A review of: *Cowboy Capitalism: European Myths, American Reality,* by Olaf Gersemann (2004) Washington, D.C.: Cato Institute 209 pp.

Even as I write these words, the *New York Times* has just finished up a

particularly lachrymose series of articles lamenting the hideous problem of economic insecurity and inequality in America, something that obviously has never existed before, and presumably will vanish once we elect Hillary president, or perhaps crown her the Virgin Queen. Even the *Wall Street Journal* recently ran a series on inequality. Now, this amazes me. Even after a stock market correction of colossal proportions, a terrorist attack on our central financial district which killed more civilians than any other attack in our nation’s history, with the instant loss of a million jobs and resultant recession, not to mention two wars, our economy has shown stunning resilience, and is doing incredibly well. But it is clear that many are unconvinced, and their teary eyes turn pathetically to enlightened Europe for inspiration.

Recently, however, there has been rising self-doubt within Europe itself about the economic performance of their economies. The EU model of cozy, easy, union-dominated welfare states working within a large trading block, relative immune from the forces of economic competition, has seemed more and more untenable, much to the distress of many people, especially in France and Germany. The recent overwhelming rejection of the proposed E.U. constitution by French and Dutch voters has only intensified the debate. The book under review, written by a well-respected reporter for Germany’s largest economic and business weekly, had an explosive effect on this internal European debate when it was first published in Germany in 2003. The Cato Institute has done us a service in publishing this translation. It is a sustained examination of the myths about American economic life by an outsider, and as such provides us a valuable perspective—we get to see ourselves as (some) others see us.

Gersemann begins by noting an anomaly: despite the fact that, over the last quarter century, the U.S. economy has enjoyed an average real growth rate of 2.9%, which is a 55% greater rate of growth than that of Germany, 48% more than that of France, and 39% greater than that of the E.U. as a whole, and despite the fact that the U.S.A. has enjoyed lower unemployment rates than have those countries, the Europeans view our economy as a model, not to be copied, but to be avoided at all costs. In Germany, the phrase “amerikanische Verhaltnisse” (roughly “the American way of things”) is used as a slur. He finds this puzzling, and while he isn’t necessarily in love with our system (a point I will take up later), he thinks that it has aspects that Europeans should emulate.

To convince Europeans of this, he sets out to compare the economic performance of the U.S with those of Germany, France, and Italy (which account for half of the economic output of the EU, and over 60% of that of the Euro zone’s). In the first part of the book he looks at the divergence that occurred since the 1970s between the economic growth, labor productivity and employment level in the U.S.A and the E.U.. In the second part of the book, he debunks many of the ugly myths Europeans hold about the U.S. economy, myths perpetuated by the European Left—with the sycophantic help of turncoat American leftists such as Michael Moore, whose books *Stupid White Men* and *Dude, Where’s My Country* have been runaway best-sellers in Germany. In the third part of his book, he then compares economic security and justice in the U.S.A and the E.U.. Let me just highlight his work.

He begins in part I by recalling the late 1970s. In America, the Clown Royal Jimmy Carter was talking about our “national malaise” and “crisis of confidence” (never, of course, taking any blame for this for himself or his political party.) Besides the political malaise brought on by Vietnam and Watergate, the U.S.A. was in an economic malaise as well—high inflation, high unemployment, and major industries in trouble (especially the auto industry, with Japanese and German auto makers making major inroads into the U.S. market). Meanwhile, both Germany and Japan looked like economic miracles. In the second half of the 1970s, for example, the American inflation and unemployment rates were triple that of Germany. It appeared that Europe, so devastated by WWII, was not only going to converge upon us economically, but surpass us.

However, the 1980s saw that convergence reverse, and by the late 1990s the gap between America and the E.U. had widened back up to a size not seen since the late 1960s. Gersemann points to a number of factors that account for this. First, there has been a continuing drop in the number of hours worked by E.U. workers. For example, working-age Germans average 2 ours and 35 minutes of work per calendar day, with the French and Italian working even less. But more important still has been the recent explosive growth in U.S. productivity: between 1996 and 2003, annual labor productivity growth was a phenomenal 3.09%, compared to 1.6% in Germany during the same period. This again reverses an earlier trend, where Germany’s productivity growth had for years outstripped our own. The reasons for our amazing productivity growth are not fully clear, but our investment in IT (information technology) is a big part of it, as is (horrors!) Wal-Mart, which by itself accounted for 25% of the productivity growth in retail (with another 46% being due to improvements that Wal-Mart’s competitors had to make to keep up.) He also points to the fact that in the 1980s, the rapid growth in the size of government in the U.S. was slowed, tax rates went down, and the economy was liberalized. The airline, electric power, telecommunications and other industries were deregulated, and the power of the unions curtailed. In 1996, we finally got welfare reform. In recent rankings, the U.S. now ranks near the top of the list of the freest economies, while France, Germany and Italy rank much lower. Governmental expenditures in 2003 as a percent of GDP were 35.9% in the U.S., while they were 48.5%, 49.4% and 54.4% in Italy, Germany and France respectively. In passing, he makes some important economic points overlooked by journalists and commentators who allege that America is losing its valuable manufacturing and agricultural jobs, and only creating burger-flipping jobs at McDonald’s. As he notes (pp. 53-4):

Service-sector jobs are often and gleefully defamed. Service jobs, it is said, are for the most part mundane, low-paying “McJobs.” However, the opposite is true, as 1998 numbers for OECD countries show. For every 100 jobs for low-skill, manufacturing provided 97 jobs for medium- or high-skill workers. The service sector provided jobs for 229 medium- and high-skill workers for every 100 low-skill jobs. In producer services, the ratio was even more impressive at 100 to 417. What is more, 19.4 percent of the service-sector workers had a university education; in manufacturing the share was just 8.2 percent.

Every so often, it is also said that even a modern economy needs a strong industrial base because the service sector produces nothing tangible and therefore can’t be the foundation of an economy. Even Adam Smith, the otherwise sharp spiritual grandfather of capitalism, thought so. Only industrial work, wrote the Scottish philosopher in 1776, can be “productive.” The work of the service provider, however, “adds to the value of nothing.”

Why Smith erred can be shown with an example. In the past, almost everyone who worked *for* the agricultural sector also worked *in* agriculture. In today’s modern economies, only a few percent of workers are employed *in* agriculture. But many service providers work *for* this sector—for example, software engineers who write the programs that help farmers manage their business or scientists who develop genetically modified seeds.

Thus, as an economy matures, employment tends to shift from the actual production of goods towards jobs that, broadly speaking, help to make the production process more efficient. That’s one of the reasons why a large share of services jobs in the employment structure is typical of highly-developed economies. Therefore, strong growth in service-sector jobs is a sign that the structural change that is necessary to make the transition to a service-sector economy is functioning. That’s what’s so unsettling about Figure 4.4; Germany and Italy are obviously lagging far behind.

What’s more, the gap is especially pronounced in business services, financial services, and other knowledge-intensive services—in those areas of the service sector, in other words, that offer a disproportionately high share of well-paying jobs. In five such knowledge-intensive service industries, real output in the United States grew by no less than 195 percent between 1980 and 2003….

He also notes that our R&D spending is significantly higher than our competitors, even per capita, as is the number of high-tech workers. Some indication of the success of this is given by the statistics on key Nobel prizes awarded between 1990 and 2003: in Chemistry, 69.0% of the prizes went to Americans, as opposed to 3.4% for France, Germany and Italy combined; in physiology and Medicine, 71.0% went to Americans, compared to 9.7% for France, Germany and Italy combined; in Physics, 76.5% went to Americans, compared to 8.8% for France, Germany and Italy combined; and in Economics, 88.5% went to Americans, compared to 3.8% for France, Germany and Italy combined.

Turning to part II, Gersemann corrects or outright debunks a number of myths that Europeans tend to hold, and that American leftists—who desperately want America to become a European-style welfare state—tend to push. The myths he critically addresses include: that American living standards are declining; that Americans are debt-ridden and savings-averse; that poverty is on the rise in America; that American jobs are all just a bunch of McJobs; that American moms are forced to work to survive; that Americans have to work three jobs just to get by; that American unemployment seems so low because the unemployed here are often incarcerated; and that Americans have little access to health care. Let’s just glance at two of these.

Consider the claim that American living standards are on the decline. It seems like the critics of the American economic system have a point: while the average hourly wage of production and non-supervisory workers increased in real terms in the 1950s and 1960s, it peaked in the 1970s and declined in the 1980s, though it has been rising again during the 1990s. But this figure is misleading, since: first, it is a figure that reflects earnings before taxes, and taxes have gone significantly down since the 1960s and 1970s, especially for the lower income earners; second, it doesn’t reflect the fact that voluntary contributions employers make for health care, retirement and savings benefits; and third, it doesn’t reflect the fact that more and more earnings come from dividends, capital gains and interest. In 2001 over 50 percent of American households owned stocks (directly or through pension and mutual funds); even among the lowest fifth of income earners, over 12 percent owned stock. Moreover, Americans work more than they used to, and more work full-time rather than part-time. If you look instead at the money income of American households in real dollars, there is a clear, pronounced upward trend since the 1980s (with drops during the recessions of the early 1980s and 1990s, but the later recoveries making up for those dips). The graph for the median income and that for the upper limit of the lowest income fifth show this same trend. The trend is even more favorable when you look at real income per capita, because again the tax burden has gone down, there are increased benefits and capital gains, and family sizes are smaller. All in all, the per capita real money income of the average American household has risen by over 22 percent since 1980. He buttresses his analysis with figures showing dramatic increases in purchasing power, and showing how high the levels of consumer good ownership rates are here. For example, while over 68% of American households own homes, only 55% of French households do, and only 41% of German households do. (Indeed, the rate of home ownership of all German households only equals the rate of *the poorest fifth of American households*!) And while the average size of the American dwelling is 1,763 square feet, it is less than 950 square feet in France and Germany.

Consider the myth that Americans need to work three jobs to survive (a claim boastfully made by Germany’s top union leader). Again, Gersemann refutes it with data and analysis. In 2003, only 5.3% of all employed Americans worked more than one job. Of these, most worked either one full-time and one part-time job, or two part-time jobs—only one fifth of 1% worked two full-time jobs. This figure is about what it was during the 1970s. Now, in Germany, it is true that only 2.4% of the workers hold more than one job, but that is a dicey figure, because the size of the underground economy is much higher there (because of the steep income tax rates). And given the higher unemployment rate in Germany, it may be that many Germans would want to work a second job, but just can’t find one. And despite what skeptics might suspect, the incidence of multiple jobs is actually higher among the skilled than the unskilled. It is professionals such as teachers who are most apt to hold second jobs—no surprise, considering the fact that teachers typically have three months off a year.

In part III of his book, Gersemann takes up more general issues of equality and justice. Among other things, he shows that global inequality is going down, not up, as China and India rapidly industrialize. And he devotes consider effort to make clear that while income inequality within America has grown, it is because the rich have gotten much richer, NOT because the poor have gotten poorer. Moreover, the increasing unequal distribution of income has NOT been mirrored by a growing inequality of consumption. That may be due to the fact that measures for income redistribution focus more on the needy in the U.S than they do in the E.U.. And the increasing wealth of the rich is due in great measure not to inherited wealth, but due to the rise of super-rich entertainment and sports stars, as well as entrepreneurs. If you compare the *Forbes* list of the wealthiest 400 Americans in 1989 with that of 2001, you see that their average wealth has grown from $920 million to $2.15 billion. Moreover, there is not a great amount of overlap—230 of them on the 2001 list weren’t on the 1989 list, and of those 230, all but 20 got there by their own work, NOT by inheritance. Gersemann makes a telling point about filthy rich entrepreneurs (p. 163):

As for entrepreneurs, it can be assumed that most founders are driven not by some noble ideal but rather by the simple wish to become rich—filthy rich to be precise. That’s the reason why a society that is concerned about its own well-being has to assess whether it might not be better, for all the dangers to the meritocracy ideal, to accept the possibility of successful entrepreneurs amassing gargantuan riches.

Put differently: The income distribution in the United States would surely be more even if the Waltons had remained grocers, if the Dells had become high school teachers, and if the Ellisons had become journalists. If income inequality is the yardstick, America would be a more “just” country today—but almost certainly a poorer one, too.

Yet another reason for this growing wealth of the rich is that they tend to be the more educated (since the highest earning professions tend to require the highest education, such as medicine, law, business and engineering). And America has dramatically higher rates of college attendance than European countries do, with broader access to education.

Gersemann finishes up by pointing out some other interesting things. First, it is still the case that there is more social mobility in the U.S. than the E.U.. Second, the ridiculous employment protection laws that characterize the E.U. economies not only result in higher unemployment, but much longer periods of unemployment. Not surprisingly, then, surveys show higher rates of optimism, life satisfaction, security and sense of empowerment in American than in the E.U. countries. Third, surprisingly, the rich in America pay a higher share of tax revenue, and get less income transfers from the government, than in Germany

As a clear, insightful and wide-ranging comparative analysis of the European and American economic models, Gersemann’s book is hard to beat. Still, a few thoughts come to mind. To begin with, Gersemann did the bulk of his analysis in 2001-2002, publishing his original German edition in 2003. Imagine how it would look to him after 2004, during which we came out of the 9/11 recession with a roar, creating 3 million new jobs, with unemployment now at 5.1%. Our growth rate is currently 3.6%, three times that of the Euro zone. And as reported recently in the *Wall Street Journal,* in 2004, the net average household wealth of Americans reached an all-time high, with the number of net millionaires—people worth a million dollars or more, minus all debt, *and excluding the value of their primary residences*—rose by 21% to hit an historic high of 7.5 million households. (How high that latter figure would be if it included, as it really should, equity in primary residences as well is anybody’s guess, but it would have to reach the tens of millions). The number of U.S. households with $20 million or more in liquid assets is increasing by 3,000 households per year. And the rate of home ownership hit a new high of 70%.

In addition, Gersemann overlooks or understates some key points that actually make the comparison even worse for the European model. First, the Europeans get a virtually free ride from the USA when it comes to defense. Truth be told, if America pulled its troops and equipment out of Europe, forcing the Europeans to pay the full price of their own defense, the European economies would face even greater problems. Second, while the population of Europe has been shrinking, we have steadily taken in millions of very poor immigrants, and moved them up the economic ladder. Indeed, over the last twenty years, we have taken in a number of immigrants EQUAL TO THE ENTIRE POPULATION OF CANADA, and assimilated them rather well—although this drives paleo-conservatives crazy. Third, he overlooks the fact that the oft-denigrated “McJobs” or “Burger-flipping jobs” are typically first jobs which serve to teach people valuable work habits. Just consider some of the people who got their first job at McDonald’s: comedian Jay Leno; Amazon founder Jeff Bezos; astronaut Leroy Chiao; White House chief of staff Andy Card; actress Andie McDowell; former governor of Illinois Joe Kernan; and Representative Pat Tiberi. Indeed, over twelve hundred owners of McDonald’s restaurants started as crew members there, as did 20 of the top 50 worldwide McDonald’s managers—including the current CEO.

More critically, at times he is somewhat sketchy on data, or overly confined to narrowly economic statistics (as opposed to more broad sociological measures). For instance, the only data to support the view that Americans are more satisfied than Europeans with their lot in life is Harris Interactive polling data. That is surely good as far as it goes, but you could get more creative. We could look at rates of application to emigrate, or perhaps rates of alcoholism or depression. But it has to be admitted that it is difficult to explore the superiority of American model (better called the free market model) in only 200 pages.

More distressing, he is at pains to claim throughout that he is advocating not that Europeans adopt the American model, but only that they reform, Americanize, apparently enough to achieve much of our success while avoiding our problems. As he puts it (PP. 208-9)

American conditions? In Europe? Of course not. No one would seriously suggest copying one economic model, no matter which, in another country.

But what speaks against Americanizing the continental European economies by a good margin? Why not pursue reforms that would allow the inhabitants of countries such as France, Germany, and Italy to reap the benefits of the American model? The real problems that come along with American capitalism could for the most part be avoided, especially because, after all, they have nothing or little to do with cowboy capitalism itself.

And European economic systems need not be as “American” as the American system itself. The success of the American model doesn’t stand and fall with the fact that only some Americans enjoy five or six weeks of vacation annually. Nor do all employee protections have to be chucked in order to provide firms and employees with the flexibility they so clearly need in these Schumpeterian times.

Well, boy howdee, maybe I’m just too much of a cowboy, but yippeecayee, pardner, this strikes me a down-right wimpy conclusion. What moderate compromise is he suggesting here? To take the most obvious issue: how could Europe possibly have *our* lower tax rates and *their* cradle-to-grave state-paid health care?

All told, however, Gersemann has written an audacious book, and written it well. Its message is important for Germans, of course, but it needs to be taken to heart by us as well. Our system is working well—not perfectly, but well—and now is not the time to go all wobbly about free-market economics. We need to combat the continuing push from leftist journalists and academics to turn our country into a giant Euro-sclerotic welfare state. Equally, we need to fight those paleo-conservatives who scream for protectionism and the end to immigration, under the demented delusion that we are “losing all our good jobs” to other countries.

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