Welfare versus productivity

The level of welfare of the current member states of the European Union (EU) is unequalled—the vast bulk of their citizens are looked after from the cradle to the grave. This has been enabled by continuous productivity growth and the equitable sharing of its fruits.

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Today, however, productivity rarely figures in national debates on the maintenance of the welfare state. Furthermore, the EU's lofty 2000 targets of making it "the world's most competitive information economy" by the year 2010 (essentially by reducing national barriers to further productivity growth) are all but forgotten. Rather, Europe's concerns are with maintaining current levels of welfare in a situation of economic stagnation: employment, unemployment benefits, health systems, old-age pensions, and security. Indeed, governments, both national and European, are apparently working against productivity enhancement despite (implicitly) realizing that it remains the key to economic growth and hence the ultimate source of welfare. Consider the following typical situations:

To help extract the current "sick man of Europe" from its no-growth hole, the German government—two-thirds of whose parliamentary members are trade unionists—has presented reforms aimed at encouraging productivity and entrepreneurship by reducing taxation (which penalizes productive activity and job creation) and making labor markets more flexible. The latter means easing restrictions on dismissals in smaller companies (to encourage more hirings) and trimming unemployment benefits, the current levels and durability of which hardly "make working pay." Other measures include additional incentives for part-time work, removing obstacles to the use of temporary workers, and more efficient labor agencies. However, there is vociferous opposition to such increased flexibility, especially from the trade union movement, and this is despite the government's background.

In France, as well as in Austria and Italy, it is the government's old-age pension reform that is the subject of considerable opposition. Currently, some 75% of the working population retires before reaching age 60. Yet life expectancy continues to rise. Thus, a declining workforce—like it or not—has to be ever more productive to pay for the growing army of pensioners (productivity per hour of a French worker equals that of an American). And the dire financial straits of the government are compounded by its actions to smoothen structural change in the economy by payrolling the exit from the working population of older (50 years), especially unskilled, workers. The French, like the Austrians, Italians, and others, realize that sacrifices have to be made, but… not at the expense of "my" welfare. Thus, a congregation of vested interests stymies change. And no one advocates striving for productivity—*quelle horreur*—which remains strongly associated in the public mind with both working harder and inevitable job losses. So let's not reduce welfare, even though the current level could not be sustained, and certainly make no admonishments to work more or even smarter.

Ireland's productivity-cum-welfare concern is different; its remarkable productivity growth since 1989 has been paralleled by a 50% rise in alcohol consumption. This increase has in turn been responsible for a loss of productivity and growing public expenditure on the consequences of alcohol abuse—equivalent to almost 2% of national output. To counter this phenomenon, the government, rather than legislate, is urging the drinks industry to discourage youth from drinking.

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And then, even more important, there is the EU level. In 2002, the European Commission produced a white paper on "Productivity: The Key to Competitiveness of European Economies and Enterprises." It sounds good. However, in 2003, it has made proposals to reduce health hazards, especially allergies. Industries must submit risk assessments for virtually all chemicals circulating within the EU, some 30,000 of them. This is likely to cost €7 billion in the coming decade. On the other hand, as France has demonstrated, productivity improvement often results from enterprises turning threats into challenges. In this case, the health benefits for society as a whole from reduced chemical hazards could far exceed the expenditure to achieve this, and enhanced occupational health and safety is a significant contributory factor to productivity development.

These instances indicate some of the ways in which governments are groping for sticks and carrots to ensure—as in Scandinavia—that welfare can better be harnessed for productivity growth and that enhanced productivity can enable welfare to be sustained.

First, governments have to decide on actions, albeit after broad consultations, and then act decisively. At the EU level in particular, there remain many domains in which action is needed to ensure a more "level productivity playing field." New laws are currently being drafted to enhance the four freedoms of movement (of labor, capital, goods, and services), European public tendering, and mutual recognition of training and taxation systems, among others. But between the drafting and passing of legislation, there are many vested interests to be tamed.

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Second, there is the role of the enterprise itself, the generator of national income. Obviously, the benefits of striving to become ever more productive and innovative have to be rewarding for all stakeholders. Law plays a significant role here, but enterprises also need to be aware of their "corporate social responsibility"––their policies and actions must enhance their employees' and community's quality of life. This requires a notably improved understanding of how profits and growth can be balanced with sustainability and environmental improvement, a subject of growing interest.

Third, a new force for sustainable productivity promotion is emerging: the insurance and reinsurance industry. Three decades ago, the tobacco industry rejected claims that it could be held responsible for an individual's lung cancer. This is no longer possible. Today insurance companies are increasingly concerned, for example, that carbon dioxide-producing industries could be the subject of vast future claims for causing global warming, with repercussions on insurers. They are therefore taking a proactive stance toward companies that have not themselves already detected early signs of possible claims. Thus, in the future, private enterprise could well play a significant role in policing companies' sustainable productivity growth.

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