

In the article the author explains that following World War II income per person in the world's richest countries was converging. But, this stopped in the 1990s. Currently, income per person and average growth rates in European countries has fallen well below American levels. The article attributes this to the amount of productivity per worker and the amount of labor employed. The article's argument is that European governments must begin to decrease industry regulation and social programs in order to increase the productivity of labor and the labor force participation rates.

In chapter 9, the book explains the "catch-up" that has occurred across countries in the past. It does not explain the cause for the recent widening of the gap between the U.S. and European countries but chapter 8 does explain the necessities for growth in potential GDP. An increase in labor productivity will increase the demand for labor shifting the labor demand curve right. It will simultaneously shift the production function upwards. The result is an increase in the real wage rate, labor, and real GDP. In Europe, government restrictions decrease the productivity of labor, thereby causing a decrease in the real wage rate, labor, and real GDP. The other way to increase potential GDP is to increase the quantity of labor. If the labor supply increases the LS curve will shift right while the production function remains the same. The result will be a decrease in the real wage rate and an increase in labor and real GDP. Because European countries have welfare programs that compensate their people very well, the decrease in wage rate creates a situation in which the opportunity cost of working (government unemployment benefits plus leisure time) is too great for people to join the labor force. For this reason Europeans have a lower labor force participation rate and less labor. Hence, the European real GDP does not grow like it does in other parts of the world.