

## **Don't Blame High Tech for Europe's Job Woes**

Gary S. Becker. Business Week. (Industrial/technology edition). New York: July 7, 1997. Iss. 3534; pg. 26.

I recently returned from a lecture trip to several Western European nations, where the two main topics were the causes and cures of their high unemployment, which has averaged over 11% for several years, and the plans for a common currency. These are closely related subjects since a new currency probably will not be introduced in 1999, as scheduled, unless the unemployment situation greatly improves.

The great concern about unemployment helps explain the astounding victory of the Socialists in the recent French national elections over Jacques Chirac's do-nothing government of the right. They promised to create jobs by slowing down privatization and by legislating reduction of the workweek to 35 hours or less to encourage job sharing.

But such make-work programs have always failed to stimulate private employment since they raise the cost of labor. This has recently been shown in a study of the German experience during the past decade by economist Jennifer Hunt of Yale University. She finds that government and union pressure there to reduce the standard workweek may actually have reduced overall employment.

FLUX. Many European politicians and some intellectuals are suggesting work-sharing because they have been convinced by recent claims that the number of possible jobs in a market economy is shrinking because of computers and other technological advances that reduce the need for workers. Such advances have always caused apprehension about job losses. Just recall the Luddites' attempt to protect their jobs by destroying new textile manufacturing machinery in the 19th century. However, in the past, many workers found employment in industries created by new technologies, such as textile manufacturing, automobile production, airline travel, and steel production. As a result, overall unemployment rates in Europe and the U.S. did not grow during the past 150 years.

Similarly, computers and other products have stimulated robust demand for workers in many newly created sectors, including chipmaking, telecommunications, software programming, biotechnical products, and other advanced businesses. Despite the fear-mongers' warnings, there is no evidence that recent technological advances have much to do with the high unemployment rates found throughout Europe. Indeed, there is no evidence that recent advances have been faster than those in the past.

No, the employment problems of France, Germany, Italy, Spain, and elsewhere in Europe are due more to conventional interventions in labor markets that discourage companies from hiring workers. These include very high social security and other taxes on labor, generous subsidies to persons without jobs that discourage them from looking for work, and onerous regulations that raise the difficulty and cost of hiring and firing workers. Italian owners of small and midsize businesses told me that union and government

regulations make it virtually impossible to fire workers when times are bad. And the situation isn't much better in the other countries.

LONG HAUL. Many regulations also discourage young entrepreneurs from starting the new enterprises that have been so important to job creation in the U.S. In Italy, it takes three to five years to get all the approvals for a new business, unless officials are bribed to speed up the process.

Labor-market reforms in Britain are a good example of how to reduce Europe's unemployment. Britain lowered labor taxes and regulations and greatly weakened the economic and political power of large national unions. The effect was a rapid expansion in private employment and a reduction over time of unemployment to under 6%.

The relatively flexible labor markets of the U.S. have created jobs at an impressive rate since the early 1980s. Almost 70% of men and women of working age are employed in the private sector, and unemployment has dipped to below 5%. Western Europe, by contrast, has experienced no net increase in private employment since the middle of the 1970s. Western European companies now need lower labor taxes and greater employment flexibility if they are to hire additional workers in Europe rather than setting up plants abroad.

To effectively deal with the continent's sluggish job creation, European governments must take action by cutting taxes, subsidies, regulations, and controls over employment, wages, and new businesses. That would provide new jobs and raise output. And jobs help the unemployed boost their self-respect by allowing them to help create national wealth instead of depending on government handouts.