THE GLOBE AND MAIL

Why Europe is the world's jobs laboratory

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The entire world stands at a precipice, not just Europe. But the severity of the euro zone crisis is turning old Europe into a laboratory for the global economy.

Beyond Europe's shores, from Northern Africa and the United States to Japan and China, a common question is emerging: Can we create jobs fast enough? Fast enough not only to facilitate a productive labour market entry for what is the best trained and largest generation of young people ever. Fast enough also to ensure that the rising degree of social protest and dismay does not boil over.

Spanish demonstrations, in particular, show high the pressure has risen. The country's leadership has made a courageous and determined bet on a radical reshaping of labour market policies. It has dismantled the remnants of corporatist welfare structures erected under the Franco regime. Such courage ought to be rewarded, and rewarded promptly. But it is one thing to leave behind an unfortunate political and historical legacy at long last, and quite another to transition smoothly into a better-functioning national economy.

For that transformation to be socially palatable, jobs must be created, and fast. That, however, is not the nature of structural reforms. As valuable as they are over the medium and long term, over the short-term they offer little in the way of job creation. While we in the developed world spent a lot of time a decade or two ago worrying about the "J curve effect", the time delay before changed exchange rates would have an impact on a nation's trade balance, we better get accustomed to the same kind of delay in today's field of battle, labour markets.

The reason why the turnaround happens only slowly is due, in part, to the fact that so much time has been wasted. Governments in the past have always tended to shy away from tackling the necessary reform measures. But now, the markets are refusing to give the Spanish and other European governments any more room to manoeuvre (even as they demand no further job losses as a sign of improving growth prospects).

The EU as a whole has committed to increasing the employment ratio among 20-64 year olds from the present level of 69 per cent to 75 per cent by 2020. That translates into a need to create about 17.6 million new jobs. One factor that may actually help the Europeans in their quest is that several of the areas slated for new job growth, from green growth and mobility solutions to healthcare, are free from the fierce partisan disputes that characterize U.S. politics.

At least equally important is a radical step forward inside Europe to learn from best practices. One such example is Germany's dual training system, which provides young people with valuable career skills below the level of entering the tertiary education sector.

Other countries have long hesitated to adopt this approach. They found it too complex to emulate or too long to bear fruition. The low numbers of unemployed youth that follow the apprenticeship model speak for themselves. Yes, setting up such a system will take quite a while to become effective. But delaying its introduction yet again is definitely no solution.

At the same time, there is much that Germany and other nations such as Austria and Denmark can do to speed things along. In particular, chambers of commerce, trade associations and larger firms ought to pursue a "twinning" approach, by which they adopt a partner, town or region elsewhere in Europe to facilitate the shift.

Better yet, given declining numbers of job entrants in several of the more successful European economies due to demographic factors, this twinning concept could be made very hands-on, by offering young people from other countries training opportunities, i.e. apprenticeships, at German firms. This is no brain drain concept, as it is likely that these young people, at some point, will return to their home countries when the economy has recovered. This reverse skills transfer allows them to make the best use of the skills learned abroad, hopefully by adding to the entrepreneurial base of their own national economy.

The story of an urgent focus on job creation is by no means limited to Europe, even if it seems more virulent there than elsewhere. That virulence, though, in good measure is a result of the European tradition of actively engaging in street protests, something that is done far more sparsely in China and even less so in the United States.

The Chinese leadership, for its part, is quaking in its boots just as much as any other set of political leaders. They have an unrelenting focus on hitting at least the 8 per cent growth mark, which they consider the minimum for preventing a social revolution from fomenting due to insufficient numbers of people finding work.

China's new leadership, which will come into power later in the year, must make deep reforms, especially in the state-owned enterprise sector if it really wants to put the Chinese economy onto a sound jobs footing. Africa and India face a different challenge. They are experiencing tremendous population surges, which will put great pressure on job creation over the next half century or so. The pain of transition there will be probably be far more earthshaking than what Europe is going through.

For all the constant efforts to draw positive contrasts to the rest of the world, the situation is not much different in the United States. To create the number of jobs that is required to bring unemployment back down to customary U.S. levels, say, a level of 6 per cent, requires the monthly creation of more than 350,000 a month for several years in a row.

Not only is the current economic recovery not yielding numbers anywhere near that range, but even historically in the modern heyday of the U.S. economic boom, jobs were never created at such a pace for any sustained period. That underscores that the problems faced in the U.S. reach far deeper than electing a new president, as the Republicans are fond of arguing.

What all of this demonstrates is that global economic integration rather ruthlessly exposes whatever and wherever countries have failed to act with proper economic foresight – far beyond just Europe's borders. But there is no shrinking from the challenge, whether in Europe or elsewhere.

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