

Inspiring Europe

Europe: Crossing the Globalization Chasm

By Arpit Rai

“We cannot accept 17 million unemployed, average economic growth of 0.6 percent in the old member states, and youth unemployment of 18.6 percent in the 25 member European Union. Change begins in our own mind”

– Vladimir Spidia, Member - European Commission

It was half past seven. The crimson sun had set behind the wintry sea. In a small town near the base of the Bavarian Alps, the Reichmann family was setting the table for dinner.

Stop protecting jobs. Protect people.

Rick having just wound up the day’s business at his retail store was intently watching the seven o’clock news on the television.

“**France rejects the EU constitution**”, flashed across his television screen.

55% of the voters in France had voted against the adoption of the EU constitution. Without the unanimous support of all the 25 member states, the EU constitution could not be implemented.

Leia immersed in her cooking had no time to listen to the television or to Rick arguing with their son Wayne over the repercussions of such a move.

According to Rick, *“France had resisted the integration of the world economy by rejecting the EU constitution; a protectionist fear of competition in a world without walls¹. As the global playing field gets leveled, countries that put walls around off-shoring or outsourcing will suffer in the long run. France might be able save some jobs for now, but such a move will affect the companies and the industries which ultimately will not be able to survive the onslaught of the growing Asian economy. With reducing costs, improving efficiency and saving time being the mantras of outsourcing, rejection of the EU constitution is equivalent to rejection of the aspects discussed above.”*

“Interesting”, Wayne thought to himself. But there was one thing that still bothered Wayne. *“Yes, outsourcing might reduce costs but this leads to people being laid off.”*

¹ **We Are All French Now?** By Thomas L. Friedman, New York Times, June 24, 2005

How can you even justify outsourcing as a good trend when it practically leads to people losing their jobs?"

To which Rick explained, *"Outsourcing and off-shoring are good ways for companies to increase the quality of their products and reduce costs at the same time. Although this leads to a destruction of those jobs on a local level, it leads to the creation of new jobs; in the developing countries as well as locally. This trend allows companies to innovate in the next generation of technology to stay ahead of the competition thereby leading to the creation of new jobs. France needs to protect people and not jobs. Putting walls around outsourcing and off-shoring is one of the major reasons why European countries such as France and Germany have suffered compared to US; by trying to protect jobs and not people. According to a report², only 60% of the European workers are able to find jobs within one year of being laid-off, compared to 69% workers in US who find a job within three months. This can be attributed to the vibrancy of the US labor market where government regulations help re-train people and protect them under an interim welfare scheme till they find a new job. The wage insurance policy that covers the retrenched workers, introduced by the British government was a step in the right direction. Such a scheme realizes the practicalities of outsourcing and off-shoring and has to be emulated by the other European countries if they have to grow."*

Liberalize the Service Sector

Rick had opened his grocery mart twenty five years ago. He wanted to meet the increasing demand in the market by keeping his store open twenty four hours. But with the thicket of governmental regulations governing the service sector in Europe, Rick couldn't get anywhere with his vision of a twenty four hour grocery mart. Such measures have been put in place to preserve the unique culture and traditions of Europe, which in turn affect its prosperity.

The service sector constitutes a substantial part of the European economy; about 70% of the GDP of Europe is dependent on the service sector³. If Europe has to grow it has to liberalize the service sector. Liberalization does not necessarily mean compromising the traditions of Europe. Tradition by its very definition is an inherited or established customary pattern of thought. Traditions won't die with the relaxation of a few governmental regulations. If a store were to remain open twenty four hours, it would not mean the long valued family traditions would not survive any more.

It is important to realize that adaptability is the key to success. To sustain growth, Europe has to adapt to the ways of the *new world*. By failing to adapt, Europe is losing out on the additional jobs that liberalization may result in and with the service sector being the major constituent of the GDP, the differences speak for themselves - *17 million unemployed*.

² **France fails to 'reap benefits' of off-shoring.** By John Thornhill, Financial Times, June 24, 2005

³ **How Europe's regulations hold it back.** By Martin Baily & Diana Farrel, Financial Times, Oct 18, 2005

Labor Market Reforms

Perhaps, one of the biggest problems in operating a business in Europe is in the hiring and firing of people. Nobody could relate to this problem better than Rick whose business had suffered as a consequence of the archaic governmental policies on hiring and firing people. The generous social security net has been eating into the future of Europe. Hiring additional people would mean more contribution to the social security fund and lesser savings for Rick's business, something he could not afford. Laying people off was tough as is, with the government protocols in place. Rick was not surprised with the stagnation in the European business environment.

The latest case of rioting in France has been blamed on religious fundamentalism but few have dared to question the government policies that benefit those already with a job and hurt those without a job. The insanely high amounts of taxes along with high social contributions that companies have to make depending on the strength of their work force prevent them from hiring additional people. The rigid labor laws prevent companies from firing people who are incompetent. In a true corporate model, this should not be the case. The European minimum wage which is considerably higher than its American counterpart results in companies employing far less people in Europe than in US which contribute towards the rising unemployment in Europe. Reforms can be carried out such that they do not eat into the social security benefits of those already retired, but social security benefits that aim to protect people who have been laid-off, have to be amended such that they can help people move from welfare into work, instead of indirectly allowing them to abuse the welfare by not looking for a job actively. The welfare for the laid-off workers could be in the form of education that can help them bridge their knowledge gap which will ultimately ease the process of getting a new job.

Only when the labor regulation policies such as above are eased, can the European economy move forward.

Entrepreneurship and Brain Drain

The bureaucratic barriers to the establishment of new businesses are another hurdle in the path of Europe's economic growth. Wayne, a post-graduate student at the Technical University of Munich, wanted to commoditize his research project by establishing a company to develop the technology instead of surviving on meager grants from the university to sustain his research. But, establishing a business in Europe is a complicated process.

In the words of Christopher Evans, a biotechnology professor at four British universities and chairman of the venture-capital firm Merlin Biosciences, ***“Europe is a mess; a haze of overregulated and overcomplicated bureaucracies smothering the rare flames of true entrepreneurial brilliance.”***

Wayne was already thinking of migrating to US where starting a company was a much simpler process. The US investments in technology laid the foundations for the boom in the 1980s and 1990s that resulted in an exponential growth in the number of

technological start-ups - a process that has added millions of jobs and billions of dollars to the US GDP. Brain drain from Europe is a problem that needs to be tackled.

In 2000, the US spent £287 billion on research and development, £121 billion more than the EU, that has resulted in the US having 78% more hi-tech patents per capita than Europe⁴. This is not just an academic problem; innovations in science and engineering create new opportunities for people that results in the creation of wealth. By letting the bureaucracy have a stranglehold on resources, Europe is destroying that very wealth. Picture this, ***“You had to file a four-page application to get a used computer, only to be rejected because of a mistake in paragraph 342”***, quoted by Matthias Tschop, a German researcher who came back to Europe (*‘his home’*) from US to continue his research⁴. Needless to say, he could not survive in that atmosphere and went back to the US. If there is one area that needs the intervention of the government, it is in the area of providing support to research and development. Conditions have to be made favorable that can allow researchers to skip the bureaucratic hurdles in obtaining grants and for entrepreneurs in starting a business. Perhaps the EU could even think of establishing its own research arm that can help the members of EU coordinate and direct their research projects. It is imperative that the governments in Europe act now, or people like Wayne will continue to migrate, just so that they could escape the bureaucratic hurdles of entrepreneurship in Europe.

Think Global

The Reichmann family was nearly done with their dinner. The reporter on the daily news was doing a special feature on the problems facing the African farmers.

“World Bank chief economist Nicholas Stern estimates that a European cow receives \$2.50 a day in subsidies, while 75% of Africans live on less than \$2 a day”⁵, said the reporter.

“I feel bad for these African farmers, you know. We do so much for them but still nothing seems to come out of it”, said Leia. But, the question really is, do we?

Europeans spew out subsidies totaling \$53 billion⁵ every year to the European farmers. Subsidies distort global trade by allowing one group to produce more, thus driving down the costs of that commodity which ultimately hurts the other group that did not receive the subsidy. Let’s take the cotton farming business, for example. Cotton farming is the primary source of income in West Africa where 10 million people depend on it for food, water and housing. The subsidies in the European countries and US for cotton farming force the African farmer to sell his cotton at a much cheaper price, sometimes barely enough to recover his costs. The result, poor nations keep getting poorer and the rich nations richer. The least the developed countries could do is to let the developing countries compete with them on a fair and equitable level.

The aid that the African countries receive is lost due to the losses made because of the subsidies given to the European farmers. Adopting a protectionist attitude does

⁴ **How To Plug Europe's Brain Drain.** By Jeff Chu, Time Magazine, January 11, 2004

⁵ **The Farm Fight.** By Simon Robinson, Time Magazine, November 28, 2005

not augur well for Europe in the long term. Just like it is suffering from putting walls around outsourcing and off-shoring, it stands to suffer in the long run if it continues with its policy on subsidies. How can development take place when we don't want it to take place? How can Europe become the second largest exporter of sugar when it used to import sugar thirty years ago? How can sugar made from sugar beets be grown in the unlikeliest of places such as Finland? How can countries such as Haiti and Mozambique grow when they're not even being allowed to compete fairly? Europe has to re-consider its stance on subsidies, if it wants to grow, if it wants the world to grow.

The Road Ahead

Europe can increase its economic growth without compromising on the unique traditions and culture that make it so special. After the Second World War, the Marshall Plan gave Europe the impetus to reach where it is today. If changes are not introduced, Europe might be staring at another version of the Marshall Plan in the near future.

The developed states are at a juncture where an overhaul of the current system is the pressing need. With the fall of the Soviet Union, the East European countries are finally opening up their economies. To sustain their growth, the 'new' states will have to work with the 'old' states such that Europe can grow as one single entity.

Only then can it cross the globalization chasm. Only then can *real* growth be achieved.

Word count: 2098 words (excluding references)

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