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Europtimism?

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Millions of European citizens find themselves in a fantasyland of "wanting to keep things the way they were" even as the fundamentals of the European style of government continue to crumble. Europe simply cannot have things the way they were.

Nevertheless, millions of residents of "Old Europe," in particular France, Germany, Italy, and Spain, refuse to accept the reality of enhanced global competition and unaffordable government-sponsored social programs. Their anxieties are many, including a substantial out-sourcing of jobs, persistently high unemployment, a weak educational system, an aging society, a declining overall population, and new global competitors, especially China, India, and numerous Eastern European countries.

The creation of a single currency for the European community has had mixed results. The euro currency enjoys broad acceptance as a major global currency (second only to the dollar). However, the loss of monetary flexibility among many of the smaller nations within Europe has been a major frustration.

Europeans face a barrage of issues, with limited means to escape economic sluggishness and high unemployment. Such was not always the case. European countries traditionally found many of their prized companies as formidable competitors. Many remain in this role, perhaps led by the German automakers. Reasonable levels of economic growth and low jobless rates were the norm in prior decades, but no longer.

The European Union

The broad objectives of blending together a unified Europe included the ability to compete globally as a more cohesive economic unit. Many successes were found, including the ability to dramatically reduce red tape and hassles involving trade among European nations.

Some progress is being made, with more upbeat growth prospects for those nations willing to embrace change

Tomorrow in Europe

Growth prospects are modest as the European model of extensive social welfare, protected industries, high taxes, and few free market ideas remain its foundation. Companies by the thousands have shed jobs in Old Europe even as they added jobs in the Czech Republic, Slovakia, Romania, and Hungary.

Fewer Bodies

Europe also faces an actual decline in population. The European birth rate (as in Japan and Russia) is well below the "replacement rate" of 2.1 children for each woman of childbearing age. For Western Europe as a whole, the birth rate is now 1.5, with lower rates in Old Europe. A continuation of such low birth rates for years to come would lead overall popula-

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tions sharply lower, and threaten the ability of taxpayers to finance future government social spending.

In all likelihood, stronger overall population growth is expected. However, it will be the result of higher birth rates in poorer Eurozone countries and stronger migration (both legal and illegal) into France, Germany, Italy, Spain, and so on.

High levels of Eurozone unemployment compensation and welfare have traditionally provided many citizens with an ability to survive while lacking jobs. Many have lived at public expense for years. Average jobless rates of 9 percent to 10 percent in Germany and 8 percent to 9 percent in France compare to rates half as high in the United States and Japan.

Life in Old Europe includes the "haves" (older high-wage unionized workers) and the "have nots" (millions of younger people who will move between limited employment opportunities and more "comfortable" jobless benefits than found in most parts of the world)—not a pretty picture for the young.

Eurozone Expansion

Bigger is better—or so has been the mindset of European leaders. The European Union comprised 12 member nations a decade ago. Membership today is roughly 25 nations, representing more than 450 million people. A cohesive group? Tens of millions of new member citizens speak different languages and represent vastly different cultures, including rising Islamic populations.

Citizens of richer nations seethe at the addition of 10 mostly poor nations during the past few years, with rising anxiety about the loss of their higher-wage jobs to those poorer countries which feature much lower wage levels.

Facing Reality

There is a quiet realization building across European political and business circles that in order to be competitive with North American and Pacific Rim companies, European companies must have greater flexibility in terms of hiring/firing practices, more open competition, and wider use of production incentives for workers. Lower tax rates and less government are also viewed as necessary.

Some progress is being made, with more upbeat growth prospects for those nations willing to embrace change. Data also suggests that a greater share of Eurozone growth is coming from rising domestic demand, a favorable development should the euro continue to appreciate versus the dollar in coming years.

The enormous unemployment rate disparity between Europe and the United States/Japan comes down to the issue of the entry and exit of labor in a free market. Pro-union governments and powerful labor unions have distorted the European labor issue. The reality is that once a company hires an additional employee in various countries, it is almost impossible or very costly to ever let them go.

So what do rational European company managers do in this hostile labor environment? They utilize alternatives to new hiring, including more overtime for current workers, greater use of automation, more use of less costly Central European or Pacific Rim labor, and greater investment into non-European companies that operate in more business-friendly locations.

Liberal European governments blame their high unemployment rates on job-reducing technology and increased competition from countries where wages are lower. However, they are unable to explain why unemployment rates in the United States and Great Britain are so much lower—countries subject to the same competitive pressures.

The realities of high unemployment and limited economic growth prospects are finally leading labor leaders to the bargaining table, with particular progress in Germany. German workers in various industries, principally manufacturing, have agreed to greater flexibility in exchange for promises that jobs will be maintained.

German workers are embracing more flexible and longer work weeks. In addition, more and more German and other workers are trading fixed (but declining) bonuses for something commonplace in the Western world—profit sharing. The ability of European nations to enjoy solid growth expectations in coming years is tied in part to such labor flexibility.

Jeff

"TEA"ser

What's the difference between mathematics and economics?

Mathematics is incomprehensible. Economics just doesn't make any sense.

—from our book, *On the One Hand…The Economist's Joke Book*

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