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p-Watch — Europe

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Government's Role

Companies usually complain that if only governments were to get off their backs they could focus on their job of creating wealth; productivity and innovation are enhanced by entrepreneurs, not bureaucrats. To understand what this means in current practice, the European Commission established the Business Environment Simplification Taskforce (BEST) in 1998. BEST subsequently made 64 recommendations on improving conditions for business which formed the backbone of the Commission's 2000 action plan to promote entrepreneurship and competitiveness. This plan covers a broad range of areas: the means of improving entrepreneurs' access to finance, creating more favorable conditions for research and innovation, upgrading public administrations, and enhancing education and training and conditions of employment and work. Greater flexibility is needed everywhere.

However, it is one thing to have broad policies but often quite another to implement them in the face of entrenched interests battling for the status quo. Thus, not all governments and people are convinced that an ever freer market is the best guarantee for increasing income and creating jobs for everyone. Striving for ever growing productivity is not "they imply" necessarily the best means for enhancing the wealth and welfare of all the citizens. This has been clearly demonstrated in two areas of dispute in early 2001.

The outbreaks of "mad cow disease" and "foot and mouth disease" (FMD) have led politicians to fundamentally question both the aims of agricultural policy and the means used to attain them. Put succinctly governments have striven to ensure that farmers produce more products at lower prices by using a range of (often doubtful) inputs. Such policies have stemmed from a rather cosy relationship between farmers (the "defenders") and governments (the "judges"); many aspects of agricultural policy have tended to benefit the producers more than the consumers with -- it is presumed, at least partly -- the result that the public's health might have been put at risk. Having as its major role the welfare of its citizenry, government is now starting to ask a fundamental question: Is the purpose of agricultural policy to provide citizens with a regular supply of food to their taste (albeit often with subsidies)? Or is it something broader? Indeed, should there be an agricultural policy at all? Perhaps, rather, a "countryside policy?" This increasingly makes sense when it is realized (as has been shown by the spread of FMD) that tourism generates at least five times more wealth (and jobs) in some European countries than does farming (whose surpluses are often sold on world markets to the detriment of highly productive producers in other continents). Better by far to focus on "tourism productivity" and benefit from the lower prices of agricultural products from poorer nations, or even other rich countries whose governments are foolish enough to subsidize their farmers!

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A second, completely unrelated, area in which the welfare aspect of government's function has come to the fore in early 2001 concerns corporate trade-offs between profitability, productivity and employment maintenance. This spring France was hit by two very controversial cases of company restructuring. The one, a French multinational foodstuff producer, followed the requirements of French law: the workforce was informed of its impending doom in advance of the public announcement. The company also expressed its willingness to help its redundant workers find new jobs. Nevertheless, unions called for a boycott of the company's products since it was shedding French labor. The other, a British retailer with a rapidly declining rate of profitability, announced closure to the media before informing the workforce. The unions organized protests in both France and England.

To combat any recurrence of such cases the French government announced a raft of new procedures to be observed by companies wanting in future to fire workers. These will make employee redundancy more costly and, say employers, make increasing companies' workforces ever more unlikely (to the detriment of foreign direct investment, a major driver everywhere of productivity growth). The German government has adopted a similar employment-unfriendly approach (according to employers) by legislating to extend the scope and authority of "works councils."

Welfare rather than work? It would certainly seem that both the French and German (center-left) governments have contravened the unanimously agreed policy of the European Union to achieve more competitiveness through greater labor market and product flexibility. (The need for this is clear since, in the last 4 years, GDP per head in the European Union grew by 2 per cent per year, labor productivity by 1.3 per cent, and employment by 1 per cent, whereas the corresponding figures for the USA were 3.4%, 2.2% and 1.9%.) So there are still powerful forces at work for more, rather than less, state interference in the economy.

Will such new obstacles hamper productivity enhancement? Most probably not, at least judging by the way employers have reacted in the past ("Watch their feet, not their lips!"). Since being required to negotiate the 35 hour working week with their employees, French employers had increased their hourly productivity growth by 8 per cent in 2000, which almost made up for the 11 per cent decrease in working hours. Similarly in Germany close labor-management relations, notably through the works council system, is generally considered to have made a major contribution to companies quality and productivity performance in the last half century.

In other words, despite Europe's seemingly widening competitiveness gap with the USA (though the latest US figures have plummeted), European governments would do well to maintain employers' agility to change by sometimes lowering, sometimes "adjusting" and sometimes even innovating the obstacles and chicanes which they need to maneuver in order to develop their business.

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