George W. Bush's America vs. "Old Europe" on Jobs

By Dean Baker and Simone Baribeau

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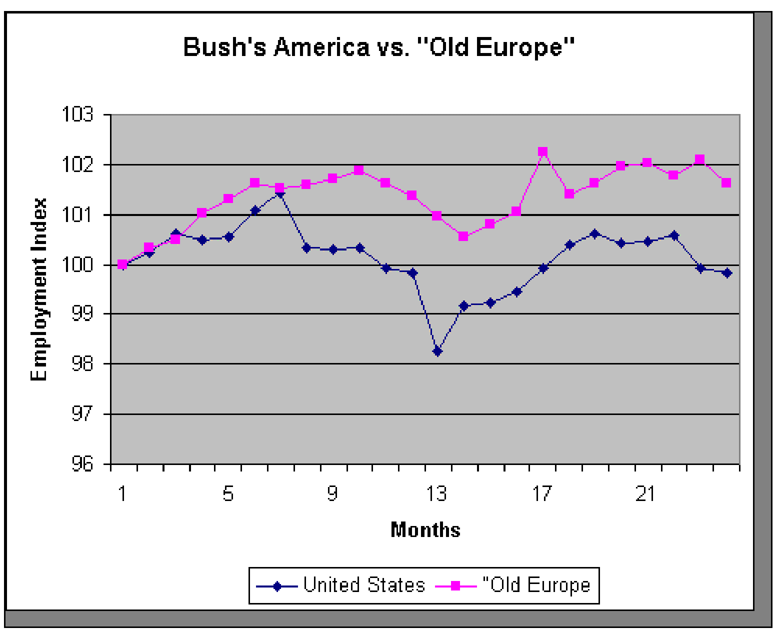
Since much of Europe, led by Germany and France, split with the United States over how best to deal with Iraq, many commentators have worked to draw distinctions between Europe and the United States. Many commentators have pointed to economic differences, contrasting a supposedly vibrant and dynamic U.S. economy with a stagnant European economy.

At least when it comes to jobs, it turns out that the comparison would go the other way in the first two years of President Bush's administration. The figure below shows the indexes for the number of jobs in the United States and "Old Europe" from January of 2001 to December of 2002 (January of 2001 = 100). Old Europe for purposes of this graph is defined as the members of European Union who did not join the "Coalition of the Willing" (COW) for the war in Iraq – Austria, Belgium, Finland, France, Germany, Norway, and Sweden.



Source: International Labor Organization, French Labor Ministry, and authors' calculations.

1611 Connecticut Avenue N.W., Suite 400 | Washington, D.C. 20009
Tel: 202-293-5380 | Fax: 202-588-1356 | www.cepr.net | cepr@cepr.net

Of course, while “Old Europe” has seen some job growth in the last two years, in contrast to the job loss in the United States, its economies are not exactly thriving. On this score “Old Europe” could probably get a valuable lesson from Alan Greenspan. When the United States economy began to slow at the end of 2000, the Federal Reserve Board aggressively lowered interest rates. The short-term rate set by the Fed now stands at just 1.25 percent. In contrast, the European Central Bank (ECB) has been far more cautious in lowering rates, even though there is no more threat of inflation in Europe than in the United States. The short-term rate set by the ECB is currently 2.5 percent.

There is a myth that labor market protections, such as strong unions and generous unemployment benefits are keeping unemployment high in Europe. In fact, a recent study on this topic found very little evidence to support this widely held view.[1] Some of the countries that have the strongest labor protections in Old Europe, such as Austria, Sweden, and Norway also have the lowest unemployment rates. In the cases of these three countries, as well as Ireland and COW members Denmark and the Netherlands, the unemployment rates are actually lower than those in the United States.

There are many other bases for comparing the economies of Europe and the U.S., but it should be clear that the comparisons do not all go in the same direction. At least by the measure of job creation, “Old Europe” beats George W. Bush’s America.

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1 Baker, D, A. Glyn, D. Howell, and J. Schmitt, 2002. “Labor Market Institutions and Unemployment: A Critical Analysis of Cross-Country Evidence.” Center for Economic and Policy Analysis [http://www.newschool.edu/cepa/papers/archive/cepa200217.pdf].