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Articles & Commentaries

p-Watch — Europe

by Anthony C. Hubert, president of EuroJobs, an organization he established to promote efforts to raise the quality of working life and productivity in Europe. He was formerly Secretary-General of the European Association of National Productivity Centres. He writes regularly for this column.

"Employment" and "competitiveness" top Europe's agenda of issues needing urgent attention. Despite productivity being the most significant component of competitiveness, the need for its development is often only discussed as a secondary matter. The reasons for its relative neglect are both historical and ideological. It is often associated with a movement which had its heyday in the 1950s, and for many trade unions it is still associated with working to deadlines under strict supervision or "Taylorism." Nevertheless, in a global context, Europe's productivity performance is good. Indeed, European leadership is in the hands of the country where productivity sticks most in the gullet of trade unionists, namely France.

Thus, statistics show that, per hour worked, the French are 20 % more productive than the British, and ten per cent higher than the Germans. However, when it comes to output per capita of the total population, the three countries, as well as Italy, are virtually equal -- the differences of per hour productivity performance are compensated by different levels of unemployment. In France, Germany and Italy, the unemployment rate is over 10 per cent, and in the UK it is around 5 per cent. On the other hand, when productivity per person is examined, all four countries are put in the shade by Japan and the USA.

GDP as % of EU Average 1996

	Per hour worked	Per head
France	135	106
Italy	132	100
USA	131	138
Germany	121	105
U.K.	111	98
Japan	94	116

Source: The Economist, 5 June 1999

That the overall productivity performance of such continental member states of the European Union has been reasonable but their employment performance poor has recently been the focus of considerable European debate and some meager action. One such action is the agreement by the European governments to focus their national employment policies around the four pillars of employability, adaptability, entrepreneurship and equal opportunities. One outcome of this agreement is a renewal of interest in productivity, its causes and its consequences.

So far, the underlying reasons for the European countries' productivity performance have not been convincingly explained. Take Belgium, for example, with its many layers of government and bureaucracy, language disputes, high direct and indirect labor costs, militant trade unions and such like which cause inflexibility. This should conspire against good productivity performance. Yet it is ranked among the world's productivity leaders. What could be the reasons? We can only surmise at them as they have not been empirically proven. They are:

- Excellent education and training systems
- High propensity to export
- Hugely successful foreign companies which have rapidly spread new technologies and management approaches in their sub-contracting networks, and
- A central European location with a good physical infrastructure

Just the opposite situation prevails in the United Kingdom. Successive British governments have emphasized flexibility as a means of stimulating productivity growth and hence employment generation, a connection generally refuted in France. Thus, in accordance with the policy lines advocated by the OECD, markets for both products and labor must become ever more flexible. Certainly, Britain's employment creation performance is second only to smaller European economies, with unemployment half that of its continental counterparts. Yet, according to a recent consultants' report, further flexibility is needed, especially in physical planning. This is because its current capital productivity performance contrasts disadvantageously with the German and the French. If legal restrictions on where companies can set up and how they operate could be relaxed, and the quality of education and training further improved, the UK's productivity performance would be greatly enhanced.

The continental European experience points to a widespread paradox in Europe; despite rigid government policies and practices which run counter to the current concept of raising productivity, enterprises have become ever more productive. So governmental constraints on enterprises apparently stimulate corporate organizational creativity. This can at least be interpreted from the cases of the two major economies of continental Europe which are presently carrying out social experiments with considerable impact on corporate productivity. The 'unBritish' basis of these experiments is that employment is a fixed-sized cake which needs to be cut up more equitably. Thus, unemployment can be reduced by rules and agreements, rather than by giving greater freedom to market forces.

The current French experiment has been to drastically and dramatically reduce the number of weekly working hours from 39 to 35. At the same time, trade unions and employers are required to reach agreement to increase the number of people employed while maintaining corporate competitiveness. The figures indicate that, despite their public outcries and demonstrations of rage, the employers are still managing to make their workforce ever more productive and to increase employment. This is not due to governmental decree. The traditional economic growth is generating modern French employment. In other words, productivity increases are resulting in employment growth.

In Germany, the government is betting on an "alliance for jobs, training and competitiveness" as a significant means for better dividing up the 'employment cake.' One of the key elements in this January 2000 agreement between the trade unions and the employers - albeit with significant governmental prompting - is the recognition that to foster employment, the year 2000 wage bargaining round should be based solely on productivity increases. The agreement gave no green light to the demands of the trade union for "full pension at 60," another cake-sharing approach for which those in employment should pay. Whether the renewed focus on productivity will be respected in practice remains to be seen. The agreement furthermore underlines the belief that, to remain competitive, companies must continue to invest in training as knowledge is all important for productivity in the 21st Century. This point is also well embedded in France where only 35% of French workers have a level of education below the standard expected at the end of compulsory schooling, compared with 55 % and 50 % in Britain and the USA respectively.

So Europe's larger economies are experiencing contrasting approaches to raising (implicitly or explicitly) productivity. A common thread is the importance of renewing knowledge, as reflected in the European social model. They are also adopting good practices from their smaller neighbors, which will be the subject of my next essay.

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