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U.S. Unemployment Now As High as Europe

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From the early 1990s through the peak of the last business cycle, relatively low U.S. unemployment rates seemed to make the United States a model for the rest of the world's economies. The Organization for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), and other international organizations all praised the U.S. unemployment performance and urged the rest of the world's rich countries to emulate the "flexibility" of the U.S. model.[1]

The case for the superiority of the U.S. model was always exaggerated.[2] For one thing, it tended to ignore the relatively lower performance of the U.S. on broader quality-of-life measures like the Human Development Index.[3] But even when limited to differences in unemployment, the case for the U.S. model was overstated. From the 1990s on, the United States did have lower unemployment rates than several large European economies, such as France, Germany, Italy, and Spain,[4] but many smaller European economies with large welfare states and high levels of labor-market regulation regularly did as well or better on unemployment than the United States. In 2000, for example, at the peak of the late 1990s economic boom, when the U.S. unemployment rate stood at 4.0 percent, Austria (3.7 percent), the Netherlands (2.8 percent), Norway (3.4 percent), and Switzerland (2.6 percent) all had lower unemployment rates than the United States; and rates in Denmark (4.3 percent) and Ireland (4.2 percent) were not far behind.[5]

The current economic crisis, however, has turned the case for the U.S. model almost entirely on its head. As **Figure 1** illustrates, according to the most recent internationally standardized data from the OECD, the United States is now tied for the fourth highest unemployment rate among the major OECD countries. In March 2009, the U.S. unemployment rate was 8.5 percent,[6] only lower than Spain (17.4 percent), Ireland (10.6 percent), and France (8.8 percent), and level with Portugal. Sixteen other major OECD economies had a lower unemployment rate, including Denmark (5.7 percent), Germany (7.6 percent), Italy (6.9 percent), the Netherlands (2.8 percent), and Sweden (8.0 percent).

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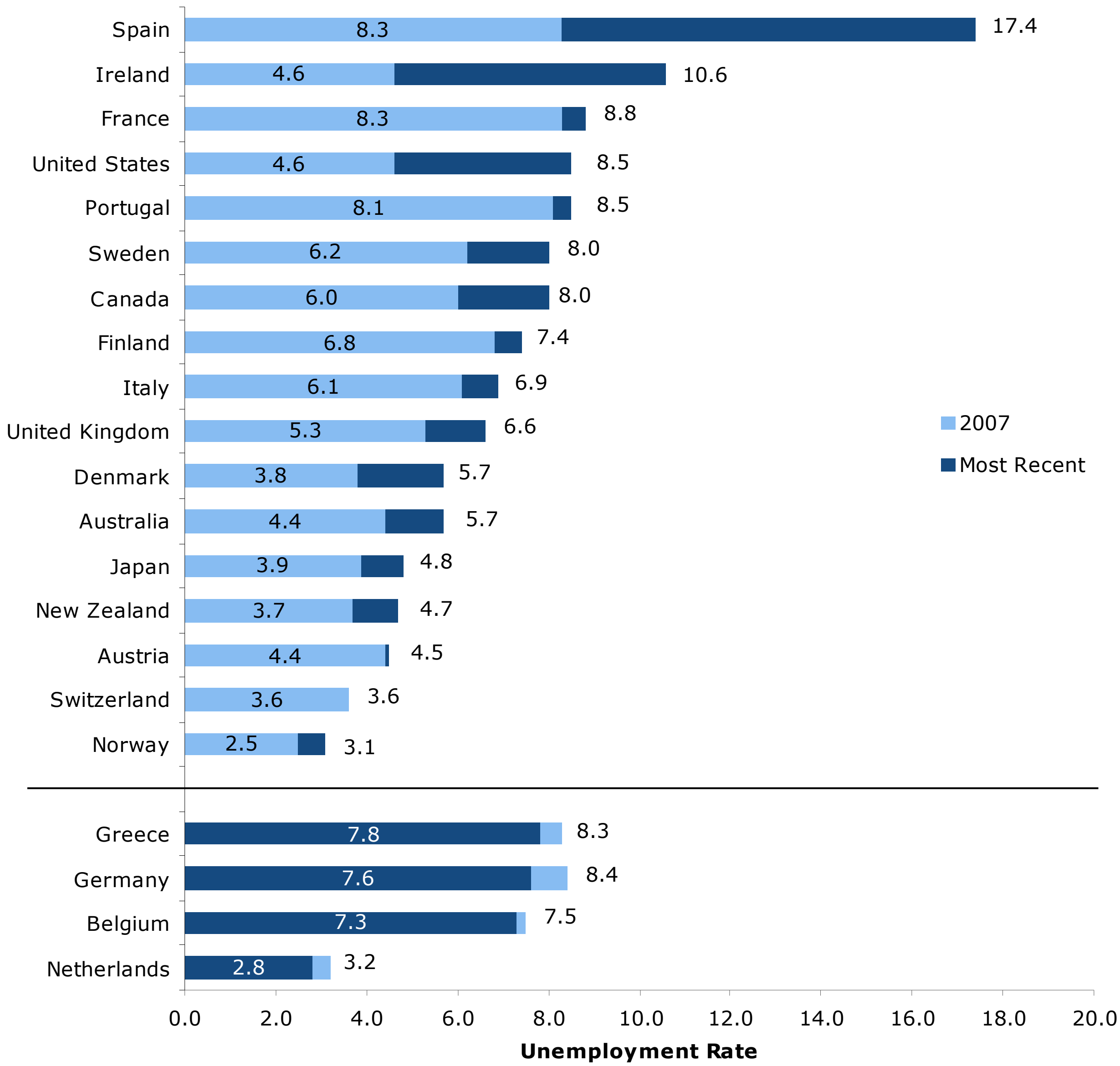
The United States is also one of the countries where the unemployment rate has increased most since 2007. Between 2007 and March 2009, the U.S. unemployment rate rose 3.9 percentage points. Only Spain (up 9.1 percentage points) and Ireland (up 6.0 percentage points) saw bigger increases over the same period. In France, the increase in the unemployment rate was only 0.5 percentage points. In four countries, the most recent unemployment rate is actually lower than it was in 2007: Belgium (down 0.2 percentage points), Germany (down 0.8 percentage points), Greece (down 0.5 percentage points), and the Netherlands (down 0.4 percentage points).

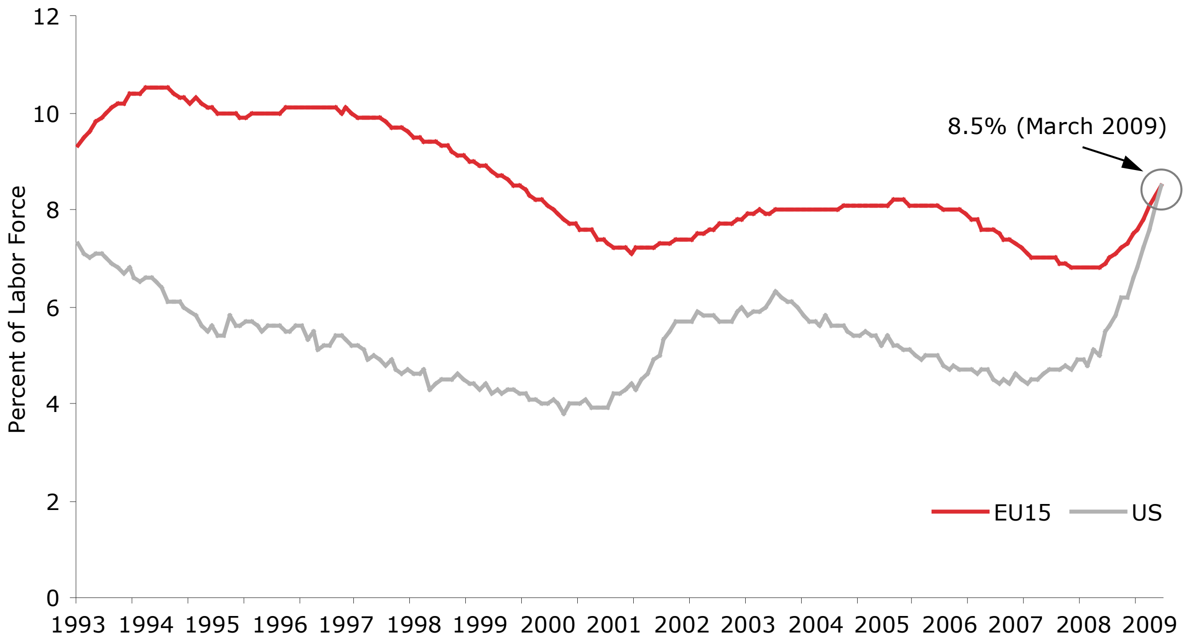
FIGURE 1
OECD Harmonized Unemployment Rate in 21 Countries



Source: OECD (2009). Data refer to March 2009, except Norway (February 2009), United Kingdom (January 2009), Italy and Greece (December 2008), and Switzerland and New Zealand (Fourth Quarter, 2008).

As **Figure 2** demonstrates, in March 2009 – for the first time in the period covered by published data from the European Union's statistical agency, Eurostat – the unemployment rate in the United States was equal to the unemployment rate in the first fifteen member countries of the European Union (EU-15).[7] The sharp rise in unemployment since December 2007 has driven the unemployment rate in the United States to a point where it is now identical to that of Europe. If recent trends continue, the United States will surpass Europe's unemployment rate as soon as internationally comparable data for April are available.[8]

FIGURE 2
Unemployment Rate in the United States and EU-15, 1993-2009



Source: Eurostat (2009).

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1 See, for example, OECD (1994) and IMF (2003). The U.S. press also regularly reflects this perspective. Conservative columnist David Brooks (2005), for example, has commented that "events in Western Europe are slowly discrediting large swaths of American liberalism." Liberal economist Austan Goolsbee (2007) concluded a column comparing U.S. and European productivity levels: "Perhaps the lesson from the research can be boiled down to something most Americans clearly understand: The world economy may be tough on your industry but look on the bright side: you could be French."

2 See, for example, Howell (2005).

3 See United Nations Development Program, http://hdr.undp.org/en/statistics/.

4 Unemployment rates in western Germany were lower than they were in the United States in every year from 1960 through 1980 (BLS (2008, Table 2)).

5 OECD (2008), Statistical Annex, Table A.

6 As of April, the U.S. unemployment calculated on the same basis had risen to 8.9 percent.

7 The member countries in the European Union before the accession of ten candidate countries in May 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.

8 Given that the U.S. unemployment rate likely understates the true unemployment rate by several tenths of a percentage point due to high and rising non-participation in the Current Population Survey, the United States almost certainly already has a higher unemployment rate than the EU-15. See, Schmitt and Baker (2006a, 2006b) for a full discussion.