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Restoring Prosperity: Why the U.S. Model is not the Answer for the U.S. or Europe

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Abstract

High European unemployment and low U.S. unemployment, has led many Europeans to believe that they should adopt the U.S. model. The U.S. model imposes large costs of income inequality, employment insecurity, and stagnating wages. Labor market flexibility is not the cause of superior U.S. employment performance: the real cause is differential macroeconomic policy. Comparing the U.S. and European models establishes a false policy dichotomy: both are pathological. Labor market failure must be de-emphasized: co-ordinated expansionary macroeconomic policy, combined with well designed governance structures for domestic and international markets are the order of the day.

Keyword: U.S. model, European model, labor market flexibility, macroeconomic policy, co-ordination, wage floor.

I Introduction

Over the last two decades, Western European and U.S. unemployment experience has differed dramatically. Whereas the U.S. has been characterized by extensive job creation and comparatively low unemployment rates, Western Europe has been characterized by negligible job creation and comparatively high rates of unemployment. These differences in job performance are shown in Tables 1 and 2.

Table 1 shows how the unemployment rate has inexorably risen in European countries since 1973. As of 1996, the U.S. had a lower rate of unemployment than Europe, though this rate was higher than it had been in 1973. More recent data serves to compound the U.S.'s advantage since the U.S. unemployment rate has fallen to 4.9% as of April 1997.

Table 2 provides data on job creation in the period 1979-92, and once again the superior performance of the U.S. economy is evident. Moreover, more recent data again compounds this dimension of superior performance since the U.S. economy has generated a further 8.5 million jobs since 1992.

The severity of the European unemployment problem, combined with the relative success of the U.S. in creating jobs and keeping unemployment rates down, has led many Europeans to believe that they should adopt the U.S. model. This belief is evident in the 1996 OECD survey of the U.S. economy, in which Chapter III is little short of a panegyric to U.S. labor markets and labor market policy which is described as being "generally effective in creating a dynamic and flexible economy (OECD, 1996, p.24)."

The OECD's endorsement of the U.S. model is misguided, and can be faulted on a number of levels. First and foremost, the U.S. model is fools' gold in the sense that though it has generated relatively more jobs, these jobs have been produced at great cost

in terms of income inequality, stagnating wages, and increased income insecurity. Moreover, this putatively superior employment performance represents a step back when compared with U.S. employment performance in the period 1950 - 73. In 1973, the U.S. unemployment rate was 4.8%: during the 1960s it averaged 4.8%, and during the 1950s it averaged 4.5%. These average rates are lower than the current rate of 4.9%, which itself marks the peak of the current business cycle expansion.

Second, the diagnosis of the causes of the U.S.'s recent superior employment performance relative to Europe is a false one. This diagnosis emphasizes microeconomic factors associated with labor market practices and institutions, whereas the real cause of the U.S.'s superior performance concerns macroeconomic policy.

Third, the construction of an opposition between the U.S. and European models establishes a false dichotomy in which policy makers are forced to choose between either high unemployment with moderate social protections, or lower unemployment with low levels of social protection and high income inequality. In fact, both the U.S. and European models are pathological, and both should be rejected.

Economic policy should aim for full employment with a high degree of social protection and relative income equality. These were the conditions that characterized the Golden Age period of 1950-73. Achieving such an outcome demands an alternative economic diagnosis. The current diagnosis implicitly blames workers for unemployment through its focus on labor market rigidities and social protections: an alternative diagnosis de-emphasizes labor markets and promotes a strategy that encompasses macroeconomic policy, international economic policy, and appropriate governance of domestic markets which include labor markets.

II Fool's gold: the dark side of the U.S. model

The one clear advantage of the U.S. model over its European counterpart is its employment performance. However, the U.S. model has extensive disadvantages which have been documented in Mishel and Schmitt (1995). At the macroeconomic level, this disadvantage shows up in the rate of productivity growth which is shown in Table 3. Over the period 1960-92, the average annual rate of U.S. productivity growth was consistently below that of the six European economies shown. This sub-par performance holds for all of the sub-sample periods within the overall sample period, and U.S. productivity growth also slowed down in the latter half. However, this is faint praise for Europe, since it too experienced slowed productivity growth. In this connection, it is noteworthy that amongst European countries, the United Kingdom has also experienced very low productivity growth in the most recent period, and it has come closest to adopting the U.S. model.

Another downside to the U.S. model has been its tendency to produce wage stagnation. This is captured in Tables 4 and 5. Over the period 1979 - 92 the U.S. average rate of growth of compensation per employee was 0.23%: in Europe, it was 1.19%. Table 5 reveals that the U.S. performance was even worse in the manufacturing sector, where U.S. hourly compensation growth was negative for production workers: contrastingly, European hourly wages of production workers continued to grow.

The U.S. model is also characterized by greater inequality of income distribution. This is captured in tables 6 and 7. Table 6 shows family incme of selected percentiles as a percentage of the median income. The last column shows the ratio of the 90th percentile's

income to the 10th percentile's income. In the U.S., this ratio is 5.94: for the six European countries it averages 3.32. Table 6 captures the greater extent of income inequality in the U.S: Table 7 captures the direction in which it has been changing. This table shows how various groups' incomes changed relative to the median income. In the U.S, persons at the 10th percentile found that their income declined relative to the median income by 3.4 percentage points: those at the 95th percentile increased their income relative to the median by 25.4 percentage points. The U.S. pattern is one of growing income inequality. In European countries, it is only the United Kingdom that shows a similar pattern: however, in the U.K., those at the bottom have been able to retain their standing relative to the median. In the Netherlands and Sweden, those at the 10th percentile have lost ground relative to the median, but top income groups have not increased their relative standing. In sum, income distribution in Europe has remained relatively stable, while it has become more unequal in the U.S..[1]

A final statistic that sheds light on the dark side of the U.S. model is the poverty rate. Table 8 shows comparative international poverty rates. The poverty threshold is defined as 40% of median income adjusted for family size. U.S. poverty rates are an order of magnitude higher than European rates: the percentage of adults in poverty is twice as high in the U.S., while the percentage of children in poverty is five times as high.

[1].Supporters of labor market flexibility side-step the problem of declining real wages for production and non-supervisory workers by referring to "family income". This has increased as dual spousal labor force participation has increased in response to the wage squeeze. Similarly, the increase in inequality is side-stepped by focusing on lifetime income mobility. Many young persons from upper-income families begin their working lives with low incomes: this creates the

III Misunderstanding the causes of the lower U.S. unemployment rate

The previous section documented the dark side of the U.S. economy which offsets its superior job creation performance. The consensus view amongst economists, which is also supported in the OECD survey of the U.S. economy (1996), is that the U.S. has a lower unemployment rate because its labor markets and wage structure are relatively more flexible compared to Europe. Thus, workers in the U.S. have little in the way of job protection, unions are weaker, and unemployment benefit is harder to qualify for, of shorter duration, and marked by a lower wage replacement rate. The argument is that labor markets in both countries have been buffeted by technological shocks and increased foreign competition driven by globalization, but flexible U.S. labor markets have enabled the U.S. economy to cope better with these shocks.

This explanation is being used to push European countries to abolish labor market regulations and reduce worker protections, yet it significantly misrepresents the true cause of lower U.S. unemployment rates. Throughout the 1960s and 1970s Europe had a lower unemployment rate than the U.S.. However, this situation reversed in 1983, since when the U.S.unemployment rate has trended down, while Europe's unemployment rate has continued trending up. Whereas the consensus view is that this difference is attributable to differential labor market flexibility, an alternative view is that it is attributable to differential macroeconomic policies. Thus, the U.S. has pursued relatively more expansionary macroeconomic policies, and this is the real cause of its lower unemployment rate.

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perception of significant income mobility, but those from low-income backgrounds are likely to remain low-income workers all their lives.

Taking account of macroeconomic factors dramatically changes perceptions of the U.S. model. Europe is trapped in deep recession, while the U.S. is at the peak of a cyclical boom. This raises the question of why Europe has gotten trapped in a slump, while the U.S. has been able to enjoy a cyclical expansion. The answer lies in macroeconomic policy.

During the 1980s, the U.S. pursued a strongly expansionary fiscal policy, and ran budget deficits that averaged 3.6% of GDP. These deficits were caused by the big defense build-up and by extensive tax-cuts for upper income groups, and together they stimulated aggregate demand. European countries have also run deficits, but rather than being the product of expansionary fiscal policy, these deficits have been produced by reduced tax revenues and increased welfare spending caused by recessionary conditions. Thus, the U.S. budget deficit was the result of pro-active expansionary fiscal policy, whereas European deficits were the result of depressed economic conditions.

Just as the U.S. has run relatively more expansionary fiscal plicy, so too it has run more expansionary and counter-cyclical monetary policy. The U.S. has pursued an independent monetary policy conditioned upon the state of the domestic economy. Though the underlying stance of monetary has not been as expansionary as might have been desired, the Fed has been able to lower interest rates whenever economic conditions have weakened excessively. Thus, in the 1981-82 recession, when unemployment threatened to become excessive, the Fed was able to lower the Federal Funds rate from 16.4% in 1981 to 9.1% in 1983: in the most recent recession, the Fed lowered the funds rate from 5.5% in 1991 to 3% in 1993.

This state of affairs contrasts with that in Europe. First, European monetary policy has been more completely captured by the notion that inflation is an unmitigated bad that is not to be tolerated at any cost: this reflects the more unruly inflation experience of European countries in the 1970s, as well as the domination of the Bundesbank within European financial circles. European monetary authorities have therefore been less inclined to lower interest rates when domestic employment conditions have weakened.

"Inclination" is one reason for Europe's more contractionary monetary policy: "ability" is another. European economies are much more "open" than the U.S. economy, as measured by the ratio of imports to total domestic expenditure. This is captured in Table 9 which shows the degree of openness: a measure of 0 is a pure closed economy which has no imports, while a measure of 1 corresponds to a pure open economy in which all domestic spending is on imports. For the U.S., the degree of openness is .10: for Europe, it is .31. The significance of this heightened openess is that it makes European economies very sensitive to imported price inflation resulting from exchange rate depreciation. Given this, and given their fear about inflation, European countries have been averse to exchange rate weakness. This aversion has locked them into a policy of keeping interest rates high. Worse than that, fearing exchange rate weakness, individual country monetary authorities have had an incentive to push their domestic interest rates fractionally above the average. However, with all countries succumbing to this incentive, average interest rates have been pushed higher.

During the 1980s, the deflationary impulse in monetary policy was institutionalized through the European exchange rate mechanism (ERM). Countries joining the ERM were forced to keep domestic interest rates high to prevent exchange rate depreciations that

would have violated ERM bounds. Ultimately, these attempts to preserve the ERM proved futile, and it collapsed in 1992 after a bout of extreme currency speculation against the British pound.

The big beneficiary from the ERM was Germany, whose currency was kept below the levels that its balance of payments surplus and low inflation rate demanded. France has been a particularly heavy loser, as the French Franc has been tied to the Deutsche Mark through the Bank of France's *franc fort* policy. In order to limit imported inflation, and in an attempt to win lower interest rates through international credibility regarding committment to low inflation, the French economy has been burdened by much higher interest rates than underlying real economic conditions warranted. In effect, the French monetary authorities have sacrificed the French economy on an altar of the Bundesbank's making.

Exchange rate considerations limit individual countries from pursuing autonomous monetary policy: balance of payments considerations limit them from pursuing full employment fiscal policies. The problem is again one of openness. Since individual European economies are so open, a significant part of any fiscal stimulus leaks abroad in the form of higher import spending. This in turn worsens the balance of payments, thereby putting pressure on the exchange rate. At this stage, expansionary policy must be brought to an end, either by the reversal of the fiscal stimulus or by higher interest rates. In this connection, it is notable that the Mitterrand government in France felt compelled by a sense of crisis to put an end to its expansionary Keynesian policy when the French

the French budget deficit reached a mere 2.6% of GDP in 1983: however, by then the French trade deficit was 2.2% of GDP.[2]

In a sense, European economies are similar to individual state economies within the U.S. or Canada: individual states are unable to purse expansionary fiscal policy because too much of the stimulus leaks outside the state. States that try such policies quickly find that the employment effect is limited while the budgetary impact is huge, and they are forced to reverse course; this is what happened to the Ontario provincial government in Canada in the early 1990s. Fiscal policy in the U.S. only works when implemented at the federal level: a similar logic applies to Europe, where fiscal policy is effective if co-ordinated across countries, and short-lived if tried in isolation.

The problem of excessive leakages, combined with the fear of exchange rate weakness, gives rise to a systemic deflationary bias since every country has a private incentive to adopt contractionary policies. This problem is illustrated in Figure 1. Countries can either choose expansionary or contractionary macroeconomic policies. The top left box yields the optimal outcome, and has both countries expanding. The result is full employment, balanced trade and fiscal balance in both countries: countries import from each other, thereby producing balanced trade, while full employment raises tax revenues and lowers transfers. The bottom right box is the inferior outcome, and has both countries contracting: trade is balanced, but both countries experience unemployment, and may also have cyclical deficits because tax revenues are down and unemployment insurance payments are up.

[2].The Mitterrand policy experiment is analysed by Lombard (1995).

Why does the bottom box dominate despite its inferior outcome? With regard to monetary policy, there is a policy incentive to raise interest rates fractionally above the international average, thereby currying favor with the foreign exchange market and reducing the likelihood of capital flight and imported inflation. However, when all countries do this, the result is higher interest rates in all countries. With regard to fiscal policy, there is a policy incentive to cut spending and reduce the budget deficit, in the hope of winning favor with the bond market and generating lower interest rates.

In this structural environment, no country can go it alone. If one country tries to use expansionary monetary policy, it quickly finds itself in danger of an exchange rate crisis, with consequences for imported inflation. This is because lower rates, combined with the prospect of marginally higher inflation, cause capital to flee. Demand also leaks abroad, giving rise to a trade deficit. If a country tries expansionary fiscal policy, there is still the danger of capital flight owing to the prospect of potentially higher inflation, and there is still the problem of demand leaking abroad. The result is it finds itself stuck with both a budget and trade deficit, and is soon forced to reverse policy.

Resolving the adverse incentive structure associated with independent action calls for co-operative policy making. If all agree to expand together, then the demand leakages between countries offset one another. The result is expanded output combined with balanced trade, since both countries are importing from each other. The fiscal deficit is also reduced as a result of the expansion. Finally, the problem of capital flight is minimzed as all countries are simultaneously expanding, and finance capital has no country of particular preference to flee to.

The above problems of openness and lack of co-ordination have imparted a restrictionary bias to both monetary and fiscal policy in Europe. This bias in fiscal policy is now being compounded by the Maastricht Treaty's conditions regarding implementation of European monetary union (EMU). As part of the transition arrangements for establishing a single European currency, countries are restricted to have government budget deficits that are less than 3% of GDP. However, most countries are running deficits significantly in excess of this owing to current depressed economic conditions which have lowered tax revenues and increased welfare payments. Consequently, many European economies are being pushed to adopt contractionary fiscal policies to reduce their budget deficits at a time when they are already in recession. Given the openness of these economies, whereby contraction (expansion) in one country negatively (positively) affects others, this will aggravate Europe's generalized deflationary climate.

In addition to the relatively contractionary stance of European monetary and fiscal policy, there are other special factors that explain the U.S.'s relatively better job performance. One factor, is the U.S. private credit system which is ready to make easy provision of credit. This combined with America's culture of consumerism can be a significant expansionary factor. It contributed to the long expansion in the 1980s, when consumer debt to income ratios rose to record heights, and it has contributed to the current recovery during which household consumer debt to income ratios have again risen to record highs. However, it is also true that these debts may become a major burden in the next U.S. recession, just as they were in the recession of 1990-91.

A second special factor behind U.S. job creation was the S&L bailout during the late 1980s. In one sense, the bailout was contractionary since it disrupted the flow of credit from the S&Ls. Yet, balancing this, the rescue brought with it a $500 billion injection of funds into the economy. The initial S&L lending was expansionary, while the contractionary burden of these debts was wiped off the private sector's balance sheet by the Federal government stepping in and paying off depositors.

IV Beyond the U.S. and European models

The previous sections have highlighted the pathological state of affairs in both the U.S. and Europe. Section I showed that though the U.S. economy currently has lower unemployment rates than Europe, it has also experienced an upward trend in unemployment rates since the early 1970s. Section II then argued that the superior job creation performance of the U.S. model was "fools' gold" in that it was accompanied by a tendency to generate wage stagnation, and increased income inequality and poverty rates. Moreover, section III argued that the U.S. economy's recent superior job creation performance has been been driven by macroeconomic forces rather than by microeconomic considerations of greater labor market flexibility.

The causes of the differences in performance are shown in Figure 2. This figure contains a two-by-two matrix describing the policies pursued by Europe and the U.S.. These policies are described as "maintanance of the wage floor" and "expansionary macroeconomic policy". Box B corresponds to the U.S economy, where the wage floor has been undermined, but macroeconomic policy has been relatively expansionary: the result has been increased income inequality, accompanied by job creation. Box C

corresponds to Europe, where the wage floor has been maintained but macroeconomic policy has been relatively contractionary: the result has been unchanged income inequality, accompanied by rising unemployment.

The policy that is needed is associated with box A, and its combination of maintained wage floor/expansionary macroeconomic policy. Unfortunately, the current direction of policy is the exact opposite, and is pushing toward box D with its combination of undermined wage floor/contractionary macroeconomic policy. In Europe, the push is to lower the wage floor and reduce worker protections under the guise of creating greater labor market flexibility. This is the policy that the OECD has endorsed in its jobs strategy (OECD, 1997, see Chapter III). Simultaneously, the U.S. is pushing for tighter fiscal policy through a reduced budget deficit, while the Fed is keeping monetary policy tight by linking it to the employment cost index thereby holding the lid on money wages.

This push toward box D reflects the adverse structure of incentives that exists in today's globalized economic environment. Increased competition in international trade exerts a persistent pressure to improve competitiveness, and this has encouraged countries to implement policies that lower the social wage. At the same time, greater economic integration means that economies are becoming more open, and characterized by greater import demand leakages. This means that domestic macroeconomic policy has become less capable of stimulating domestic employment, since a greater proportion of any domestic demand stimulus now leaks abroad as imports. Consequently, countries that try to expand domestic demand are left burdened with both trade and fiscal deficits. This is principal the lesson of the failed Mitterand government economic experiment in the

early 1980s, and it explains why European governments have been unwilling to adopt sufficiently expansionary policies.

Given this adverse policy setting, there is no single policy that can restore high wage full employment. Instead, a successful program will have to be multi-dimensional. The outline of such a program is as follows:

(1) STRUCTURAL REFORM. Rather than aiming for increased labor market flexibility and lower wages predicated upon reduced worker protections, labor market reform should focus on raising wages by restoring the balance of power between business and labor. This balance has tilted in favor of business owing to technological and organizational innovations. It has also been affected by the decline of unions, and by international trade and international financial policy which have increased the mobility of both physical and financial capital. In the face of these structural changes, policy should aim to rectify this imbalance by strengthening the wage floor through higher minimum wages, improved welfare, and increased unemployment benefits and coverage. Side-by-side, labor laws should be ammended to facilitate unionization, and render employer sponsored deunionizations more difficult.

(2) MONETARY POLICY. The doctrine of the natural rate of unemployment, which maintains that monetary policy is handcuffed by a binding employment constraint beyond which inflation accelerates, should be abandoned. In its place, monetary policy should be guided by a more pragmatic stance, that seeks to lower unemployment while experimenting as to where the region where inflation starts to accelerate actually lies. Given the high level of corporate profitability and continued productivity growth in manufacturing, there is room for non-inflationary wage increases. The bond market's

implicit domination of monetary policy, which is evidenced by the policy goal of zero inflation, should be replaced by an outlook that balances concerns with employment, wages and inflation.

(3) FISCAL POLICY. The notion of a saving shortage, which has fuelled the push for fiscal austerity, should be rejected. Industrialized economies are awash with savings, as evidenced by the increase in stock prices and other financial asset prices. Saving does not cause investment: rather, investment causes saving. Increasing investment in turn calls for easier monetary and fiscal poilcy policy, which in turn will make for more robust market conditions and encourage business to invest. Public investment is important for growth, and should be funded both for growth purposes, and as a means of reflating economies. A more progressive system of taxation, combined with the elimination of corporate welfare, can help restore income equality while putting money in the pockets of those who spend it.

(4) INTERNATIONAL ECONOMIC POLICY. The final dimension of the policy puzzle concerns international economic policy. Here, there is a need to distinguish between international trade and international financial capital markets. International trade is in principle good, conferring the benefits of product diversity, economies of scale, and increased product market competition. However, where trade is exclusively driven by low wages or by the absence of environmental regulations and labor standards, it should be carefully managed: this is the only means of preventing international trade and accompanying employer threats to transfer production overseas, from undercutting domestic wages. International financial markets also need to be regulated, perhaps through the imposition of capital controls. This is to prevent financial capital from

excercising a veto over domestic economic policy. This problem has been particularly severe in Europe, where policy has been held hostage by the threat of speculative attacks against the exchange rate.

Such a program outlines a consistent economic strategy for restoring high wage full employment. However, European economies are undoubtedly too small to-go-it alone as all suffer from too high a degree of openness. The same increasingly applies to the U.S., where increased openness means that international trade exerts a stronger effect on wages, while the increased size of demand leakages makes for exploding balance of payments deficits and growing international indebtedness. Economic policy co-ordination has therefore become a necessary condition for acheiving sustained economic prosperity in the new globalized economic environment. By ensuring a concurrent generalized expansion of income across countries, such co-ordination can mitigate the problems of trade deficits and capital flight driven by international differences in inflation and interest rates, and thereby enable countries to stay the expansionary course. In the absence of such co-ordination, the adverse policy incentives that promote the macroeconomics of austerity and lowering of the wage floor, will inevitably assert themselves.

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Country	**1973**	**1979**	**1989**	**1996**
United States	4.8	5.8	5.2	5.4
France	2.7	5.9	9.4	12.3
West Germany	0.8	3.2	5.5	9.0*
Italy	6.2	7.6	10.9	11.9+
United Kingdom	3.0	5.0	7.2	8.2
Europe large country average	3.2	5.4	8.3	10.4
Belgium	2.7	8.2	8.0	9.8
Finland	2.3	5.9	3.4	15.7
Netherlands	2.2	5.4	8.3	6.6
Norway	1.5	2.0	4.9	5.0+
Sweden	2.5	2.1	1.4	10.0
Europe 5 small Country average	2.2	4.7	5.2	9.4

Table 1 Comparative unemployment rates, 1973 - 96.
Source: Bernstein and Mishel (1995) and author's calculations:
1996 data from OECD News release (97)21: + = 1995 data: * = all Germany.

Country	Total Created 1979-89 (000)	New Jobs as Percent 1979 Employment	Total Created 1979-92 (000)	New Jobs as Percent 1979 Employment
United States	18,518	18.7%	18,774	19.0%
France	550	2.6	730	3.5
West Germany	1,730	6.8	3,180	12.5
Italy	840	4.2	1,240	6.2
Netherlands	730	13.7	1,130	21.2
Sweden	364	8.7	146	3.5
United Kingdom	1,410	5.7	520	2.1
Europe (6 country average)		7.0		8.2

Table 2 Jobs created, 1979-92. Source: Bernstein and Mishel (1995) and author's calculations.

	1960-1967	1967-1973	1973-1979	1979-1989	1989-1992	1960-1992
United States	2.7%	0.9%	-0.1%	0.8%	0.7%	1.1%
France	4.3	4.1	2.4	1.9	1.2	2.9
West Germany	3.9	4.3	2.9	1.1	2.1	2.7
Italy	6.1	5.0	2.7	2.0	0.8	3.5
Netherlands	n.a.	n.a.	0.0	0.7	0.1	0.3
Sweden	4.0	2.8	0.5	1.2	1.1	2.0
United Kingdom	2.3	3.4	1.2	1.8	0.4	2.0
Europe	4.1	3.9	1.6	1.5	1.0	2.2

Table 3 Productivity Growth rates, 1960 - 92.
Source: Bernstein and Mishel (1995).

	1979 - 89	1989 - 92	1979 - 92
United States	0.12%	0.51%	0.23%
France	0.93	1.28	1.03
Germany	1.11	2.71	1.57
Italy	1.38	1.83	1.51
United Kingdom	1.91	0.51	1.51
Europe (4 country average)	1.03	1.58	1.19

Table 4 International compensation growth per business sector employee, 1979 - 92.
Source: Bernstein and Mishel (1995) and author's calculations.

	1979 - 89		1989 - 92		1979 - 92	
	All	Production	All	Prod.	All	Prod.
United States	0.2%	-0.6%	0.8%	-0.1%	0.4%	-0.5%
Denmark	0.0	-0.2	1.7	2.0	0.5	0.4
France	1.9	1.9	0.8	0.7	1.6	1.6
West Germany	2.3	1.9	3.0	3.1	2.5	2.2
Italy	1.0	1.5	3.4	0.5	1.7	1.2
Netherlands	0.8	0.5	1.0	1.1	0.9	0.7
Sweden	0.9	0.9	0.1	0.3	0.7	0.7
United Kingdom	3.1	1.7	1.7	2.4	2.7	1.9
Europe (7 country average)	1.4	1.2	1.7	1.4	1.5	1.3

Table 5 Hourly manufacturing compensation growth, 1979-92
Source: Bernstein and Mishel (1995) and author's calculations.

	Percentiles			Distance Ratio
	10th	90th	95th	90/10
United States (1986)	34.7%	206.1%	247.3%	5.94
France (1984)	55.4	192.8	233.5	3.48
West Germany (1984)	56.9	170.8	201.7	3.00
Italy (1986)	48.9	197.9	233.8	4.05
Netherlands (1987)	61.5	175.0	206.4	2.85
Sweden (1987)	55.6	151.5	170.4	2.72
United Kingdom (1986)	51.1	194.1	232.1	3.80
Europe (6 country average)	54.9	180.4	213.0	3.32

Table 6 Family income distribution: percent of median income, mid-1980s. Source: Atkinson, Rainwater and Smeeding (1994), and author's calculations.

	Change in Distance from median			Distance Ratio
	10th	90th	95th	90/10
United States (1979-86)	-3.4	18.5	25.4	1.0
France (1979-84)	1.8	6.3	1.2	0.0
Netherlands (1983-87)	-3.3	-1.1	-1.7	0.1
Sweden (1981-87)	-5.9	0.6	3.4	0.3
U.K. (1979-86)	0.2	14.4	23.2	0.3

Table 7 Change in multiple (percentage points) of median income during the 1980s. Source: Atkinson, Rainwater and Smeeding (1994), and author's calculations.

Country	Poverty rates in the mid-1980s All Persons	All Adults (18-64)	All Children (17 or under)
United States	13.3%	10.5%	20.4%
France	4.5	5.2	4.6
West Germany	2.8	2.6	2.8
Netherlands	3.4	3.9	3.8
Sweden	4.3	6.6	1.6
United Kingdom	5.2	5.3	7.4
Europe (5 country average)	4.0	4.7	4.0
Ratio of U.S. to Europe	3.3	2.2	5.1

Table 8 International poverty rates. Source: Smeeding (1992), and author's calculations.

	1988
United States	.10
France	.21
Greece	.26
Italy	.18
West Germany	.28
United Kingdom	.27
Denmark	.30
Sweden	.31
Switzerland	.35
Austria	.35
Norway	.37
Netherlands	.51
Europe (11 country average)	.31

Table 9 Degree of openness. Source: Davidson (1994).

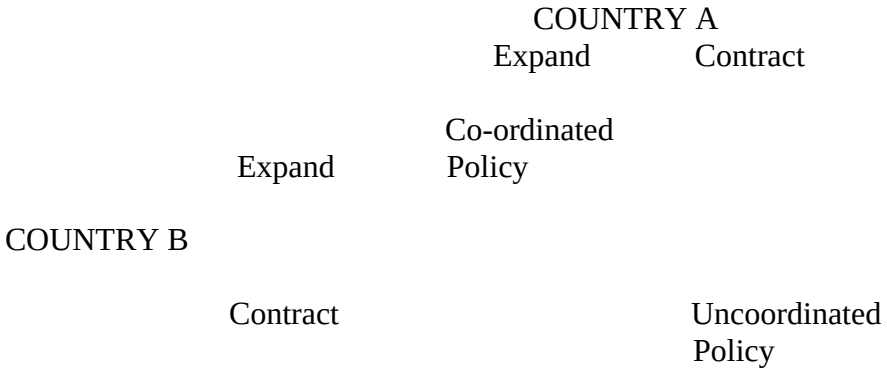

Figure 1 Taxonomy of macroeconomic policy outcomes

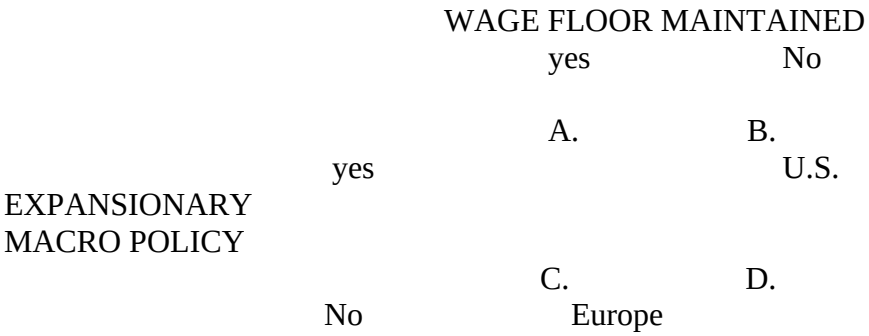

Figure 2 Taxonomy of policy configurations.