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Be Productive--Hit the Beach

Memo to the boss: the flagging U.S. economy could benefit if workers got more time off.

By Fareed Zakaria

These are the dog days of August, and in this hot, sweltering weather most Americans are busy working. (I know, I know, not you folks in the Hamptons.) Meanwhile, most Europeans are busy vacationing. Thus it has ever been, only it's getting worse. Nowadays the average European gets about three times as many days of paid vacation as his counterpart in America. Why do we do this to ourselves?

The conventional answer is that this attitude toward work makes the American economy the envy of the world. America has a hectic, turbo charged system that builds, destroys and rebuilds, all at warp speed. It's what created the information revolution, Silicon Valley, hedge funds, biotechnology, nanotechnology (whatever that is) and so on. And there's no time in it for lolling on the beach, buddy!

But there's now some dispute about just how productive the American economy has been. Last week the Commerce Department released a slew of figures that have economists chattering. It turns out that the miracle economy of the 1990s was not that miraculous after all. Productivity growth over the past five years (1995 to 2000) was 2.5 percent, and not 2.8 percent, as previously estimated. (That doesn't sound like a huge change, but with productivity small numbers make a big difference.) This has led skeptics, such as The Economist, to crow that there's nothing new about the New Economy. But enthusiasts, such as Business Week, argue that the new data, while weaker than before, still suggest that America's long-term growth rate will likely be 3 percent or 3.5 percent over the coming decades, much higher than it was from 1973 to 1995. I think that the moderate enthusiasts, who include Alan Greenspan and the Federal Reserve Board, have this right. So two cheers for the New Economy. (Three would be irrational exuberance.)

But even if there has been a shift in productivity, no one quite knows why. The economist Robert Solow famously remarked that most discussions of the causes of economic growth end in a blaze of sociology. A decade ago, when America was in the doldrums and Europe and Japan seemed strong, we all believed that those systems had unlocked the secret of growth. Now we think the opposite. If the American economy keeps faltering, expect a new revisionism.

In fact, it's already happening. Many governments in Europe have taken great pleasure in America's slowdown, none more so than the French. In June the French government marked the third anniversary of its decision to cut the workweek from 39 to 35 hours by publishing a study on its effects. Not surprisingly, the study argues that the policy has worked, reducing unemployment, creating greater flexibility and increasing the productivity of workers. (Will a government agency ever release a report that shows its policies have failed?) And, in fact, French unemployment has fallen dramatically over the past three years. More important, France's workers are now more productive than those in Britain or the United States. In a dig at Tony Blair, who preaches that Europe's economies must become more like America's, the report's author, Charlotte Thorne, writes: "If the French experiment works, then the U.K. government may be forced to look at France rather than the U.S. about reforming the job market."

But the report is mostly propaganda. The French economy began growing solidly in 1997, well before the new work laws were passed. Its recovery has been fueled in large part by the cheap franc, which makes French goods affordable for the rest of the world. And it attracts tourists to France, which is now the world's No. 1 travel spot. Also, France still has an unemployment rate of 8.5 percent, which means that its most unproductive workers are simply not part of the work force.

There is a vibrant European economic model. It's just not French. The Netherlands, for example, grew faster than America or Britain during the 1990s. Sweden and Denmark grew at comparable rates. All three had rising productivity growth and new-business creation. All three did copy America in some important ways: deregulating industry, allowing capital to go where the private sector needs it and, most important, embracing technology. But they also maintained high taxes and lavish benefits. These societies create wealth and then choose to redistribute it. This might strike Americans as unfair to those who generate that wealth, but it's not inefficient.

Technology does seem to be at the heart of the new growth. In a study released in June, the New York Federal Reserve Board broke up the American economy into 10 sectors and found that the ones that grew fastest had most fully adopted information technology. The technological push produced a 2.5 percent productivity hike. Add to this immigration, which produced a 1 percent increase in the labor force, and the result is a 3.5 percent growth rate.

The one thing that doesn't seem to have anything to do with America's new growth is its work ethic. After all, we were working hard during the slow years of the 1970s as well. In fact, some experts believe that working harder might actually depress productivity numbers, because the additional hours worked rarely generate strong output. (We're not as productive at 8 p.m. as at 9 a.m.) It appears that Americans would be better off mimicking the Europeans in this one sense and taking time off to relax and recuperate. So why am I writing this column in the middle of August?