
International comparisons

How does the United States stack up against its global peers?

The preceding chapters have examined the current U.S. economy using historical outcomes as a benchmark. This chapter compares the economic performance of the United States to 19 other industrialized countries belonging to the Paris-based Organization for Economic Cooperation and Development (OECD), one of the world's most reliable sources of comparable statistics. The 19 countries used for comparison were selected because, aside from the United States, they are the 19 richest OECD countries (as measured by income per capita in 2007) who also have a population of at least a few million people. These countries are the global peers of the United States—economies facing the same global conditions with respect to trade, investment, technology, the environment, and other factors that shape economic opportunities. The comparison thus provides an independent yardstick for gauging the strengths and weaknesses of the U.S. economy. It also sheds light on the advisability of other countries adopting the “United States model”—specifically, features of the U.S. economy such as weaker unions, lower minimum wages, less-generous social benefits, and lower taxes—as a strategy for addressing their economic problems, real or perceived.

Two dominant themes emerge from this chapter. First, while the United States is a very rich country—currently second only to Norway in per capita income—it also has both the highest level of inequality and the highest level of poverty (including child poverty) of its peers. In other words, much less of the vast income of the United States is reaching the lower end of the income distribution. While it is true that many families in the United States are well-off, a great many are not, especially when compared to low- and moderate-income families in other advanced countries.

Second, it is far from a foregone conclusion that economies that have strong welfare states and labor protections are also necessarily less productive, less employment-generating, and less “flexible” than the U.S. economy. Many peer countries with strong unions, high minimum wages, generous social benefits, and high taxes have caught up with, and in many cases surpassed, U.S. productivity while achieving low unemployment levels. Both Norway and the Netherlands, for example, have higher productivity than the United States and lower unemployment rates. It is an important point that so many peer countries have been successful and productive within very different economic models.

For ease of comparison, in each table that follows, the seven largest economies are first listed in order of size (these countries form the group of the seven major industrialized nations, or G-7: United States, Japan, Germany, United Kingdom, France, Italy, and Canada), followed by the remaining 13 countries in alphabetical order.

Per capita income and productivity

A country’s standard of living refers to both the value of goods and services available to its citizens and to the way those goods and services are distributed across the population. This section tackles the former by looking at per capita income (the total value of goods and services produced in the domestic economy per member of the population) and productivity (the total value of goods and services produced in the domestic economy per hour worked). Later in the chapter, the focus turns to income distribution measures.

Because countries have different currencies, it is important to be clear about what exchange rates are used to make income measures internationally comparable. This section uses purchasing-power parity (PPP) exchange rates. PPPs are not based on international currency market exchange rates but rather on the price of buying a given “basket” of goods and services—i.e., PPPs equalize the purchasing power of currencies in their home countries. While the calculation of PPPs presents many practical and conceptual problems, the use of PPPs provides by far the best measure of relative living standards for two reasons. First, PPPs are much less volatile than market exchange rates, and second, PPPs reflect long-term differences in costs of living across countries. It is important to note, however, that the pattern of growth in per capita income is similar regardless of whether PPPs or market exchange rates are used.

Per capita income in the United States has been among the highest in the world for the entire post-World War II period. **Table 8.1** shows per capita income levels and growth rates for the United States and its peers from 1950 to 2007. In 1950, with many peer countries still rebuilding after World War II, U.S. per capita income was well ahead of all the peer economies except Switzerland. The United States remained second only to Switzerland up to the early 1980s, when it was also surpassed by Norway. Since the early 1990s, the United States has been second only to Norway.

What these rankings disguise are the large relative gains made by almost all the other countries on the list. Of the 19 countries for which data are available since

TABLE 8.1 Per capita income using purchasing-power parity, 1950-2007 (2007 dollars)

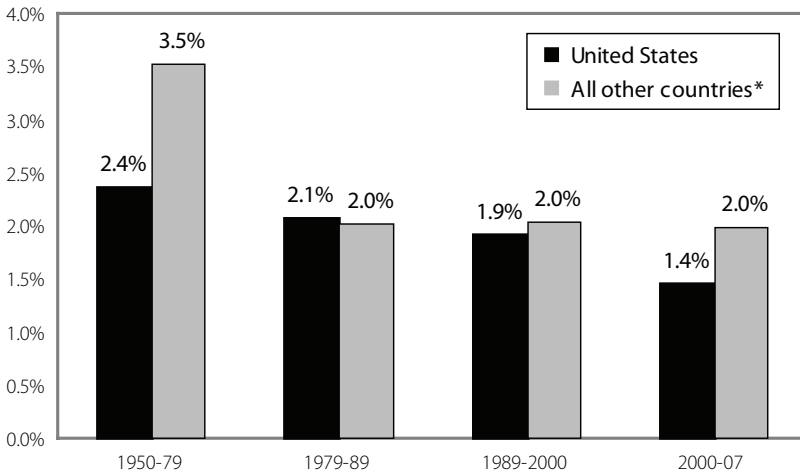
Country	Per capita income						Annual growth rates				
	1950	1979	1989	2000	2007		1950-79	1979-89	1989-2000	2000-07	1950-2007
United States	\$13,881	\$27,278	\$33,477	\$41,236	\$45,604		2.4%	2.1%	1.9%	1.4%	2.1%
Japan	2,793	19,142	26,093	30,158	33,303		6.9	3.1	1.3	1.4	4.4
Germany	--	--	26,365	31,159	33,880		--	--	1.5	1.2	
United Kingdom	10,236	19,422	24,211	29,737	34,827		2.2	2.2	1.9	2.3	2.2
France	7,661	21,757	25,768	30,430	32,906		3.7	1.7	1.5	1.1	2.6
Italy	5,367	19,494	24,474	28,772	30,649		4.5	2.3	1.5	0.9	3.1
Canada	11,009	24,415	28,851	33,759	37,812		2.8	1.7	1.4	1.6	2.2
Australia	\$11,194	\$21,628	\$25,816	\$32,637	\$38,451		2.3%	1.8%	2.2%	2.4%	2.2%
Austria	6,092	22,105	26,892	34,008	38,596		4.5	2.0	2.2	1.8	3.3
Belgium	8,409	21,339	25,778	31,804	35,751		3.3	1.9	1.9	1.7	2.6
Denmark	10,201	22,499	26,830	33,742	37,185		2.8	1.8	2.1	1.4	2.3
Finland	6,205	17,989	24,720	28,844	35,304		3.7	3.2	1.4	2.9	3.1
Greece	3,623	16,845	19,130	22,913	30,369		5.4	1.3	1.7	4.1	3.8
Ireland	5,417	13,125	17,068	34,184	45,204		3.1	2.7	6.5	4.1	3.8
Netherlands	9,491	23,282	26,519	35,221	38,118		3.1	1.3	2.6	1.1	2.5
New Zealand	12,352	17,945	20,481	23,637	27,382		1.3	1.3	1.3	2.1	1.4
Norway	10,034	26,632	33,554	46,362	53,011		3.4	2.3	3.0	1.9	3.0
Spain	3,721	15,416	19,689	26,143	29,774		5.0	2.5	2.6	1.9	3.7
Sweden	9,980	21,799	25,950	30,475	36,425		2.7	1.8	1.5	2.6	2.3
Switzerland	14,583	29,042	33,684	36,097	38,842		2.4	1.5	0.6	1.1	1.7
Average excluding U.S.	\$8,243	\$20,771	\$25,362	\$31,583	\$36,199		3.5%	2.0%	2.0%	2.0%	2.8%
Ratio of U.S. to non-U.S. average	1.68	1.31	1.32	1.31	1.26		0.67	1.02	0.94	0.73	0.76

Source: Authors' analysis of The Conference Board and Groningen Growth and Development Centre (2008).

1950, the United States is ranked *17th* in terms of per capita income growth from 1950-2007. Only Switzerland and New Zealand have lower rates of per capita income growth over the last six decades. While in 1950 the per capita income of the United States was 68% higher than the average of its peers, in 2007 the per capita income of the United States was 26% higher than its peer average. It should be noted that the slower growth in the United States is not just a function of the enormous growth in Europe following WWII. In recent years, the U.S. growth rate, at 1.4% annually from 2000 to 2007, is ranked 13th out of the 20 countries. **Figure 8A** illustrates the growth rates over time of the United States compared to the other comparison countries collectively. The upshot of Table 8.1 and Figure 8A is that while the U.S. standard of living as measured by per capita income has historically been significantly higher than most of its peers, those peers have been quickly closing the gap.

Table 8.2 shows those levels and growth rates over time of productivity—the value of goods and services an economy can produce, on average, in an hour of work. Other nations’ productivity levels are presented as a percentage of the U.S. level. Productivity growth provides the basis for increasing living standards and is therefore a key element in any examination of differences across countries. An important trend to note when examining productivity growth in the peer economies is that, as with per capita income, there was a dramatic slowdown after the mid-1970s in every case. Growth across the board was much faster in the 1950s and 1960s than it was in the 1980s, 1990s, and first half of the 2000s. Within that overall trend, the U.S. economy has historically been far

FIGURE 8A Annual growth rates of per capita income using PPPs, 1950-2007 (2007 dollars)



*Average of all countries listed in Table 8.1, not including the United States.

Source: Authors’ analysis of The Conference Board and Groningen Growth and Development Centre (2008).

TABLE 8.2 Productivity levels and growth, 1950–2007 (2007 dollars)

Country	GDP per hour worked (U.S.=100)					Annual growth rates				
	1950	1979	1989	2000	2007	1950-79	1979-89	1989-2000	2000-07	
United States	100	100	100	100	100	2.3%	1.3%	1.6%	2.0%	
Japan	18	57	67	72	71	6.4	2.9	2.3	1.9	
Germany	--	--	94	98	95	--	--	2.1	1.4	
United Kingdom	63	73	80	87	89	2.8	2.3	2.4	2.3	
France	42	85	99	103	99	4.8	2.8	2.1	1.3	
Italy	40	90	98	99	87	5.2	2.2	1.6	0.3	
Canada	84	89	86	86	81	2.5	0.9	1.7	1.1	
Australia	76	84	81	85	82	2.6%	1.0%	2.0%	1.6%	
Austria	34	83	92	108	103	5.5	2.3	3.1	1.4	
Belgium	52	95	105	110	102	4.4	2.4	2.1	0.9	
Denmark	57	83	89	93	85	3.6	2.0	2.0	0.8	
Finland	34	60	72	82	83	4.3	3.1	2.8	2.3	
Greece	27	73	72	66	71	5.9	1.2	0.8	3.1	
Ireland	31	58	74	89	92	4.4	3.9	3.3	2.5	
Netherlands	61	101	106	106	100	4.1	1.8	1.7	1.2	
New Zealand	--	60	66	62	58	--	2.2	1.0	1.1	
Norway	62	108	119	136	135	4.3	2.3	2.9	1.8	
Spain	25	68	87	82	71	5.9	3.8	1.1	0.0	
Sweden	58	85	82	84	87	3.6	1.1	1.8	2.6	
Switzerland	81	99	96	88	83	3.0	0.9	0.9	1.1	
Average excluding U.S.	50	81	88	91	88	4.3	2.2	2.0	1.5	
Ratio of U.S. to non-U.S. average	2.01	1.24	1.14	1.10	1.13	0.53	0.60	0.83	1.33	

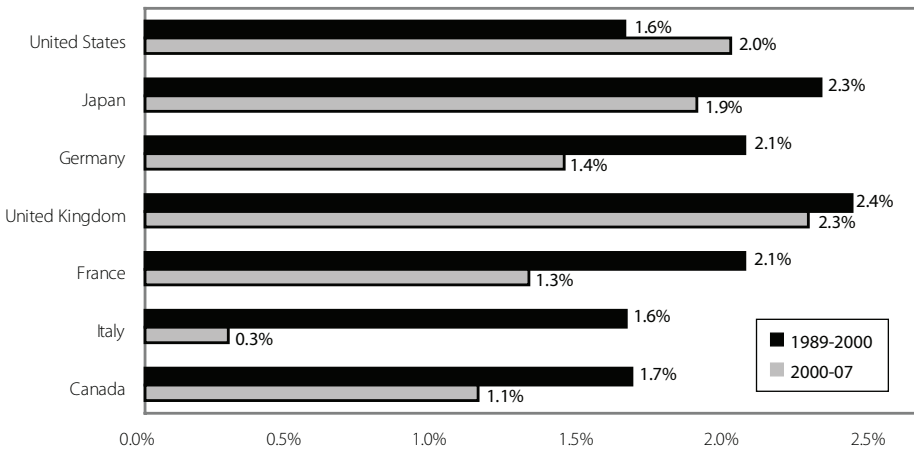
Source: Authors' analysis of The Conference Board and Groningen Growth and Development Centre (2008).

more productive than its peers. For example, in 1950, the United States was over five times as productive as Japan and over twice as productive as France and Italy. However, the productivity growth of many peer countries has been so dramatic over the last six decades that in 2007, four peer economies—Norway, Austria, Belgium, and the Netherlands—matched or exceeded U.S. productivity. Furthermore, while in 1950 the U.S. productivity level was more than twice as high as the average of its peers, in 2007 it was only 13% higher.

U.S. productivity growth has, however, experienced a recent surge. **Figure 8B** illustrates data from Table 8.2 for two time periods, 1989-2000 and 2000-07, for the G-7. From 1989-2000, the United States ranked last among G-7 countries (and 16th overall) in productivity growth, but from 2000 to 2007 the United States experienced strong growth on average and is trailing only the United Kingdom (while ranking sixth overall). Though not captured in this chart, it is worth noting that the U.S. productivity surge actually took place between 1996 and 2004, while growth since that time has slowed dramatically.

Some economists have accounted for the relatively low U.S. productivity growth up to the 1990s by arguing that it is much harder to lead than to follow, to innovate than to imitate. In this view, productivity growth would be faster outside the United States because other economies have the advantage of being able to rapidly assimilate technological improvements pioneered in the United States. While this view may have made sense as late as the 1960s or 1970s, the data show that by the 1990s, several peer countries had productivity levels that matched or exceeded that of the United States, and many others had narrowed the gap considerably. This suggests that there may be features intrinsic to peer economies that provide them with an important

FIGURE 8B Productivity growth rates in G-7 countries



Source: Authors' analysis of The Conference Board and Groningen Growth and Development Centre (2008).

edge over the United States when it comes to productivity growth. In particular, the ability of France, Belgium, the Netherlands, and Norway to reach U.S. productivity levels in the 1990s suggests these countries' comprehensive welfare and collective-bargaining systems have not stymied income growth or improvements in economic efficiency relative to the more free-market-oriented United States. (Figure 8C, discussed in the next section, further supports this view.)

Employment and hours worked

The per capita income figures in Table 8.1 may appear, at face value, to be at odds with the productivity figures in Table 8.2. Per capita income (i.e., GDP per capita) in the United States is generally much higher relative to peer countries than is U.S. productivity (i.e., GDP per hour worked). For example, in 2007, the U.S. per capita income trailed only Norway and was 26% higher than the average of its peer countries, whereas the U.S. productivity level trailed Norway, Austria, Belgium, and the Netherlands and was only 13% higher than the average of its peer countries. What accounts for U.S. per capita income being so much more impressive than U.S. productivity? The discrepancy stems from two important differences across countries: the share of the total population employed and the average number of hours worked each year by those with jobs. This section compares employment, unemployment, and hours worked across countries.

Employment rates vary across countries because of differences in not just job prospects, but also school enrollment rates for adults, early retirement rates, women's non-market responsibilities (especially child care), and other cultural norms. **Table 8.3** gives the percentage employed among people aged 15-64 for the peer economies. It shows that while historically the United States tended to employ more of its working-age population than the majority of its peers, the gap has closed substantially, especially from 2000 to 2006. Currently, the U.S. employment-to-population ratio is in the middle of the peer-country pack.

Table 8.4 shows the average annual hours worked of employed people from 1979 to 2006. Historically, the United States was in the middle of the pack for average working hours. Over the last three decades, however, workers in other countries have reduced their hours dramatically (by an average of over 10%) in comparison to the United States (which saw working hours reduced by less than 2%). Workers from the historic leader in annual hours—Japan—experienced a reduction in average hours of 16.1% from 1979 to 2006. Currently, U.S. workers work more hours on average than any of the comparison countries, with workers from the Netherlands, Norway, and Germany working the fewest hours on average.

The data on employment rates and average hours worked suggest a simple exercise to assess how much of the U.S. advantage in GDP per capita is due to productivity, how much is due to success in providing jobs to potential workers, and how much is due to differences in average hours worked. **Table 8.5** uses the fact that per capita income is equal to the product of productivity, average hours worked per worker, and the employment-to-population ratio. The first column of the table gives the percent

TABLE 8.3 Employment rates, 1979-2006

Country	1979	1989	2000	2006	Percentage-point change		
					1979-89	1989-2000	2000-06
<i>United States</i>	67.9%	72.5%	74.1%	72.0%	4.6	1.6	-2.1
<i>Japan</i>	66.8	67.7	68.9	70.0	0.9	1.2	1.1
<i>Germany</i>	65.0	63.5	65.6	67.2	-1.5	2.1	1.6
<i>United Kingdom</i>	..	72.0	72.2	72.5	..	0.2	0.3
<i>France</i>	64.3	59.7	61.1	62.3	-4.6	1.4	1.2
<i>Italy</i>	53.4	52.0	53.9	58.4	-1.4	1.9	4.5
<i>Canada</i>	65.4	70.8	70.9	72.9	5.4	0.1	2.0
<i>Australia</i>	64.4%	68.2%	69.3%	72.2%	3.8	1.1	2.9
<i>Austria</i>	..	..	68.2	70.2	..	..	2.0
<i>Belgium</i>	..	53.8	60.9	60.4	..	7.1	-0.5
<i>Denmark</i>	..	75.3	76.4	76.9	..	1.1	0.5
<i>Finland</i>	68.9	74.2	67.0	68.9	5.3	-7.2	1.9
<i>Greece</i>	..	55.2	55.9	61.0	..	0.7	5.1
<i>Ireland</i>	55.7	50.0	64.5	68.1	-5.7	14.5	3.6
<i>Netherlands</i>	54.0	60.2	72.3	72.4	6.2	12.1	0.1
<i>New Zealand</i>	..	67.5	70.7	75.2	..	3.2	4.5
<i>Norway</i>	69.6	73.9	77.9	75.5	4.3	4.0	-2.4
<i>Spain</i>	54.7	50.8	57.4	65.7	-3.9	6.6	8.3
<i>Sweden</i>	79.2	82.9	74.2	74.5	3.7	-8.7	0.3
<i>Switzerland</i>	..	..	78.4	77.9	..	..	-0.5
<i>Average excluding U.S.</i>	63.5%	64.6%	67.7%	69.6%	1.0	2.4	1.9

Source: Authors' analysis of OECD (2007d, 2007c) data.

difference in per capita income between each country and the average of all the countries in the table. For example, the per capita income in 2006 in the United States was 25% higher than the peer average, while per capita income in France was 10% lower than the average. The next three columns break down the first column (difference in per capita income) into the three constituent parts described above. It is important to note that while theoretically the last three columns should sum to the first, that is not always the case because some measurement error is virtually inevitable in this kind of decomposition (the data in each of the columns come from different sources within countries).

TABLE 8.4 Average annual hours worked, 1979-2006

Country	Change in hours							
	(Number of hours)						(Percent)	
	1979-89	1989-2000	2000-06	1979-2006				
United States	1,834	1,855	1,841	1,804	21	-14	-37	-1.6%
Japan	2,126	2,070	1,821	1,784	-56	-249	-37	-16.1
Germany	..	..	1,473	1,436	..	..	-37	..
United Kingdom	1,818	1,786	1,711	1,669	-32	-74	-43	-8.2
France	1,856	1,699	1,591	1,564	-157	-108	-27	-15.7
Italy	1,949	1,899	1,861	1,800	-50	-38	-61	-7.6
Canada	1,832	1,801	1,768	1,738	-31	-34	-30	-5.1
Australia	1,823	1,785	1,777	1,714	-38	-8	-64	-6.0%
Austria	..	..	1,632	1,655	..	..	23	..
Belgium	..	1,741	1,554	1,571	..	-187	17	..
Denmark	1,624	1,532	1,554	1,577	-92	22	24	-2.9
Finland	1,869	1,802	1,750	1,721	-67	-53	-29	-8.0
Greece	..	2,075	2,080	..	..	5	..	..
Ireland	..	1,999	1,719	1,640	..	-280	-79	..
Netherlands	..	1,497	1,372	1,391	..	-125	19	..
New Zealand	..	1,821	1,830	1,787	..	9	-44	..
Norway	1,580	1,511	1,455	1,407	-70	-55	-48	-10.9
Spain	2,022	1,822	1,815	1,764	-199	-7	-51	-12.8
Sweden	1,530	1,565	1,625	1,583	34	60	-42	3.4
Switzerland	1,819	1,709	1,685	..	-110	-25	..	..
Average excluding U.S.	1,821	1,771	1,688	1,635	-72	-67	-30	-10.2%

Source: Authors' analysis of OECD.stat and OECD (2007c) data.

TABLE 8.5 Decomposition of per capita income, 2006

Country	Per capita income	Productivity	Average hours worked per worker	Employment-to-population ratio
<i>United States</i>	25	12	10	3
<i>Japan</i>	-9	-22	8	6
<i>United Kingdom</i>	-6	-3	1	-1
<i>France</i>	-10	9	-5	-13
<i>Canada</i>	3	-9	6	0
<i>Australia</i>	3	-9	4	0
<i>Belgium</i>	-3	12	-5	-15
<i>Denmark</i>	2	-4	-4	8
<i>Finland</i>	-6	-9	4	-3
<i>Netherlands</i>	3	12	-17	7
<i>New Zealand</i>	-26	-38	7	6
<i>Norway</i>	43	49	-19	10
<i>Spain</i>	-19	-21	6	-5
<i>Sweden</i>	-2	-3	-4	2

Source: Authors' analysis of OECD and The Conference Board and Groningen Growth and Development Centre (2008) data. See also Tables 8.1, 8.3, and 8.5.

Table 8.5 shows that while per capita income in the United States was 25% higher than the peer average, only 12 of those percentage points can be attributed to higher productivity, whereas 10 percentage points are due to the fact that U.S. workers work more annual hours on average, and 3 percentage points are due to the fact that the United States employs a larger portion of its population. French productivity rates are 9% higher than the average, but a smaller-than-average share of the French population works, which reduces relative per capita income there by 13 percentage points, and those in France who do work tend to work fewer hours than the peer average, which further reduces relative per capita income in France by five percentage points. As a result, even though French workers are 9% more productive than the peer average, France has a per capita income that is 10% lower than the peer average. Norwegian productivity rates are 49% higher than the average, and a larger-than-average share of the Norwegian population works, which increases relative per capita income there by 10 percentage points. Workers in Norway, however, tend to work fewer hours than the peer average, which reduces relative per capita income by 19 percentage points, and as a result, the Norwegian per capita income is 43% above the peer average. The basic lesson of this table is that an important portion of the higher per capita income in the United States comes not from working more efficiently than its peer countries,

nor from being more successful in providing jobs to potential workers, but rather from each worker simply working longer hours on average. Many peer nations, on the other hand, have taken a sizeable chunk of their productivity gains in the last several decades in the form of reduced hours. This is frequently an explicit policy choice—France, for example, adopted a 35-hour work week in January 2000, reduced from 39 hours.

An important complement to work is leisure. **Table 8.6** reveals one important reason for the differences in annual hours worked between the United States and its

TABLE 8.6 Work and leave policies

Country	Full-time employees			Average annual weeks worked, 2005*
	Statutory paid minimum vacation (weeks)	Statutory paid public holidays (days)	Total (weeks)	
<i>United States</i>	0.0	0.0	0.0	46.7
<i>Japan</i>	2.0	0.0	2.0	--
<i>Germany</i>	4.0	10.0	6.0	41.7
<i>United Kingdom</i>	4.0	0.0	4.0	43.3
<i>France</i>	6.0	1.0	6.2	41.4
<i>Italy</i>	4.0	13.0	6.6	42.5
<i>Canada</i>	2.0	8.0	3.6	44.8
<i>Australia</i>	4	7.0	5.4	--
<i>Austria</i>	4.4	13.0	7.0	42.2
<i>Belgium</i>	4.0	10.0	6.0	44.0
<i>Denmark</i>	4.0	9.0	5.8	41.6
<i>Finland</i>	5.0	9.0	6.8	41.7
<i>Greece</i>	4.0	6.0	5.2	45.0
<i>Ireland</i>	4.0	9.0	5.8	44.6
<i>Netherlands</i>	4.0	0.0	4.0	43.1
<i>New Zealand</i>	4.0	7.0	5.4	--
<i>Norway</i>	5.0	2.0	5.4	41.0
<i>Spain</i>	4.4	12.0	6.8	43.3
<i>Sweden</i>	5.0	0.0	5.0	38.8
<i>Switzerland</i>	4.0	0.0	4.0	--
<i>Average excluding U.S.</i>	4.1	6.1	5.3	42.6

* Considers 52 weeks per year minus statutory public holidays, minimum paid leave, maternity/parental leave, sickness and disability leave, and leave for other reasons.

Source: Ray and Schmitt (2007) and OECD (2007e).

TABLE 8.7 Work and family policies

Country	Maternity leave entitlements (in weeks), 2005		Public expenditure on child care support per child in U.S. dollars (using PPPs), 2003
	Total entitlement	Share of entitlement paid (FTE)*	
United States	12	0.0	\$1,803
Japan	12	8.4	1,252
Germany	14	14.0	3,084
United Kingdom	52	15.3**	1,850
France	16	16.0	4,009
Italy	21	16.8	..
Canada	15	9.4	..
Australia	52	..	\$ 874
Austria	16	16.0	3,251
Belgium	15	11.53***	1,900
Denmark	18	18.0	8,009
Finland	18	11.7	4,186
Greece	17	17.0	..
Ireland	26	14.4****	1,430
Netherlands	16	16.0	2,025
New Zealand	12	6.0	672
Norway	26	20.8	6,085
Spain	16	16.0	1,234
Sweden	15	12.0	5,530
Switzerland	16	16.0	919
<i>Average excluding U.S.</i>	21	14.0	\$2,894

* Full-time equivalent of leave in weeks, as if the claimant were to receive 100% of average earnings. Paid leave as listed here is the federal minimum standard and does not include parental or family leave benefits, or disability insurance for which a mother may qualify in a particular country.

** Calculated at 90% for initial 6 weeks, followed either: a flat rate (approximately 30% of average wage) for remaining 33 weeks (as calculated here) or 90% of average weekly earnings, whichever is lower (effective April 2007).

*** Paid at 82% for first four weeks and 75% for the remaining 11.

**** Paid at 80% for first 18 weeks plus eight weeks unpaid.

Source: OECD Family Database, OECD Social Expenditure Database, International Social Security Association, and United Nations (2005).

peer countries—differences in annual leave policies. The average statutory minimum paid vacation for the peer countries of the United States is 4.1 weeks. The United States is the only country among its peers with no statutory vacation time. Furthermore, most of the peer countries also mandate a number of paid holidays, so that on average, the peer countries mandate 5.3 weeks of paid vacation and holiday leave, whereas the United States mandates neither.

In all countries, because some employers offer paid vacations above the statutory minimum and because some workers take unpaid vacations, the actual holidays and vacations taken by workers exceed the statutory minimum on average. The last column of Table 8.6 gives the average annual weeks worked by full-time workers. The differences between weeks worked and 52 weeks (i.e., working full year) include not just holidays and vacations, but also sick leave, disability leave, maternity leave, and leave for other reasons. Nonetheless, this column offers a revealing indicator of how much time off full-time workers in the United States have compared to full-time workers in peer countries. The average full-time U.S. worker, at 46.7 weeks per year, works more than the average worker in any peer countries, and about one month more than the overall average, which is 42.6 weeks. These figures present good evidence that the labor/leisure decision is structurally different in the United States compared to its global peers.

Table 8.7 shows another facet of the labor market that, because of women's historically greater responsibility for family and child care, is closely related to the labor force participation of women—maternity leave and child care benefits. In the United States, the Family Medical Leave Act of 1993 guarantees 12 weeks of unpaid maternity leave. That ranks the United States last among its peer countries in generosity of mandated maternity leave benefits. The most generous countries in terms of length of total leave (i.e., paid leave plus unpaid leave) are Australia and the United Kingdom, at one year of guaranteed leave each. The most generous countries in terms of paid leave are Norway (which offers 26 weeks at an 80% reimbursement rate, which is equivalent to 100% reimbursement for 20.8 weeks) and Denmark (which offers full reimbursement for 18 weeks). Data on public expenditures per child on child care support paint a similar story—the United States spent \$1,803 per child, which was less than a fourth of what was spent in Denmark, less than a third of what was spent in Norway and Sweden, less than half of what was spent in Finland and France, and well below spending in Austria, Germany, the Netherlands, Belgium, and the United Kingdom.

Table 8.8 shows employment rates over time by gender. In 2006, the U.S. employed 66.1% of its female working-age population—ninth among the group of 20 peer countries. The patterns over time in the gender employment gap (the male employment rate minus the female employment rate) display interesting trends. In the United States and in its peer countries, women made dramatic employment gains in the 1980s relative to men, closing the employment gap by 9.2 percentage points in the United States and 9.6 percentage points on average elsewhere. In the 1990s, women continued to make relative employment gains, though at a slower rate—with gains of 4.5 percentage points in the United States and 6.2 on average elsewhere. From 2000 to 2006, the gains continued in the peer countries, with a decrease in the employment gap

TABLE 8.8 Employment rates by gender, 1979-2006

Country	Women				Men				Gender employment gap				Percentage-point change in gender employment gap		
	1979	1989	2000	2006	1979	1989	2000	2006	1979	1989	2000	2006	1979-89	1989-2000	2000-06
	United States	55.1%	64.1%	67.8%	66.1%	81.6%	81.4%	80.6%	78.1%	26.5%	17.3%	12.8%	12.0%	9.2	4.5	0.8
Japan	51.3	54.8	56.7	58.8	82.8	80.6	80.9	81.0	31.5	25.8	24.2	22.2	5.7	1.6	2.0
Germany	49.0	50.8	58.1	61.5	81.5	75.9	72.9	72.9	32.5	25.1	14.8	11.4	7.4	10.3	3.4
United Kingdom	..	62.2	65.6	66.8	..	81.8	78.9	78.4	..	19.6	13.3	11.5	..	6.3	1.8
France	50.4	49.7	54.3	57.1	78.3	70.0	68.1	67.5	27.9	20.3	13.8	10.4	7.6	6.5	3.4
Italy	32.5	35.2	39.6	46.3	75.1	69.2	68.2	70.5	42.6	34.0	28.6	24.2	8.6	5.4	4.4
Canada	51.0	62.4	65.6	69.0	79.8	79.1	76.2	76.8	28.8	16.7	10.6	7.8	12.1	6.1	2.8
Australia	46.4%	56.4%	61.4%	65.5%	82.1%	79.8%	77.1%	78.8%	35.7%	23.4%	15.7%	13.3%	12.3	7.7	2.4
Austria	..	..	59.4	63.5	..	..	76.8	76.9	..	..	17.4	13.5	..	..	3.9
Belgium	..	39.7	51.9	53.6	..	67.9	69.8	67.0	..	28.2	17.9	13.4	..	10.3	4.5
Denmark	..	69.5	72.1	73.2	..	80.9	80.7	80.6	..	11.4	8.6	7.4	..	2.8	1.2
Finland	64.3	71.4	64.5	67.3	73.5	77.0	69.4	70.5	9.2	5.6	4.9	3.2	3.6	0.7	1.7
Greece	..	37.6	41.3	47.5	..	74.1	71.3	74.6	..	36.5	30.0	27.1	..	6.5	2.9
Ireland	32.2	34.5	53.3	58.8	78.5	65.6	75.6	77.3	46.3	31.1	22.3	18.5	15.2	8.8	3.8
Netherlands	32.5	45.2	63.0	66.0	74.9	74.7	81.3	78.7	42.4	29.5	18.3	12.7	12.9	11.2	5.6
New Zealand	..	57.6	63.5	68.4	..	77.7	78.2	82.1	..	20.1	14.7	13.7	..	5.4	1.0
Norway	58.1	67.5	74.0	72.3	80.7	80.1	81.7	78.6	22.6	12.6	7.7	6.3	10.0	4.9	1.4
Spain	29.6	30.6	42.0	54.0	80.2	71.1	72.7	77.3	50.6	40.5	30.7	23.3	10.1	9.8	7.4
Sweden	72.0	80.7	72.2	72.1	86.2	85.1	76.2	76.8	14.2	4.4	4.0	4.7	9.8	0.4	-0.7
Switzerland	..	..	69.4	71.1	..	..	87.3	84.7	..	..	17.9	13.6	..	..	4.3
Average excluding U.S.	47.4%	53.3%	59.4%	62.8%	79.5%	75.9%	76.0%	76.4%	32.0%	22.6%	16.6%	13.6%	9.6	6.2	3.0

Source: Author's analysis of OECD (2007c and 2007d).

TABLE 8.9 Employment growth, 1979-2006

<i>Country</i>	Annual growth rate (%)		
	1979-89	1989-2000	2000-06
<i>United States</i>	1.7%	1.4%	0.9%
<i>Japan</i>	1.1	0.5	-0.2
<i>Germany</i>	0.5	2.6	0.3
<i>United Kingdom</i>	0.6	0.2	0.7
<i>France</i>	0.2	0.8	0.7
<i>Italy</i>	0.4	0.0	1.4
<i>Canada</i>	2.0	1.2	1.9
<i>Australia</i>	2.4%	1.4%	2.1%
<i>Austria</i>	0.9	1.0	0.8
<i>Belgium</i>	0.0	1.1	0.6
<i>Denmark</i>	0.7	0.3	0.4
<i>Finland</i>	1.1	-0.6	0.8
<i>Greece</i>	1.0	1.0	1.4
<i>Ireland</i>	-0.5	3.8	3.2
<i>Netherlands</i>	2.3	2.4	0.7
<i>New Zealand</i>	2.0	1.5	2.7
<i>Norway</i>	0.8	1.0	0.7
<i>Spain</i>	0.4	1.9	4.1
<i>Sweden</i>	0.6	-0.6	0.7
<i>Switzerland</i>	1.8	0.9	0.8
<i>Average excluding U.S.</i>	1.0%	1.1%	1.3%

Source: Authors' analysis of OECD statistics.

of 3.0 percentage points on average, but slowed dramatically in the United States, with a decrease of 0.8 points. In 2006, the United States had a gender employment gap of 12 percentage points, lagging behind eight of its peers—Finland (3.2), Sweden (4.7), Norway (6.3), Denmark (7.4), Canada (7.8), France (10.4), Germany (11.4), and the United Kingdom (11.5).

An important thing to note in Table 8.8 is that women's relative employment gains over this period have come both from generally increasing women's employment and generally decreasing men's employment. For U.S. women, there was a dramatic increase in employment in the 1980s, which continued but at a slower rate in the

1990s and then actually reversed from 2000 to 2006. In the peer countries, the increase in employment rates among women has been relatively continuous over the entire period from 1979 to 2006. In the United States, men's employment rates were roughly flat over the 1980s, declined slightly in the 1990s, and declined a significant amount—2.5 percentage points—from 2000 to 2006. Men in the peer countries generally experienced a much steeper decline during the 1980s, a similar slight decline during the 1990s, and a slight increase in employment from 2000 to 2006.

The capacity of the U.S. economy to sustain high employment rates for men and women is an important economic accomplishment. **Table 8.9** puts U.S. job creation

TABLE 8.10 Standardized unemployment rates, 1979-2006

Country	1979	1989	2000	2006
<i>United States</i>	5.8%	5.3%	4.0%	4.6%
<i>Japan</i>	2.1	2.3	4.7	4.1
<i>Germany</i>	2.7	5.6	7.2	8.4
<i>United Kingdom</i>	4.7	7.1	5.4	5.3
<i>France</i>	5.6	8.8	9.1	9.4
<i>Italy</i>	5.8	9.7	10.1	6.8
<i>Canada</i>	7.5	7.5	6.8	6.3
<i>Australia</i>	6.3%	6.0%	6.3%	4.9%
<i>Austria</i>	-	-	3.7	4.8
<i>Belgium</i>	9.1	7.4	6.9	8.2
<i>Denmark</i>	-	6.8	4.3	3.9
<i>Finland</i>	6.5	3.1	9.8	7.8
<i>Greece</i>	-	6.7	11.2	8.9
<i>Ireland</i>	-	14.7	4.3	4.4
<i>Netherlands</i>	5.8	6.6	2.9	3.9
<i>New Zealand</i>	1.7	7.1	6.0	3.8
<i>Norway</i>	2.0	5.4	3.4	3.5
<i>Spain</i>	7.7	13.9	11.1	8.6
<i>Sweden</i>	2.1	1.5	5.6	7.0
<i>Switzerland</i>	-	-	2.7	-
<i>Average excluding U.S.</i>	5.0%	7.1%	6.6%	6.1%

Source: OECD.stat and OECD (2007c).

TABLE 8.11 Unemployment rates by education level (persons aged 25-64), 2005

Country	Unemployment rate			Ratio of:	
	Less than high school	High school	College	Less than high school to college	High school to college
<i>United States</i>	9.0%	5.1%	2.6%	3.5	2.0
<i>Japan</i>	..	4.9	3.1	..	1.6
<i>Germany</i>	20.2	11.0	5.5	3.7	2.0
<i>United Kingdom</i>	6.6	3.2	2.0	3.3	1.6
<i>France</i>	12.4	7.3	6.0	2.1	1.2
<i>Italy</i>	7.7	5.3	5.7	1.4	0.9
<i>Canada</i>	9.8	5.9	4.6	2.1	1.3
<i>Australia</i>	6.3%	3.45%	2.5%	2.5	1.4
<i>Austria</i>	8.6	3.9	2.6	3.3	1.5
<i>Belgium</i>	12.4	6.9	3.7	3.4	1.9
<i>Denmark</i>	6.8	4.0	3.7	1.8	1.1
<i>Finland</i>	10.7	7.4	4.4	2.4	1.7
<i>Greece</i>	8.2	9.2	7.0	1.2	1.3
<i>Ireland</i>	6.0	3.1	2.0	3.0	1.6
<i>Netherlands</i>	5.8	4.1	2.8	2.1	1.5
<i>New Zealand</i>	3.8	2.4	1.9	2.0	1.3
<i>Norway</i>	7.3	2.6	2.1	3.5	1.2
<i>Spain</i>	9.3	7.3	6.2	1.5	1.2
<i>Sweden</i>	8.5	6.0	4.5	1.9	1.3
<i>Switzerland</i>	7.7	3.7	2.7	2.9	1.4
<i>Average excluding U.S.</i>	8.8%	5.3%	3.8%	2.4	1.4

Source: Authors' analysis of OECD (2007b).

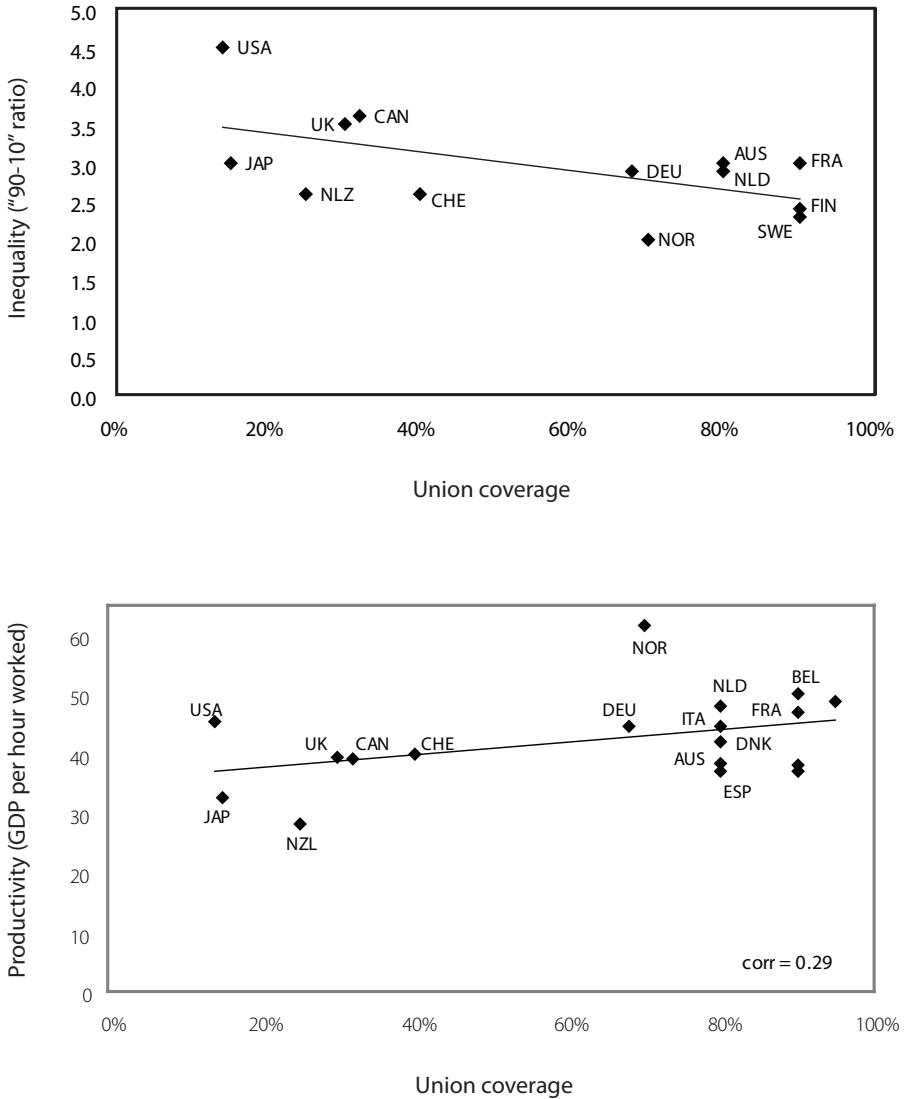
into historical and international context by presenting annual employment growth rates in the 20 peer countries over time. In the 1980s, Australia had the highest annual growth rate, at 2.4%, followed by the Netherlands, Canada, New Zealand, and then the United States, at 1.7% annually. In the 1990s, Ireland had the highest annual growth rate, at 3.8%, followed by Germany, the Netherlands, Spain, New Zealand, and then Australia and the United States at 1.4%. From 2000 to 2006, the United States—which was in a recession during the early part of this period—had lower than average growth rates in employment compared to its peers. Over this period, Spain had the

highest growth rate at 4.1%, and the United States was ranked eighth among its peers, at 0.9%.

Table 8.10 reports the unemployment rate in the 20 peer countries. The rates reported in this table are calculated using a standardized definition of unemployment from the OECD so as to be internationally comparable. Over the late 1990s, the United States and many of its peers experienced falling unemployment rates. The jobless rate remained low in the United States in 2000 at 4.0%, and only four countries had rates below 4.0%—Switzerland (2.7%), the Netherlands (2.9%), Norway (3.4%), and Austria (3.7%). Between 2000 and 2006, while its peer countries experienced a decrease in unemployment of 0.3% on average, the United States saw an increase from 4.0% to 4.6%, so that by 2006 the United States was ranked seventh in unemployment among its global peers, behind Norway (3.5%), New Zealand (3.8%), Denmark (3.9%), the Netherlands (3.9%), Japan (4.1%), and Ireland (4.4%).

Some economists have argued that Europe's labor market institutions—institutions like strong unions, high minimum wages, and generous social benefits—have priced low-wage workers out of jobs. **Table 8.11** assesses this claim by looking across countries at ratios of unemployment rates by education level. In general, unemployment rates are higher for workers with lower levels of education, so that the ratio of the unemployment rate of, say, workers without a high school diploma to that of workers with a college degree will be significantly larger. If strong labor market institutions in Europe have indeed hurt job creation for less-educated workers, then the ratio of the unemployment rate of lower-educated workers to that of higher-educated workers should be *larger* in Europe than in the United States, which has much weaker labor market institutions. The data, however, run completely counter to this supposition. In 2005, the latest year for which international unemployment data by education level are available, the unemployment rate for workers with less than a high school education in the United States was 3.5 times as high as the rate for college-educated workers. The peer average was much lower at 2.4, and only two countries had the same or higher ratio—Germany (3.7) and Norway (3.5). The unemployment rate for workers with at most a high school diploma in the United States was twice as high as the rate for college educated workers, whereas the non-U.S. average ratio was 1.4, with only one other country, Germany, tying the U.S. level. Thus, Europe's strong labor market institutions do not appear to have priced workers with a high school degree or less out of the market—if anything, the European institutions are associated with substantially *lower* relative unemployment rates for less-educated workers.

It is important to note that these institutions are also associated with other positive economic outcomes. For example, the top of **Figure 8C** shows union coverage (the percent of workers covered by union contracts) for 2000 plotted against an inequality measure. The measure of inequality used in this plot is the “90-10” ratio, which measures how many times more income a household in the 90th income percentile has compared to a household in the 10th income percentile (this and other inequality measures are discussed in depth below). The United States stands out as the country with the highest level of inequality and, at 14%, the lowest level of union coverage. Apparent in this figure is the strong correlation between union coverage and low levels

FIGURE 8C Collective bargaining coverage in relation to inequality and productivity, 2000

Note: See the Figure Notes for a guide to the country abbreviations.

Source: Authors' analysis of OECD (2004) and The Conference Board and Groningen Growth and Development Centre (2008) data.

TABLE 8.12 Annual growth in real hourly compensation, 1979-2006

Country	1979-89	1989-2000	2000-06
<i>United States</i>	0.5%	1.1%	1.0%
<i>Germany</i>	..	..	-0.1
<i>France</i>	..	..	..
<i>Italy</i>	..	0.2	0.7
<i>Canada</i>	0.2	0.9	1.0
<i>Australia</i>	..	..	1.2%
<i>Austria</i>	..	1.5	0.0
<i>Denmark</i>	1.2	1.2	1.8
<i>Finland</i>	3.1	1.6	2.1
<i>Greece</i>	..	..	2.6
<i>Netherlands</i>	..	..	1.4
<i>Norway</i>	0.7	2.1	3.1
<i>Spain</i>	..	..	0.1
<i>Sweden</i>	..	..	2.3

Source: OECD statistics.

of inequality. The bottom half of Figure 8C goes on to plot union coverage against productivity, demonstrating that countries with higher levels of unionization also tend to have higher levels of productivity. The correlation here is not as strong, but it clearly shows that productivity is not at all suffering in countries where a high percentage of the workforce is covered by union contracts. While there is much discussion in policy making circles about the potential costs of protective labor market institutions, Figure 8C should remind readers that these institutions also carry potential benefits, both to individual workers and to the wider economy, and that these benefits should be as prominent in discussions about them as any potential costs.

Wages and compensation

Obviously, the vast majority of workers in the United States and its peer countries rely heavily on their wages and other work-related benefits for their economic security and well-being. The level, growth, and distribution of wages and benefits are therefore important economic indicators. **Table 8.12** shows the inflation-adjusted annual growth rates of average hourly worker compensation (wages plus fringe benefits) in the private sector for countries where these data are available. The table shows that U.S. compensation growth has been weak compared to most of its peers. From 2000

TABLE 8.13 Relative hourly compensation of manufacturing production workers, 1979-2006 (U.S.=100)

Country	Relative hourly compensation of manufacturing production workers, 1979-2006 (U.S.=100)								
	Percent of civilian labor force in manufacturing	Using market exchange rates				Using purchasing power parities			
		2006	1979	1989	2000	2006	1979	1989	2000	2006
<i>United States</i>	11.3%	100	100	100	100	100	100	100	100
<i>Japan</i>	18.3	61	88	112	85	56	64	78	79
<i>Germany</i>	22.0	..	..	115	144	..	..	129	130
<i>United Kingdom</i>	13.0	64	74	86	114	68	77	89	95
<i>France</i>	15.5*	87	89	79	105	68	84	91	91
<i>Italy</i>	21.2	80	102	74	105	97	108	98	97
<i>Canada</i>	12.8	91	107	84	108	94	101	101	102
<i>Australia</i>	10.4%	84	89	73	110	77	82	96	103
<i>Austria</i>	..	90	101	97	128	88	106	117	117
<i>Belgium</i>	..	120	102	102	134	93	110	125	119
<i>Denmark</i>	..	120	103	109	149	82	85	105	103
<i>Finland</i>	..	89	120	91	126	77	87	99	103
<i>Greece</i>	..	38	39	39	68	53	64	62	76
<i>Ireland</i>	..	61	71	68	109	64	76	76	86
<i>Netherlands</i>	13.9*	129	106	98	136	99	109	120	121
<i>New Zealand</i>	..	55	56	43	61	65	62	65	62
<i>Norway</i>	..	119	132	115	172	78	94	111	124
<i>Spain</i>	..	60	63	54	79	66	76	80	83
<i>Sweden</i>	15.0	127	124	105	133	88	95	105	108
<i>Switzerland</i>	..	118	118	107	129	87	97	97	95
<i>Average excluding U.S.</i>	16.1%	89	94	87	116	78	87	97	100

* Refers to 2005 data.

Source: BLS (2008) and OECD.stat.

to 2006, the period for which the most data are available, U.S. average hourly worker compensation grew at 1.0% annually, ranked eighth of the 13 available countries and behind the peer average of 1.3% annual growth.

The most extensive international data on compensation covers a narrower group of workers—production workers in manufacturing, which generally comprise around 70% of manufacturing workers. One benefit of focusing on these workers is that it allows the examination of compensation growth excluding very high earners, who overwhelmingly tend to be managers and supervisors, not production workers. The first column in **Table 8.13** shows the relative size of the manufacturing sector recently by presenting the percent of the civilian labor force in manufacturing in 2006. The U.S. manufacturing sector was 11.3% of its labor force in 2006—the lowest in the G-7 and 4.8 percentage points below the average of its peers for which data are available.

The rest of Table 8.13 compares average hourly compensation of manufacturing production workers in peer countries to the corresponding levels in the United States. Here, national compensation rates were converted into U.S. dollars using both market exchange rates and purchasing-power parity exchange rates. Market exchange rates reflect the relative value of American goods, services (including labor), and assets in international markets, and therefore the compensation figures calculated using these rates capture the relative costs to an employer of hiring U.S. labor, reflecting aspects of international competitiveness. Purchasing-power parity exchange rates, on the other hand, better reflect the ability of the compensation levels in each country to guarantee a specific standard of living. What this implies is that market exchange rates should be used for international comparisons of competitiveness, while purchasing-power parity exchange rates should be used for international comparisons of living standards.

Using market exchange rates, the United States was ranked seventh out of its peers in terms of compensation of production workers in 1979; peer countries averaged 89% of U.S. compensation. By 2006, however, the United States was ranked 16th. Furthermore, those countries offering compensation above the United States generally paid *well* above the United States; the average of peer countries was 16% above the U.S. level and up to 72% above the U.S. level in Norway. Over the last three decades, U.S. manufacturing has become a low-wage sector among its peers. In fact, in only four countries—New Zealand, Greece, Spain, and Japan—did manufacturing workers earn less than in the United States.

Using PPP exchange rates, which are used to compare living standards between production workers in the United States and in peer countries, the trends are essentially the same though U.S. workers have fared marginally better—reflecting the fact that consumption goods (housing, food, transportation, clothing, etc.) tend to be cheaper in the United States. In 1979, the United States was ranked first out of its peers in terms of compensation of production workers, and peer countries averaged 78% of U.S. compensation. By 2006, however, 10 of its peers had overtaken the United States, and the level of U.S. compensation matched the average of its peers. **Table 8.14** looks more carefully at the growth of real hourly compensation in manufacturing on a PPP basis. Among U.S. production workers in the 1980s, real hourly compensation actually fell 0.3% per year, compared to an average growth rate in peer countries of 0.8% per year. In the 1990s, U.S. growth, at 0.4% annually, was again among the slowest—significantly lower than the peer country average of 1.3%, which included strong annual gains in Japan (2.4%), Denmark (2.6%), and Norway (2.1%). From 2000 to 2006, U.S. compensation growth,

TABLE 8.14 Annual growth in real hourly compensation (using PPP exchange rates) of manufacturing production workers, 1979-2006

	1979-89	1989-2000	2000-06
<i>United States</i>	-0.3%	0.4%	0.3%
<i>Japan</i>	0.9	2.4	0.6
<i>Germany</i>	--	--	0.4
<i>United Kingdom</i>	1.0	1.9	1.0
<i>France</i>	1.8	1.2	0.4
<i>Italy</i>	0.7	-0.6	0.2
<i>Canada</i>	0.4	0.5	0.4
<i>Australia</i>	0.4%	2.0%	1.0%
<i>Austria</i>	1.5	1.5	0.3
<i>Belgium</i>	1.4	1.7	-0.1
<i>Denmark</i>	0.0	2.6	0.2
<i>Finland</i>	0.8	1.8	0.8
<i>Greece</i>	1.4	0.1	2.5
<i>Ireland</i>	1.4	0.5	1.6
<i>Netherlands</i>	0.6	1.4	0.5
<i>New Zealand</i>	-0.9	1.0	-0.2
<i>Norway</i>	1.5	2.1	1.5
<i>Spain</i>	1.0	1.0	0.7
<i>Sweden</i>	0.4	1.4	0.6
<i>Switzerland</i>	0.7	0.4	0.1
<i>Average excluding U.S.</i>	0.8%	1.3%	0.7%

Source: BLS (2008).

at 0.3%, was again near the bottom of the pack, but the growth in peer countries had also slowed, to an average of 0.7%.

Household income inequality

To this point, the data presented have largely consisted of economy-wide, annual averages. A country's standard of living, however, refers not just to the value of goods and services available to its population as a whole (as presented in the per capita income figures in Table 8.1), but also to the way those goods and services are distributed

TABLE 8.15 Household income inequality, 2005

	Gini coefficient 2005	Ratio of 90th-to-10th percentile, 2005
<i>United States*</i>	0.37	4.86
<i>Japan</i>	--	3.12
<i>Germany</i>	0.28	3.13
<i>United Kingdom</i>	0.34	3.51
<i>France</i>	0.28	3.10
<i>Italy</i>	0.33	--
<i>Canada</i>	0.32	3.74
<i>Australia*</i>	0.31	3.12
<i>Austria</i>	0.26	--
<i>Belgium</i>	0.28	--
<i>Denmark</i>	0.24	2.64
<i>Finland</i>	0.26	2.42
<i>Greece</i>	0.33	--
<i>Ireland</i>	0.32	3.57
<i>Netherlands</i>	0.31	2.91
<i>New Zealand</i>	--	3.50
<i>Norway</i>	0.28	2.21
<i>Spain</i>	0.32	3.53
<i>Sweden</i>	0.23	2.33
<i>Switzerland</i>	--	2.61
<i>Average excluding U.S.</i>	0.29	3.03

* See Table Notes.

Source: OECD (2005), CIA (2008), and Luxembourg Income Study (2007).

across the population. Earlier sections tackled the former; this section tackles the latter by looking at a number of measures of income inequality. These measures take into account the fact that economic outcomes can strongly diverge for different populations within a nation. Because individuals make important decisions about employment and consumption as part of a family or broader household, much of the analysis in this section will examine household data.

Table 8.15 presents two basic measures of household income inequality. The first is the Gini coefficient, a standard measure of inequality that ranges from zero (perfect equality of income across household) to one (all income concentrated at the very top

of the income distribution). In 2005, the United States had the highest Gini coefficient, at 0.37, and was well above the peer country average. Sweden and Denmark have the least inequality by this measure, with Gini coefficients of 0.23 and 0.24, respectively. The second measure in Table 8.15 is the “90-10” ratio, which measures how many times more income a household in the 90th income percentile has compared to a household in the 10th income percentile. The higher the ratio, the more inequality exists. Again, the U.S. ratio—which shows that a 90th percentile household has an income almost five times as high as a 10th percentile household—was the highest and much higher than the average of the peer countries. The countries with the lowest inequality by this measure were Norway, at a ratio of 2.21, and Sweden, at 2.33 .

Figure 8D presents yet another set of inequality measures for 2005. One is the ratio of the 10th percentile household to the median household, which is a measure of how poor the poorest 10th of the population is in relation to the typical household; a lower number implies more inequality. The U.S. value of 48% means that the 10th percentile household has an income that is less than half of the typical household’s income. This is the lowest value in Figure 8D and is far below the peer average of 62%.

FIGURE 8D Relative household income dispersion, 2005

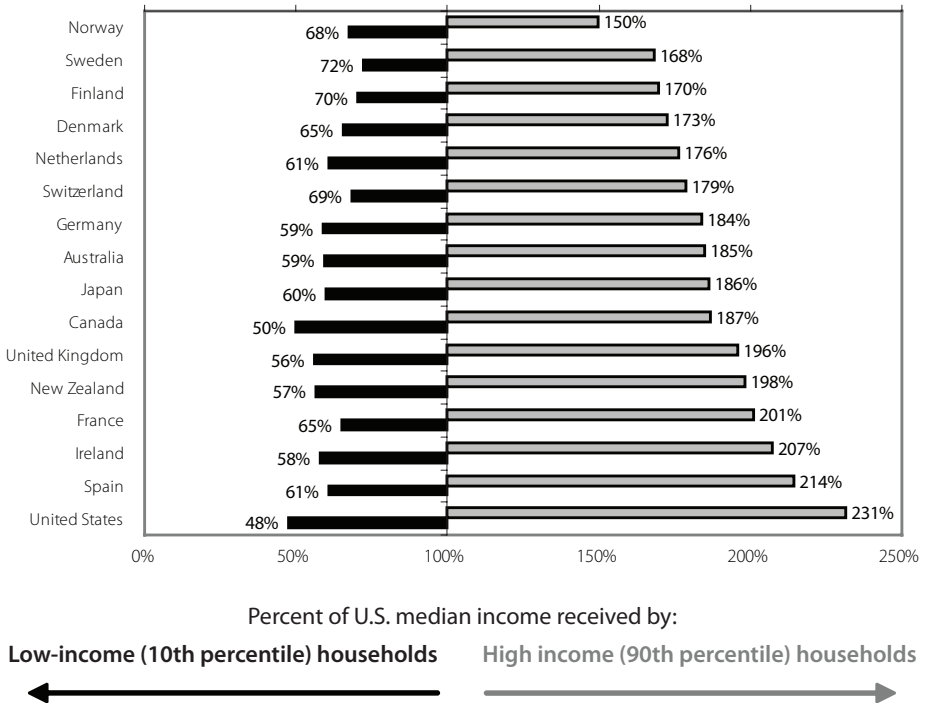
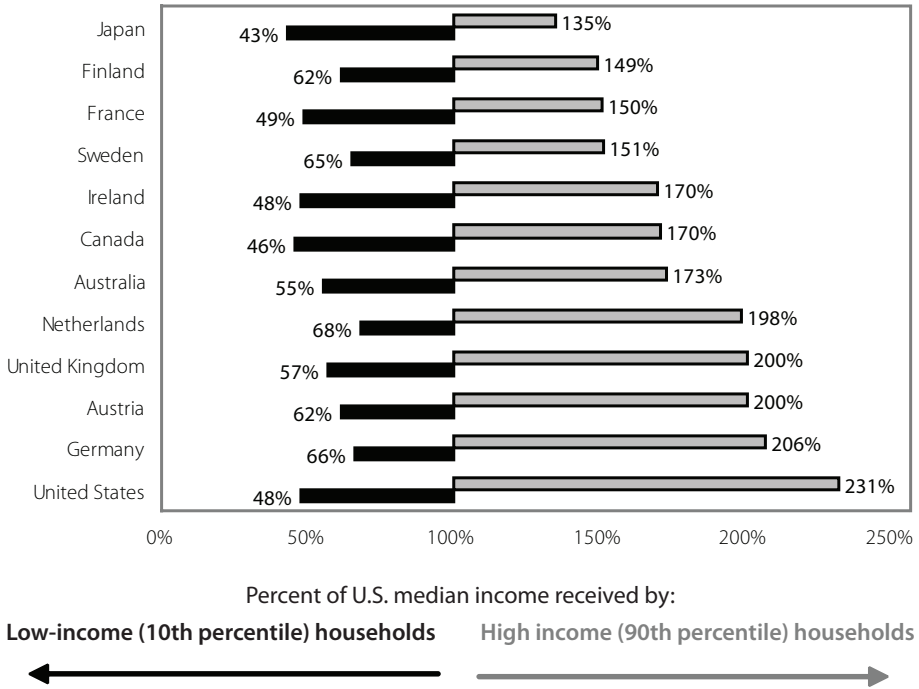


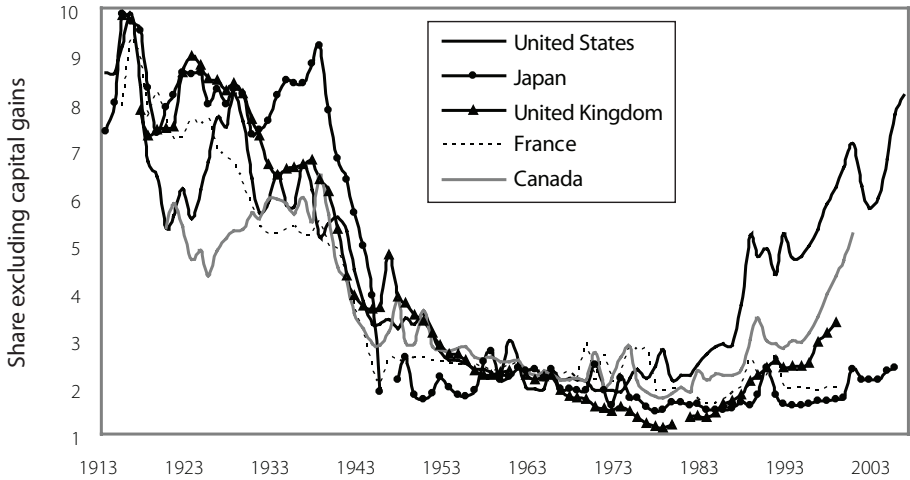
FIGURE 8E Household income dispersion relative to the U.S. median, 2005



Source: Authors' analysis of OECD database on earnings and OECD (2007c).

The other measure given in the chart is the ratio of the 90th percentile household to the median household, which is a measure of how rich the richest 10th of the population is in relation to the typical household; a higher number implies more inequality. The U.S. value of 231% means that the 90th percentile household has an income that is 2.3 times that of the typical household's income. This is the highest value of the chart and is far above the peer average of 185%. Once again, inequality in the United States dominates that of its peers.

Figure 8D showed that 10th percentile earners in the United States are worse off relative to the U.S. median than are 10th percentile earners in any peer country, relative to their own countries' medians. Median earnings, however, vary across countries. Thus, comparing 10th percentile earners in peer countries to the U.S. median is also useful, allowing the comparison of the absolute living standards of low-income households in the United States to the low-income households in peer countries. These results, along with results for high-income households, are presented in **Figure 8E**. The figure shows that despite the relatively high median income in the United States, inequality in the United States is so severe that low-income households

FIGURE 8F Top 0.1% income share in selected countries

Source: Smeeding and Piketty (2003, 2006), Smeeding and Moriguchi (2007), and Smeeding and Alvaredo (2007).

in the United States are actually worse off than low-income households in all but four peer countries. While 10th percentile earners in the United States make 48% of the U.S. median, 10th percentile earners in peer countries average 56% of the U.S. median. Not surprisingly, high-income households are much better off in the United States.

Figure 8F shows historical distributions of the top 0.1% income shares—i.e., the percent of a country's income earned by the highest one-tenth of 1% of earners. Because of limitations associated with collecting top incomes in household survey data, the best data for the very high end of the income distribution come from income tax returns and are not available for all peer countries. Figure 8F presents data for the G-7 countries except Germany and Italy. The figure shows that there was a steady decline in the top 0.1% share from the early 1900s—when the top 0.1% income share averaged about 9% for the charted countries—until the mid-1970s—when the top 0.1% income share averaged about 2%. Over this period, the top 0.1% share in the United States was generally in the middle of the peer country pack. In 1973, however, the U.S. level began a steady upward climb that dramatically outpaced its peers. By 1998, the last year data are available for all the charted countries, the top 0.1% income share in the United States was 3.2 times what it had been in 1973, while the peer average in 1998 was only 1.7 times what it had been in 1973. Despite a temporary downturn during the recession of the early 2000s, the U.S. top 0.1% income share has continued to rise and in 2006 was at 8.1—meaning that the top 0.1% of the population collected

TABLE 8.16 Poverty rates, 2000

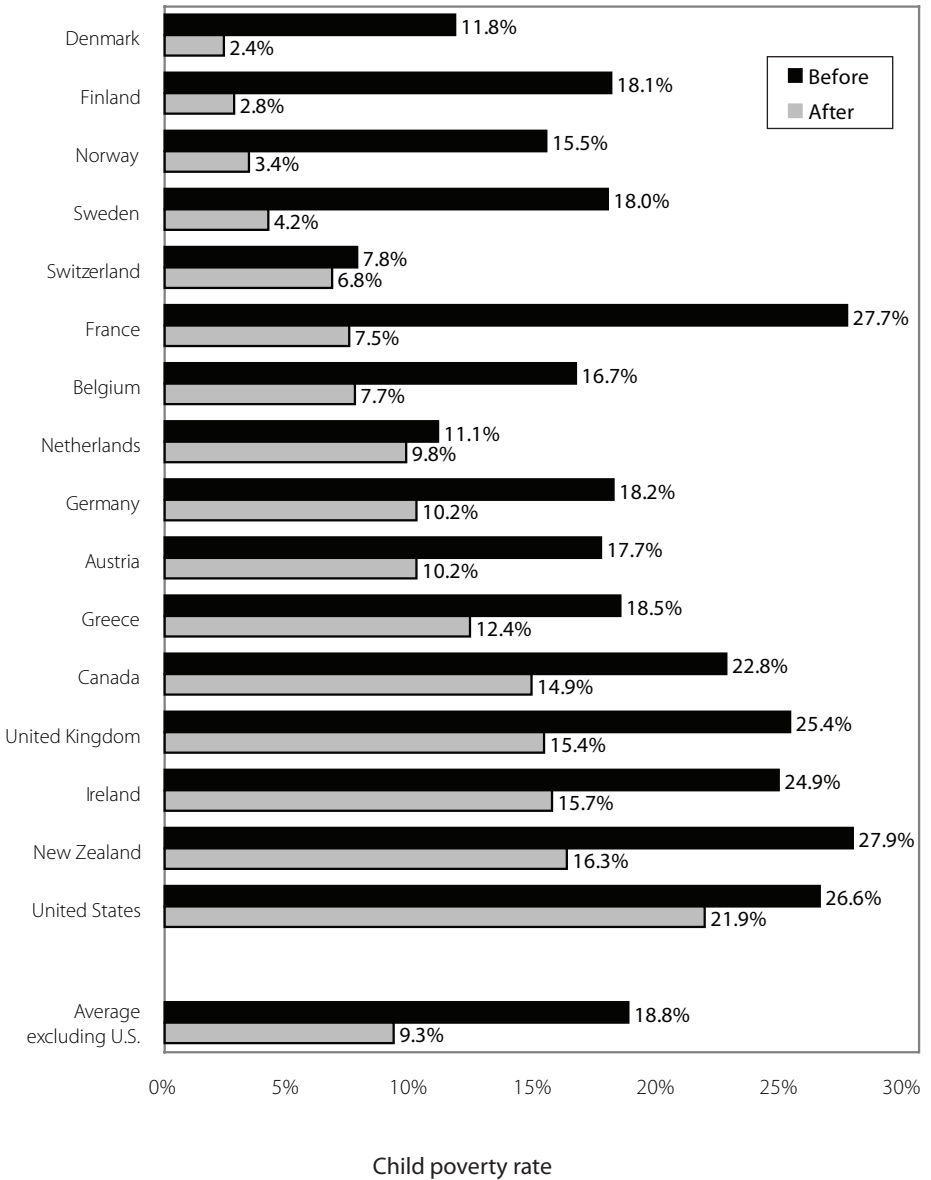
Country	Poverty line (50% of median)		
	Total poverty	Children	Elderly
<i>United States</i>	17.0%	21.9%	24.7%
<i>Germany</i>	8.3	9.0	10.1
<i>France</i>	8.0	7.9	9.8
<i>Italy</i>	12.7	16.6	13.7
<i>United Kingdom</i>	12.4	15.3	20.5
<i>Canada</i>	11.4	14.9	5.9
<i>Australia</i>	14.3%	15.8%	29.4%
<i>Austria</i>	7.7	7.8	13.7
<i>Belgium</i>	8.0	6.7	16.4
<i>Denmark</i>	9.2	8.7	6.6
<i>Finland</i>	5.4	2.8	8.5
<i>Ireland</i>	16.5	17.2	35.8
<i>Netherlands</i>	7.3	9.8	2.4
<i>Norway</i>	6.4	3.4	11.9
<i>Spain</i>	14.3	16.1	23.4
<i>Sweden</i>	6.5	4.2	7.7
<i>Switzerland</i>	7.6	6.7	18.4
<i>Average excluding U.S.</i>	9.8%	10.2%	14.6%

Source: Luxembourg Income Study.

8.1% of the nation's income. The figure shows that the last time the United States experienced that level of income share going to the very top of the income distribution was in the robber baron days of the early 1900s.

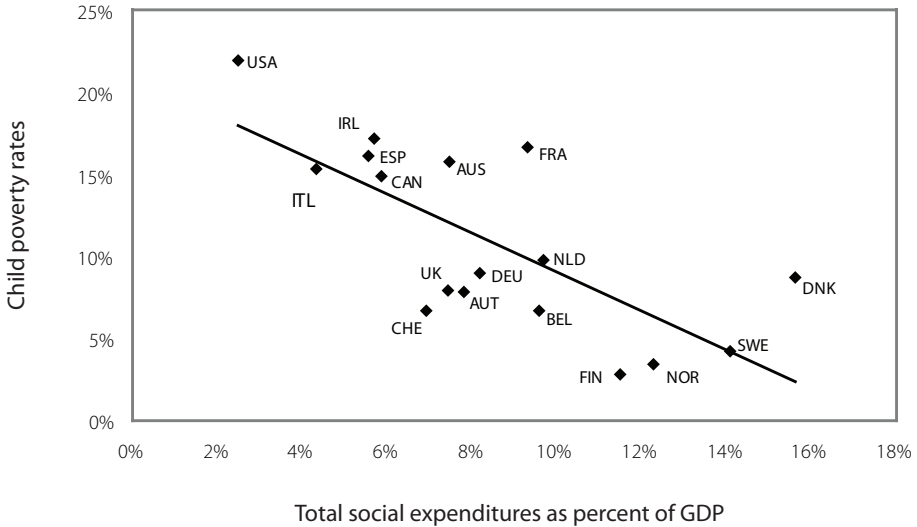
Poverty

So far this chapter has shown that the United States has a very high per capita income, but also pronounced inequality, especially when compared with its peer countries. In addition to the measures of inequality discussed in the last section, another key measure of the distribution of a country's income across its population—and therefore a key measure of living standards—is how well its most vulnerable citizens fare. This section finds that the United States—with the second-highest per capita income of its

FIGURE 8G Child poverty rates before and after taxes and transfers, 2000

Source: Corak (2005).

FIGURE 8H Social expenditure versus child poverty, 2001



Note: See Figure Notes to Figure 8C for a guide to the country abbreviations.

Source: OECD (2004).

peers—also has the highest level of poverty. In other words, the income of the United States is not reaching the bottom end of the income distribution. **Table 8.16** summarizes international data on poverty rates in 2000, the latest data available. Following the standard methodology for international comparisons of poverty, the table defines the poverty rate as the share of households that received 50% or less of the median income in each country. It should be noted that in the United States, this threshold amounted to an income that was somewhat higher than the official poverty rate (see Chapter 6). Like the official U.S. definition of poverty, the poverty rates in Table 8.16 take into account cash transfers and are adjusted for family size, but unlike the U.S. definition, they also account for taxes and tax credits.

The United States, with 17% of its total population living in poverty, had the highest level of overall poverty among its peers—over three times as high as the country with the lowest level (Finland, at 5.4%), and 1.7 times higher than the peer-country average of 9.8%. The United States also had the highest rate of child poverty at 21.9%, meaning more than one in five children in the United States is living in poverty. This level is almost eight times as high as the country with the lowest level (Finland, at 2.8%), and over twice as high as the peer-country average of 10.2%. Finally, the United States had the third-highest rate of elderly poverty (24.7%)—over 10 times as high as the country with the lowest level (the Netherlands, at 2.4%), and 1.7 times higher than the peer-country average of 14.6%.

International differences in labor market institutions such as minimum wages and unionization explain a large part of the differences in international poverty rates, but **Figure 8G** shows that variations across countries in tax and transfer programs for low-income households are also extremely important. While Table 8.16 shows poverty rates after taxes and transfers, Figure 8G shows child poverty rates both before and after taxes and transfers (some of the rates in Table 8.16 do not exactly match those in Figure 8G because of varying reference years; see Table and Figure Notes). The child poverty rate before taxes and transfers in the United States was 26.6%, which was only about 1.4 times the average of peer countries of 18.8%. In other words, “market” child poverty rates in the United States are not far off from those in peer countries. Once taxes and transfers were accounted for, however, the child poverty rate in the United States was 21.9%, about 2.4 times the non-U.S. average of 9.3%. In other words, taxes and transfers reduced child poverty in peer countries by 50% on average, whereas in the United States they reduced child poverty by only 18%.

Whereas Figure 8G showed the effect taxes and transfers can have on child poverty, it does not give information about spending levels. **Figure 8H** shows total social expenditures as a percent of GDP by country (total social expenditures do not include pension or health benefits, but include all other income supports and social services). The figure plots these social expenditures against child poverty levels, providing a clear picture of the relationship between social spending and poverty. The United States stands out as the country with the lowest expenditures and the highest child poverty rate. The United States devotes 2.5% of its GDP to social expenditures, well below all peer countries, who average 8.3%. Figures 8G and 8H dramatically show that other peer countries are much more likely than the United States to step in where markets have failed to lift their most disadvantaged citizens out of poverty. This suggests that the relatively low expenditures on social welfare are at least partially implicated in the high poverty rates in the United States.

Conclusion

This chapter has compared the performance of the U.S. economy with that of its global peers. It shows that the United States is among the richest, most productive economies in the world, though its strength relative to its global peers in this regard is often overstated. Additionally, compared to its peers, the U.S. economy yields highly varied results regarding the living standards of its citizens. The United States has more inequality, higher poverty rates (including child poverty), and workers who work longer and have far fewer days off than any of its peers.

Supporters of the U.S. economic model generally acknowledge the high inequality in the United States but argue that the U.S. model provides greater mobility, greater employment opportunities, and greater dynamism than do economies with greater employment protections and higher levels of social spending. The evidence, however, provides little support for this view. As the data in this chapter reveal, many peer economies with more public spending and employment protections do as well or better than the United States on key macroeconomic measures, from productivity to

job growth to unemployment. Furthermore, as discussed in Chapter 2, the United States has less economic mobility than several of its peer countries.

The best interpretation of the available evidence is that since World War II, the United States and many of its peers have experienced stunning rates of economic growth and a great potential for growth in their citizens' living standards. That said, outcomes have not been entirely rosy. No peer country has seen a return to the productivity growth of the 1950s and 1960s, inequality has increased in all but a few countries, and several peer countries have seen joblessness remain at high levels. The evidence in this chapter, which underscores the diversity of experiences among peer countries in providing income and employment security, suggests that those who look exclusively to the United States for economic solutions, instead of its global peers, will miss a great deal.