The American Role-of-Government Debate

and the Trashing of 'Europe'

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The presidential election and the 'fiscal cliff' negotiations dramatically illustrate the growing political polarization of America, which is ultimately about one big question: what role for government in America's future?

But it should be noted that the ideological fulcrum of this debate has shifted far to the right in recent decades, and dramatically so in recent years. This is nicely illustrated by the similarity of the long-term budget plans proposed by President Obama and House Speaker Boehner, which would shrink the Federal government's civilian discretionary budget to levels not seen since the Eisenhower era (see "Goodbye, Government, Under Either Fiscal Plan", *The New York Times*, December 18, 2012). The outcome of the 'fiscal cliff' negotiations was widely seen as an Obama victory – certainly by the House Republicans - but as the *Times* put it on the front page the day after the agreement, "Just a few years ago, the tax deal pushed through Congress on Tuesday would have been a Republican fiscal fantasy" ("Lines of Resistance", January 2, 2013).

The rightward shift as voiced by politicians, pundits and the news media must reflect to a large degree the American electorate's (blue and red) preference for a future of small business (Wal-Mart notwithstanding) and small government (Medicare notwithstanding), one that features low taxes, little regulation, and even less redistribution. Proposals for a larger government role pave the way to "socialist Europe", as Mitt Romney repeatedly declared throughout the campaign (to which Obama's was silent).

American hostility to European social models has been on full view in the media – even in the 'liberal' *New York Times*. In December (2012), as the 'fiscal cliff' approached, *The Times* published two news stories that highlighted the poor performance of the French economy. The message of both was that, having chosen an extreme version of the European "tax, spend and regulate" model, France is paying a huge economic price. As decisions are made that concern the role of government in America's future, the lesson seems unequivocal: don't go down the European/French path.

Both refer positively to the German model, but neither mentions how much more regulated the German economy is than the U.S., and how much more generous is the welfare state. Nor is there any mention of the recent performance of the UK, whose

deregulation-austerity model has generated a record of economic growth far worse than France's. Notably, both avoid any reference to how the U.S. stacks up against France on the statistical indicators used in the articles to indict French performance, and neither has anything good to say about the advantage French workers have over

their American counterparts in job security, wage inequality, and the likelihood of getting paid extremely low wages, not to mention differences in access to health and education benefits.

So let's take a closer look at the *Times'* case against recent French economic performance.

Liz Alderman's story ("Challenging France to Do Business Differently", December 20, 2012) is centered on the question "Can France be fixed?" and the "cult of regulation" that is "choking business in France." The article refers to the International Monetary Fund's recommendation that France ought to curb government spending "which at 56 percent of output is among the highest in the Euro Zone." But no mention is made of the fact that countries like Sweden and Denmark are also "big spenders" and yet employment rates in these countries have been for decades superior to U.S. rates.

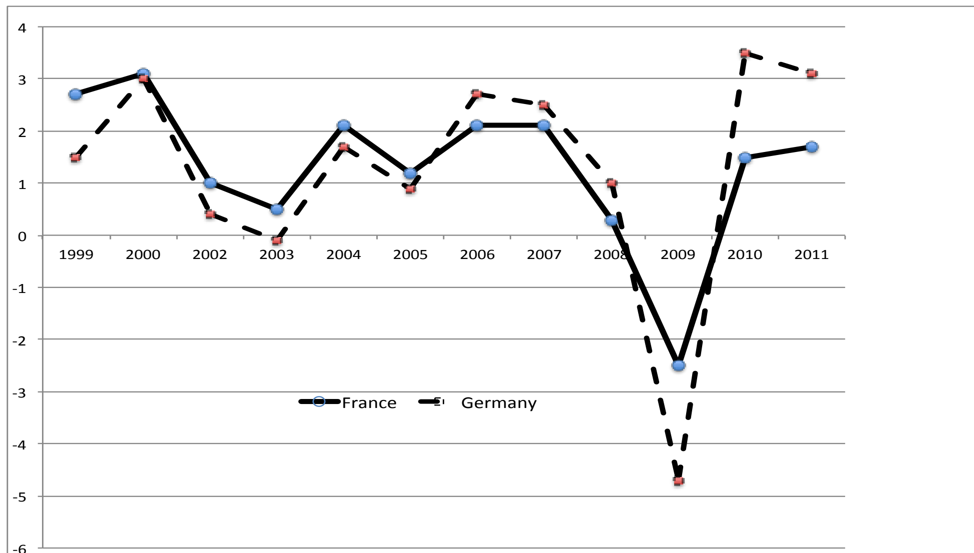
But in any case, this is a poor indicator for cross-country comparisons, because of the difficulty of measuring service sector output. A better measure for such comparisons is the OECD's general government expenditures per capita. Using this measure, U.S. government spending in 2009 (the most recent available) was <u>higher</u> than French spending! And annual real percentage change in general government expenditures per person from 2000-2009 was more than twice as high for the U.S. than France - over 3% compared to less than 1.5% person (OECD, *Government at a Glance*, 2011, figures 4.1-3).

"Challenging France" bolsters its case against "big government and France's expensive social safety net" with three charts. The first shows GDP growth, the caption reading "French growth has recently stagnated".

It's true that after a strong recovery in 2010 from the 2008-9 downturn, French GDP growth in 2011 and early 2012 slowed sharply. But should we judge an economic model by the most recent six quarters? Could such a short-term slowdown possibly be traced to France's "cult of regulation"?

Germany is presented as the model, but Figure 1 shows that over a somewhat longer period, the French model doesn't look so bad. Indeed, between 1999 and 2005 French GDP growth was superior Germany's, as was its performance in the worst year of the crisis (2009).

Figure 1: Real GDP Growth for France (solid) and Germany (dashed) 1999-2011

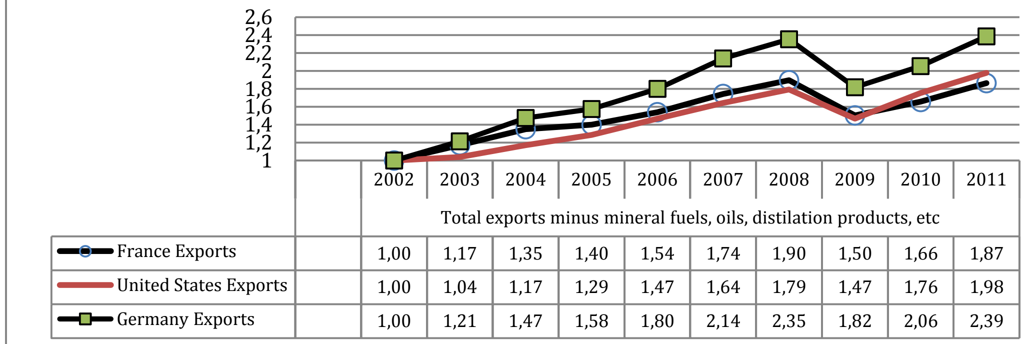


source: CIA World Factbook, 2012

"Challenging France" makes use of another chart to criticize the French model for producing a declining share of total EU exports since 2007. But because of Germany's export prowess in recent years, using an indicator of the change in the share of EU exports will make the performance of other countries look worse than they are.

A much more meaningful measure of export competitiveness is simply the change in the value of non-fuel exports. Figure 2 shows that on this measure, Germany had a superior export record over the last decade, but it also shows that German performance was equally superior to that of the U.S. Notice that it was only in 2010-11 that U.S. export growth surpassed that of France, and just barely. There is nothing in these export data that suggests France is any more in need of "fixing" than is the U.S.

Figure 2: The Increase in the Value of Non-Fuel Exports for France, Germany and the U.S., 2002-11 (indexed to 2002)



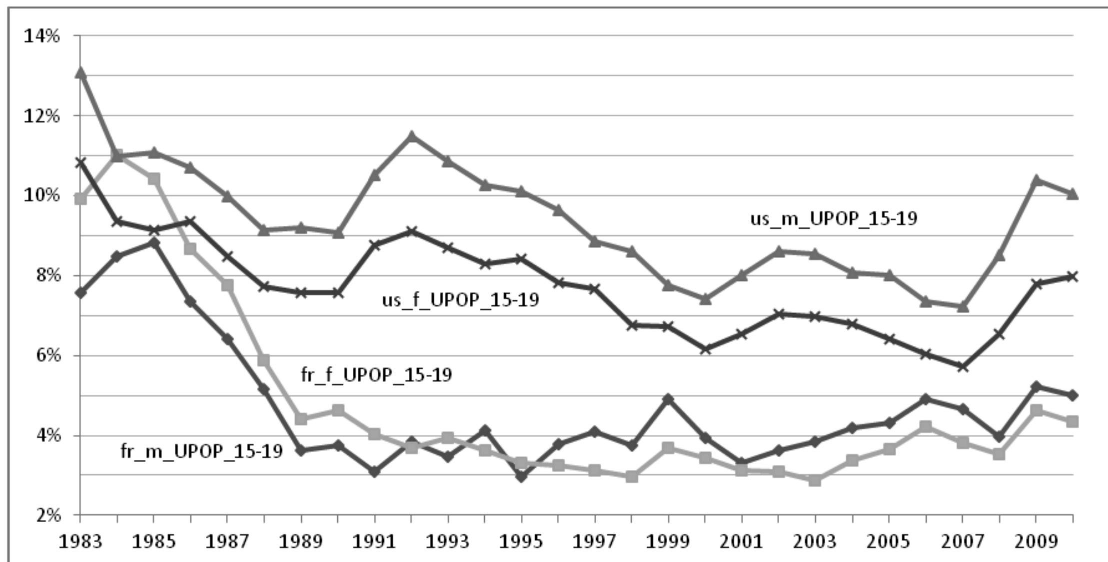
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Total exports minus mineral fuels, oils, distilation products, etc									
France Exports	1,00	1,17	1,35	1,40	1,54	1,74	1,90	1,50	1,66	1,87
United States Exports	1,00	1,04	1,17	1,29	1,47	1,64	1,79	1,47	1,76	1,98
Germany Exports	1,00	1,21	1,47	1,58	1,80	2,14	2,35	1,82	2,06	2,39

Source: OECD

And finally, "Challenging France" indicts France on employment performance with a chart that reports unemployment rates since 2007 for France, Italy, Germany, the UK and Denmark. There is no question that the French rate spiked upward in 2011-12, and that Germany's employment performance through the last economic crisis has been an impressive outlier among large rich nations.

But how do French and U.S. unemployment performance compare? Let's take a look at the evidence for young workers (15-24), the age group most vulnerable to poor labor market performance.

Figure 3: Unemployment to Labor Force and Unemployment to Population Indicators for France and the U.S., Ages 15-24, 1983-2011



source: Howell, Azizoglu and Okatenko, "Confronting Low Pay: Minimum Wage Policy and Employment in the U.S. and France," PERI Working Paper #286, October 31, 2012)

Once again, the measure matters. The conventional unemployment indicator provides a poor measure of the true *magnitude* of unemployment for young people because it measures unemployment against the labor force, which is a problem for school-age workers because unlike U.S. kids, hardly any French 16-19 year olds work while enrolled in school. The school day is too long, there's too much homework, and it's simply not part of the culture. As a result, with fewer teens working part-time at local fast-food shops, the denominator (the labor force, which consists of the employed plus the unemployed) will be relatively small, even if unemployment is the same. That makes the conventional labor force measure of unemployment higher *by construction*.

Of course, the usual interpretation is that employment is lower for French students because there are no jobs, but this direction of causation is wrong – there are fewer bad part-time jobs held by French teens because nearly all are enrolled in school and aren't available to take them (French students didn't work much in the 1960s either, when the French labor market was characterized by nearly full-employment).

The two trend lines at the top of the graph show the conventional unemployment rate for France and the U.S. (measured against the labor force). Using the conventional labor force measure, the French unemployment rate for young workers is higher (22.1% vs 17.3% for 2011).

For the reasons just given, a far better measure is the *unemployment-to-population rate (UPOP)*, which is shown for France and the U.S. at the bottom of figure 2. On this indicator, France and the U.S. have tracked each other closely since the early 1980s. Notably since the onset of the financial crisis, the U.S. UPOP rate for young workers has been higher (in 2011, 9.5% for the U.S. compared to 8.5% for France).

Earlier in December, Steven Erlanger's "Young, Educated and Jobless in France", directed its attack on French economic performance squarely at French education and labor market institutions. He described the plight of France's "floating generation", among whom even those with college and masters degrees "cannot find a permanent job". The fault is a "low growth economy" characterized by "an elitist educational tradition that does not integrate graduates into the work force, a rigid labor market that is hard to enter, and a tax system that makes it expensive for companies to hire full-time employees and both difficult and expensive to lay them off."

Most of the evidence is anecdotal, but "Jobless in France" does refer to the "NEET" rate – the share of youth not in employment, education or training - and implies that it provides a devastating portrait of the French labor market. Curiously however, no data are actually cited.

As it turns out, French and U.S. NEET rates look remarkably similar. The most recent detailed figures from the OECD (*Education at a Glance, 2012*) are available for 2010. The French rate was slightly worse for each age group. For 15-19 year olds, the NEET was 7.9% for France and 7.6% for the U.S.; for those 20-24, the rates were

20.6% and 19.4%; and for 25-29 year olds, the rates were nearly identical: 21.2% vs 21.0%.

But more recent data from the OECD (*Employment Outlook*, 2012) for 15-24 year olds shows that the U.S. NEET rate was substantially higher, 14.8% against 12.0% for France (1st quarter, 2011). And it should be noted that Germany is not the gold standard here. Germany's 9.5% NEET rate was far above that of Sweden and Austria (6.8%), Denmark (5.7%), and the Netherlands (4.1%).

So the *Times*' use of evidence in its critique of French economic performance is not very compelling. But it is also objectionable for what it leaves out. Neither article bothers to mention the upside to the French model – the quality of jobs for about 90 percent of the French labor force that is employed.

It may be increasingly hard for young French workers to get good "permanent" jobs after graduation, but how many American workers of any age have meaningful job security? It might also be noted that France is one of the only countries in the developed world to show a *decline* in both wage inequality and the incidence of low-pay (the share of workers paid less than the full-time median wage). The French low-pay share is about 10% compared to the U.S.'s 30%. Even more striking, the low-wage share for French 20-34 year old employed female workers with some college was just 7% in 2010, which compares to 57% in the U.S. The gap for male workers is similar (Howell, Azizoglu and Okatenko, 2012).

As the U.S. debates the proper role of government, Americans should beware of the "facts" they get from politicians, pundits, and – unfortunately - the mainstream news media. The reality is that if we use economic indicators, it is not so clear which country - France or the U.S. - is the one best characterized as "low growth" with a "poorly functioning educational, labor market, and tax system." And if low pay, wage inequality, and job security also count, which they should, American workers would do well to look closely at European models, even the French one.