Productivity or profits?

Since the collapse of communism in 1989, virtually no one in Europe has doubted the merits of the free enterprise capitalist system for generating wealth by boosting productivity. However, the general public's perception of the importance of productivity growth has been seriously dented in the last decade for four main reasons.

First is the "new economy." A burgeoning shareholder society of the 1990s believed that there was far more lucre to be made far more rapidly by "playing the stock market" than making longer-term investments in more traditional enterprises. And the dot.coms were there "just in time." No longer was there a need for trust and thrift: gratification could be instantaneous. However, the dot.com money to be made was not based on past achievements but on future expectations. When the expectation bubble burst, wealth (if not value) evaporated. Nor was it only shareholders who lost their savings; future pensioners lost their future incomes, employees lost their jobs, and none had money to invest in really productive enterprises.

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Second, there was the "miracle" of IT. The 1990s debate on the "productivity paradox" questioned why a decade or more of enterprise investment in IT had not led to the expected boost in productivity. But then, in the late 1990s in the USA, the boost occurred; not only did productivity growth rates double, but employment was continuously rising. Taking their cue from the USA's success, European leaders decided in Lisbon in 2000 that the European Union could outdo the USA and become "the world's most competitive economy" by 2010 by two means: investing in IT and IT skills, and espousing competition more broadly in both the private and public sectors.

The third reason is that unfortunately the political rhetoric and proclamations are not being broadly translated into reality. They are stymied by significant state and European lobbies proclaiming, often in the name of quality and equity, that competition and productivity are not the be-all and end-all of existence. Europe has a "social market model" that differs from the harsh "capitalist model" of the USA. So subsidies and protectionism will be needed into the foreseeable future to maintain high-quality public services for all Europeans. Thus, not only is the "European Single Market" that embraces the free movement of people, capital, services, and products no longer progressing (it was supposed to have been "finally" brought about in 1992), according to recent statements of the European Commission President Romano Prodi, it might even have gone too far already.

Yet surely, contest others, productivity growth is at the core of "free enterprise." Companies are continuously being purged of underperforming resources by corporate restructuring. Major companies that have not restructured in time have gone bust. The European Commission itself has ensured the disappearance in particular of two state airlines and refused mergers that could have restricted competition. But, and this is the fourth reason for productivity's woes, a public malaise has emerged around the free enterprise system as such and more especially the accountability of its managers. Several top managers and their boards clearly seem to be far more interested in boosting their own incomes by devious practices, accounting and others, concerned with the short-term value of shares than raising longer-term corporate effectiveness and efficiency. For some highly visible bosses, "profits" are more important than productivity. So again the public's belief in the objectivity, integrity, and value of the system of reward and remuneration is being undermined, a questioning compounded by the fact that profits do not necessarily arise from working harder or smarter, but from swings in market supply and demand.

To tackle such distortions—and white-collar crime is a burgeoning area in Europe—governments are resorting increasingly to sticks. "Declarations of good intent" have clearly met their limits when rapacious executives have abandoned their quest for enhancing productivity in favor of almost pure greed. Legislative change is afoot, borne along by public malaise manifested in the recurrence in the first half of 2002 of a series of strikes in Germany, Italy, Spain, and the UK. These strikes were less a reaction to inequities in the division of wealth than they were demands for increased state expenditure for public services, particularly education, health, and security.

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However, the "carrots" approach is more appropriate in a free market economy. Whereas two or so decades ago there was a tendency for confrontation, with one side or the other losing or winning, governments currently advocate "win-win" partnerships with more participation, more productivity, and more profitability. On the one hand, these by A.C. Hubert

partnerships take the form of pacts between governments, trade unions, and employers on what each should, and should not, do. Such pacts have already shown their validity in smaller countries, such as Ireland, the Netherlands, and Finland. Now they are being tested in larger countries, most recently the July 2002 "Pact for Italy," albeit without the largest (communist) trade union being a signatory. On the other, governments are increasingly encouraging partnerships more

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broadly in society. Thus, "social dialogue" is a major policy thrust of France's new conservative government, seeking to overcome the confrontational nature of the populace. In the UK a "partnership fund" supports joint initiatives at the company level aimed at enhancing participation and productivity. In Germany, recent research has shown that the close-knit system of labor-management cooperation and co-determination constitutes a pillar for successful corporate development, at least in large, denationalized companies, despite employers' lamentations about its recent extension.

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