



JOINT ECONOMIC COMMITTEE

JIM SAXTON, CHAIRMAN

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U.S. ECONOMY OUTPERFORMS PEER GROUP FROM 2001 TO 2005

The bursting of the stock market bubble in early 2000 caused the U.S. economy to slow down in late 2000. The terrorist attack on September 11, 2001, exacerbated this slowdown. Pro-growth policies have helped the U.S. economy recover from this slowdown and begin a vigorous expansion. Consequently, the U.S. economy has outperformed its peer group of large developed economies¹ (Canada, the European Union,² and Japan) on balance from 2001 to 2005 in terms of real GDP growth, investment, industrial production, employment, labor productivity, and price stability (see table on page 2).

Real GDP Growth

From the first quarter of 2001 through the fourth quarter of 2005, the U.S. economy expanded at an average annualized rate of 2.6 percent. The United States ranked first among its peer group in real GDP growth.

Investment in Fixed Assets

From 2001 to 2005, gross investment in fixed assets as a percent of GDP rose in Canada and the United States, but fell in the European Union and Japan. Overall, the United States ranked second in the increase in gross investment in fixed assets as a percent of GDP. In the United States, gross investment in fixed assets as percent of GDP was trending down through the first quarter of 2003. However, this trend reversed after policymakers lowered the maximum federal tax rate on capital gains and dividends to 15 percent in May 2003.

¹ A large developed economy as defined here is a developed economy that produces at least one percent of world GDP.

² The Euro-zone consists of Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. The European Union-15 (EU-15) consists of the Euro-zone countries plus Denmark, Sweden, and the United Kingdom. The European Union-25 (EU-25) are the EU-15 countries plus Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.

Gross investment in fixed assets rose sharply from 18.5 percent of GDP in the first quarter of 2003 (the last quarter before this tax cut) to 20.5 percent in the fourth quarter of 2005.

Industrial Production

From January 2001 to December 2005, U.S. industrial production increased by 7.1 percent. The United States ranked first among its peer group in industrial production growth.

Employment and Unemployment

From January 2001 through December 2005, the United States ranked second in employment growth in both absolute and percentage terms. In the United States, employment grew by 5.165 million or 3.8 percent. Canada ranked first in percentage growth at 9.3 percent (total increase 1.383 million) while the European Union-15 ranked first in total increase at 5.715 million (3.4 percent). In Japan, however, total employment fell by 1.210 million or 1.9 percent.

In December 2005, the U.S. had an unemployment rate of 4.9 percent, the second lowest among its peer group. Japan's unemployment rate was slightly lower at 4.4 percent, but the European Union-25's unemployment rate was significantly higher at 8.5 percent.

Labor Productivity

From the first quarter of 2001 to the fourth quarter of 2005, labor productivity grew by 9.5 percent in the United States. While Japan slightly edged the United States in labor productivity growth, this was due in part to Japan's reduction in employment. The United States clearly outperformed Canada and the European Union in terms of labor productivity growth.

Price Stability

From 2001 to 2005, U.S. consumer prices rose by an average 2.6 percent a year. Inflation rates were similar in Canada and the European Union. From 2001 to 2005, however, Japan suffered from

deflation. Average Japanese consumer prices declined by 0.4 percent a year.

Equity Prices

As measured by major stock price indices, Canada recorded the largest gain in equity prices from the last business day of 2000 to the last business day of 2005. The Toronto Stock Exchange Index rose by 26.2 percent. Japan also scored significant gains. The Nikkei Stock Average was up 16.9 percent. U.S. equity prices were largely flat. The Dow Jones Industrial Average edged up 1.6 percent. In contrast, European equity prices were down significantly. The Dow Jones STOXX 50 Blue Chip Price Index for Western Europe was down by 26.5 percent.

By the end of 2005, the Dow Jones Industrial Average was slightly above its relatively high level at the end of 2000. The significant increases in

equity prices in Canada and Japan were attributable to special circumstances. Canadian equity prices benefited from the heavy concentration of energy and natural resource corporations on the Toronto Stock Exchange. Because the Japanese stock market was depressed during much of the 1990s, the gains in Japanese equity prices since the end of 2000 were from a low base.

Conclusion

On balance, the U.S. economy has outperformed its peer group of large developed economies in a number of key measures of economic well-being between 2001 and 2005. Pro-growth taxes policy and deft monetary policy have contributed to the superior performance of the U.S. economy.

Key Economic Indicators for Canada, the European Union, Japan, and the United States 2001-2005

Economy	Average Real GDP Growth Rate (Q1-2001 to Q4-2005)	Change in Gross Investment in Fixed Assets as a Percent of GDP from 2001 to 2005	Industrial Production Growth (January-2001 to December-2005)	Increase in Total Employment (January 2001 – December-2005) in millions ³	Unemployment Rate (December-2005)	Labor Productivity Growth (Q1-2001 to Q4-2005) ⁴	Average Increase in Consumer Prices (January-2001 to December-2005)
Canada	2.5%	+2.0%	5.3%	1.383	6.5%	3.6%	2.3%
EU-25	1.6%	-0.2%	2.3%	N/A	8.5%	N/A	2.2%
EU-15	1.5%	-0.2%	0.9%	5.715	7.7%	3.9%	2.1%
Euro-zone	1.3%	-0.3%	1.8%	4.204	8.3%	3.1%	2.3%
Japan	1.6%	-1.7%	3.0%	-1.210	4.4%	10.2%	-0.4%
United States	2.6%	+0.6%	7.1%	5.165	4.9%	9.5%	2.6%

Sources for GDP and gross fixed investment data: Statistics Canada, Statistical Office of the European Communities, Cabinet Office (Japan), U.S. Department of Commerce, Bureau of Economic Analysis

Sources for industrial production data: Statistics Canada, Statistical Office of the European Communities, Ministry of Economy, Trade & Industry (Japan), and Federal Reserve Board

Sources for employment and unemployment data: Statistics Canada, Statistical Office of the European Communities and European Central Bank, Ministry of Health, Labor & Welfare (Japan), and U.S. Department of Labor, Bureau of Labor Statistics

Sources for labor productivity data: Statistics Canada, Statistical Office of European Communities, Cabinet Office and Ministry of Health, Labor & Welfare (Japan), and U.S. Department of Commerce, Bureau of Economic Analysis and U.S. Department of Labor, Bureau of Labor Statistics

Sources for inflation data: Statistics Canada, Statistical Office of the European Communities, Ministry of Health, Labor & Welfare (Japan), and U.S. Department of Labor, Bureau of Labor Statistics

Source for equity price data: Haver

³ European Union data are through the end of the third quarter of 2005.

⁴ Ibid.