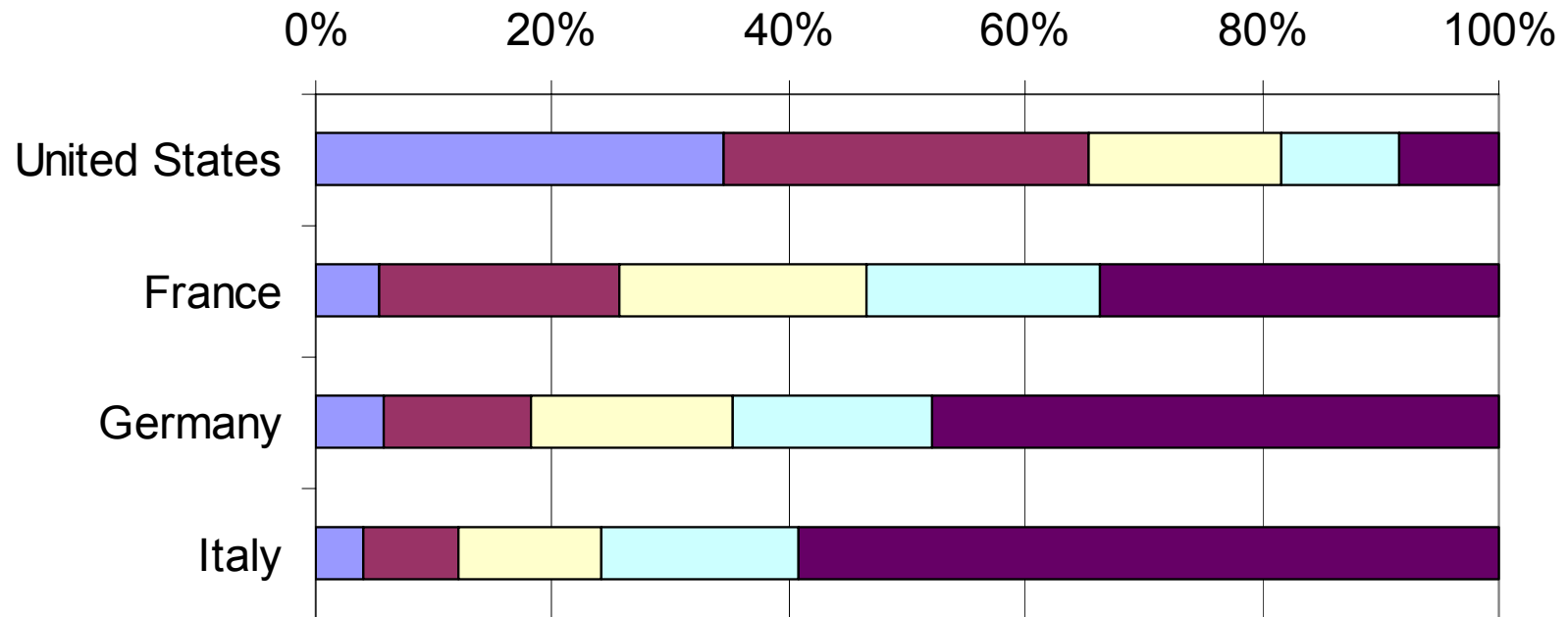
Q: Should Europe scale back its protections for individuals to restore strong work incentives?

A: There is a need for comprehensive reforms in Europe.

Piecemeal strategies might be counterproductive

Exhibit A: The Schröder reforms

Duration of unemployment spells (% of total unemployment, 2002)



Three key labor-market features (aside from wages and taxes):

- A) employment protection legislation
- B) collective bargaining
- C) unemployment benefits

The German system

- high benefits, strict hire and fire laws
- centralized bargaining system, employees may not accept lower wages than prescribed, not even if that's the only way to save their jobs and/or their company

The Schröder solution (“Hartz IV”)

- reduce C), leave A) and B) untouched
- more pressure without more opportunities implies: getting fired becomes an even more tragic event
- where is the upside? at the end of 2003, 32% of Germans said they might lose their job in 2004, but only 19% of Americans
- macroeconomic implication aside from unemployment: “angstsparen”, weak demand

New Motor Vehicle and Car Registrations in Germany (millions)

