

LAGGING EUROPE SERIES (3 STORIES)

Italians, Americans Show U.S. Edge: Lagging Europe (Update1)

(Adds labor accord in 20th paragraph. First in a series of articles examining why Europe is behind the U.S. in growth and employment.)

Candia Canavese, Italy, Aug. 5 (Bloomberg) -- Felice Carola and his wife, Rosita, have much in common with Paul and Karen Highbarger of Hagerstown, Maryland.

Both are two-income, home-owning couples living an hour from a large city. Both have a child in college and both husbands work in the automaking business. Both couples anticipate retirement.

There begin the differences.

For Carola, who works for Fiat SpA in Turin, retirement could come this year, at age 55. Paul Highbarger, now 46, won't be retiring from the Mack Trucks, Inc., plant of Volvo AB until he's 64. He and Karen then plan to start a business.

"I like to work to get the extra money to do the things I like," Highbarger said.

A transatlantic gap in time worked is one reason why Europe is behind the U.S. in economic growth. Because they retire earlier, take more vacations and work less overtime, Europeans are on the job less than Americans. And a higher proportion don't work at all.

Decades of liberalizing trade barriers, opening borders and creating for 12 European nations a single currency have brought Europe no nearer to U.S. levels of economic output. In addition to working less, the European Union is slowed by unemployment benefits that reduce the incentive to find work and by the high cost of employing people.

Each of the 380 million residents of the 15-nation EU produced \$25,200 in goods and services last year, while 287 million Americans produced \$35,500 apiece, according to the Paris-based Organization for Economic Cooperation and Development.

Fewer Working

Europeans thus were producing 69 percent as much as Americans, on average. In 1985, the figure was 65 percent, also adjusted for purchasing power. The highest it ever reached was 71 percent, in 1991.

That's reflected in investor confidence. Even now that U.S. corporate scandals are sending stock markets tumbling, the Dow Jones Industrial Average has fallen less this year than Italy's Mib30 index or Germany's DAX.

Italy's GDP gap with the U.S. is just above the European average, at 70.6 percent of the U.S. figure, according to the EU.

"That shouldn't be any surprise," said Alberto Alesina, a Milan-born Harvard University economics professor who specializes in U.S.-European issues. "Despite the reforms that Europe has made, the U.S. is still much more productive and innovative -- and there are many good reasons why."

European workers work shorter workweeks, take more holidays and vacation days each year and retire much earlier, EU figures show. They're also less skilled, having spent 87 percent as much time in school or training as their American counterparts. All that constrains the growth in output.

Time With Kids

Only 61.6 percent of Italian men are employed or looking for work, compared with 74.4 percent of American men, according to the U.S. Bureau of Labor Statistics. And while 60.1 percent of American women hold jobs or are seeking them, only 35.7 percent of Italian women do so. Rosita Carola, a teacher, is a rarity.

Felice Carola, 54, doesn't think of himself as someone who works little, and he isn't.

His first job was at the age of 14; he'll have 40 years of labor behind him when he retires on a government-paid pension of 80 percent of his current wage of \$19,000 a year. His hour-long bus commute to Turin brings his time away from his three-bedroom, two-bath home to 11 hours a day.

Still, his priority, he says, is taking his youngest son, 17-year-old Andrea, to rowing club practice on the lake in the valley, and being with his three-year-old grandson Alex. Vacations are simple, at the beach or at home.

Overtime

“What's the need to work and work and accumulate stuff if you lose sight of what's really important?” he asks. “It's much better to just spend time with your kids.”

He has job security: Italy's 1970 labor statute makes firing a worker from a company with more than 15 employees almost impossible. Earlier this year, Prime Minister Silvio Berlusconi proposed allowing companies to grow beyond 15 workers and remain exempt from the law.

The plan sparked a general strike that paralyzed the country on April 16 and Red Brigades terrorists shot a government labor consultant. Berlusconi at the beginning of July sealed agreement with two of Italy's three biggest unions on a temporary change.

While Felice Carola works 40 hours a week and Rosita works 27, Paul Highbarger puts in his regular 40 hours plus 12 to 20 hours of overtime each week. Karen, 44, a bagger at a nearby bakery, works at least two hours a week beyond her regular 41 hours. Her shift: 11 p.m. to 11 a.m.

Coordinating Vacations

The Highbargers have a four-bedroom home with two and a half baths, a kitchen filled with new appliances, a well-appointed recreation room and a hot tub and motorcycle in their backyard. For vacations, they go on Caribbean cruises or spend time at the beach in South Carolina.

“We consider ourselves really blessed,” said Highbarger, a stocky, mustachioed man who's given to wearing baseball caps and counts watching stock-car racing as his favorite pastime.

Felice gets four weeks' vacation, while Paul Highbarger gets two. Both men also get time off when their plants shut down at Christmas. Rosita's job as an elementary school teacher gives her summers off.

Karen Highbarger says she often has to seek permission from dozens of more-senior bakery workers to take vacation during a particular two-week period for which other employees have first choice. Sometimes, she and Paul can't coordinate their schedules.

Differences in work also are evident across the generations. The oldest three of the Highbargers' four sons, aged 16 through 23, have jobs. Christopher, 20, is a freshman at a local college, and is financing his four-year stint by working as a county health inspector. To save money, he lives with his parents in a country where most college students don't live at home.

Won't Switch

The Carolas also have a son in college. Matteo, 24, attends a polytechnical institute in Turin. His education, as for every student in Italy, is subsidized, costing in his case 1,000 euros a year. Like many young Italians, he also lives at home. He stays with his grandmother in Turin while studying and expects to finish school by the time he's 25.

A daughter, Donatella, works as a nurse, while 17-year-old Andrea is in high school.

Neither Highbarger nor Carola would switch places.

"I didn't like it at all," Carola said, recalling stints with Fiat in California and Delaware. "Italian workers are more protected, and we have more time for our families."

For his part, Paul Highbarger says the more demanding U.S. system is fine as long as it helps him buy the things he wants. He calls France's law limiting the work week to 35 hours "just crazy," adding: "I don't see why how long you work is the government's concern."

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Story illustration: For statistics and reports on the U.S. and European economies, see the Web sites of the Organization for Economic Cooperation and Development at <http://www.oecd.org> and the European Union <http://europa.eu>. For a comparison of U.S. and European labor statistics, see the Web site of the U.S. Bureau of Labor Statistics at <http://www.bls.gov>. For economic statistics for individual countries, click on {ECST <GO>}.

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Germany Shows Drawbacks of Government Job Help (Update2)

(Adds maximum length for German unemployment benefits in 26th paragraph. This story is second in a series of articles examining why Europe is behind the U.S. in growth and employment.)

Munich, Aug. 6 (Bloomberg) -- Christiane Msechu, a job counselor at a government-run employment agency here, had appointments with 11 people one recent day. Seven wanted to sign up for training or language classes. Another three didn't show.

One was looking for work.

"Sometimes I just have had enough," Msechu said. "You can't help thinking that nobody actually wants a job."

On another day that week, a line formed an hour before opening time at the Georgia Department of Labor's North Atlanta Career Center. At 8 a.m., about 40 people streamed in and began sending resumes on the fax machine.

A day at employment agencies on both sides of the Atlantic illustrates why economic output in Europe has hovered around two-thirds that of the U.S. for more than 20 years: In many European countries, benefits reduce the incentive to find work.

"The labor-protection laws and unemployment benefits in Europe are so generous that they discourage employers from hiring and encourage workers to take more time in looking for jobs," said Bruce I. Sacerdote, a Dartmouth College economics professor who has studied the U.S. and European economic systems.

Even after decades of opening borders and creating for 12 European nations a single currency, Europe has not closed in on U.S. levels of per-capita economic output. In addition to its unemployment benefits, the European Union is slowed by the high cost of employing people and the fewer hours worked by Europeans.

Markets Fall More

The 380 million residents of the 15-nation EU produced on average \$25,200 in goods and services last year; the 287 million Americans produced \$35,500 apiece, according to the organization for Economic Cooperation and Development.

Europeans thus were producing 69 percent as much as Americans, on average. Germans produced 72.6 percent as much. In 1985, the figure for Europeans was 65 percent, adjusted for purchasing power. The highest it ever got was 71 percent in 1991.

Investors take that seriously. Even now that U.S. corporate scandals are sending stock markets tumbling, the Dow Jones Industrial Average has fallen less this year than Germany's DAX Index and France's CAC-40.

Germany, Europe's largest economy had a jobless rate of 8.1 percent in May, as calculated by Eurostat. The comparable rate for the U.S. was 6.1 percent.

German unemployment probably rose for a 17th month in 19 in July as a recovery lost steam, economists said. The Federal Labor Office will publish last month's jobless report tomorrow.

A fifth of Germany's unemployed don't want a job at all and almost as many don't want to work immediately after losing their previous job, according to a study by the Berlin-based DIW economic research institute earlier this year. A principal reason is that Germany's social welfare system doesn't encourage people to work, the group said.

'Too Hard'

At Munich's Arbeitsamt employment agency, Karsten Huber, 25, wants to learn a different profession through a government-paid training class because he's "fed up" with being an auto mechanic. Moammet al-Dossary, 27 who worked at a local hospital's laundry service, says his last job was "too hard." He wants to be trained to become a computer specialist.

On the other side of the Atlantic, government guidelines are pointed toward getting Americans back to work.

At the Atlanta agency, Davis Bo-Archie is trying to claim one of the five computers that hosts the department's jobs database. A former systems analyst with International Business Machines Corp., his two-year contract expired in February. He's been looking for work ever since, averaging three visits to the office per week, spending three to four hours a day.

Red Tape

"I was very hesitant in taking benefits," said Bo-Archie, 36, of nearby Roswell. "I never even thought of it before. I don't like the fact that I'm not working. This to me seems like some kind of welfare." He's more familiar with employment: Previously he had jobs at BellSouth Corp. and AT&T Corp.

His benefits aren't enough to live on, he says. The native Ghanaian went from making \$1,000 a week at IBM to the maximum payout allowed in Georgia: \$284.

That's going to run out Aug. 13. Unemployment benefits in the U.S. are limited to 26 weeks, though President George W. Bush extended them by 13 weeks to help laid-off workers who lost jobs during the recession.

"I'm starting to get very anxious," Bo-Archie said.

He's also starting to look elsewhere. Among the capabilities of the office's database is a search of jobs in other states, or nationwide. Bo-Archie said he's looking for job openings in New England, where some of his relatives live.

In Germany, bureaucratic hurdles hamper those willing to show flexibility.

'Going Crazy'

Erkan Karmann, a 30-year-old mechanic who lost his job when regional jetmaker Fairchild Dornier filed for insolvency, arrives at the agency with a stack of job advertisements and says he's applied for about 20 positions since April. Just as Msechu starts to give him a coupon to seek free help from a private job agency, she remembers that people need to be out of work for six months before they can use that option.

"I'm going crazy just sitting at home every day and waiting for the mail," Karmann said. "I want to go back to work."

The federal labor office will spend 54.5 billion euros (\$53.5 billion) this year on unemployment benefits, job-search help, training and language lessons. That's more than two times the defense budget and more than six times the German budget for education. It's also almost as much as the \$55 billion spent by the U.S. on job benefits, with a population four times larger.

A panel of experts led by Peter Hartz, personnel director at Volkswagen AG, last month said Germany could reduce unemployment by 2 million before 2006 by increasing temporary work, speeding up job placements and fighting illegal employment.

The current benefit rate of as much as 67 percent of an unemployed person's last wages should be cut and limited to 12 months, the commission said. Job centers should also improve ways to

move the unemployed into temporary work and short-term contracts. The maximum length of time for drawing unemployment benefits in Germany is 32 months and that's for people over 57, who have paid unemployment insurance for a minimum of 64 months. The average time spent on unemployment is 7 to 8 months.

Cut Benefits?

In Germany, cutting people off from unemployment benefits is next to impossible. Officials must adhere to a strict procedure and need watertight proof that someone's unwilling to accept a job, Msechu said. In charge of more than 800 people who call themselves job seekers, she says she prefers using her time trying to find work for those who actually want one.

Fewer and fewer eligible Americans are getting government assistance these days.

Only 38 percent of unemployed persons received benefits in 1997, compared with 81 percent in 1975, according to the U.S. Department of Labor. The principal reason for the decline was a tightening of eligibility requirements.

In Germany, 88 percent of all unemployed people receive benefits. To be eligible, people must have been employed for 12 months.

To be eligible for benefits in Georgia, by contrast, an unemployed person must have worked for at least two quarters of the year preceding the last three months, and earned more than \$1,296 in that time. Even then, staying on the rolls takes some convincing.

Rapid Response

At the Atlanta career center, those receiving aid are funneled to mandatory meetings to go over basic job-search skills, like writing resumes. They're then called back three more times over the next 17 weeks to recap their efforts at finding work.

Those who aren't trying, or don't show, are dropped from the program. After 26 weeks, unemployment assistance ceases altogether.

If the deadlines aren't enough incentive, the career center offers weekly seminars to motivate people to find jobs, as well as workshops on basic computer skills, how to cope with financial loss and search for job openings on the Internet.

Labor offices across the U.S. have initiated "Rapid Response Units" that involve sending representatives to companies that have announced mass firings. For example, Phil Rockwell, an employer-marketing representative at the North Atlanta office, in May carried a list of customer-service job openings to a travel agency that was cutting 20 jobs.

"We focus on them so they can keep focused on the job search," he said. "A lot of these people have been laid off and they just can't believe what's happened to them. Our job is to take them by the hand and pump them up."

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Story illustration: To graph the relationship between Germany's unemployment rate and economic growth, type {GRUEPR <Index> GDPB95YY <Index> HS2 <GO>}. To graph the German unemployment rate type {GRUEPR <Index> GP <GO>}. For details on U.S. jobless data see {ALLX USUR <GO>}.

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French Startups Face Higher Costs for Workers: Lagging Europe

(Third in a series of articles examining why Europe is behind the U.S. in growth and employment.)

Paris, Aug. 7 (Bloomberg) -- Mathieu Nouzareth and his brother Romain, founders of French online-video startup Cineticvision, are eager to hire more software writers.

Why don't they? Because 23 percent of what each employee costs them goes to the French government in taxes to pay for unemployment, retirement and health care.

Hiring is cheaper for Monte Singman, founder of Redwood City, California-based Zona Inc., also in the online-game business. What he spends on Social Security, unemployment and private health insurance for employees is almost one-third less.

"We'd love to hire more people, that's for sure," said Mathieu Nouzareth, 30, who founded Cineticvision in April 2001. "In France, you have to hire with parsimony."

Higher payroll costs, legal barriers to laying off workers and complex regulation in France and elsewhere in Europe help explain why Europe's gross domestic product per capita has been stuck at two-thirds of the U.S. level for more than 20 years, economists say.

"The European economies have poor incentives for job-creation because of job-protection laws and wage regulations," said Gary Burtless, a Brookings Institution economist who has studied the U.S. and European economic systems.

Decades of liberalizing trade barriers, opening borders and creating for 12 European nations a single currency have brought Europe no nearer to U.S. levels of economic output. In addition to the cost of employing people, Europe is held back by high unemployment benefits and the fewer hours worked by Europeans.

Entrepreneurial Spirit

Each of the 380 million residents of the 15-nation EU produced \$25,200 in goods and services last year, while 287 million Americans produced \$35,500 apiece, according to the Paris-based Organization for Economic Cooperation and Development.

Europeans thus were producing 69 percent as much as Americans, on average. The figure for France is 68.8 percent. In 1985, Europeans were at 65 percent of the U.S. level, adjusted for purchasing power. The highest ever was 71 percent, in 1991.

Markets reflect the difference. Even now that U.S. corporate scandals are sending stock markets tumbling, the Dow Jones Industrial Average has fallen less this year than Italy's Mib30 index or Germany's DAX.

The transatlantic gap shows up in figures about startups, too: Those that survive the first two years increase their number of employees by 160 percent in the U.S. and by less than 40 percent in France, Germany and Italy, according to the OECD.

While no company is typical, the U.S. entrepreneurs say they operate in a culture that encourages business creation; their French counterparts say the opposite.

Incubators

"Since I was a software engineer, when I considered where to live, all I could think of was the U.S., especially Silicon Valley," said Singman, 35, whose father is American and mother is Taiwanese. He emigrated to the U.S. from Taiwan at 22, drawn by the entrepreneurial milieu depicted in Silicon

Valley Fever, a 1984 book describing the creation of Apple Computer Inc. and other high-tech companies.

Singman began implementing his idea of maintaining networks that enable thousands of people to play the same game online simultaneously in August 2000.

He got help writing a business plan mainly from venture capitalists, who often offered counsel even if they weren't willing to make an investment. Some let him crib from versions of plans submitted by companies previously pitching for funds.

"A lot of them were surprised when I asked for advice, but were usually happy to help," said Singman. He later shelled out \$25,000 on a consultant who helped him craft a final plan.

Night School

Other would-be U.S. entrepreneurs can get their businesses off the ground for less money, availing themselves of so-called incubators that provide low-cost office space and access to professionals who advise on how to advertise, raise funds and write a business plan.

On a recent evening, for instance, a group of about 20 new-business starters filled a conference room of San Francisco's Renaissance Entrepreneurship Center and listened to Valerie Camarda, principal of Marketing Sense, outline the basics of promoting products. "Survey your customers, poll your customers, and capture that information," she urged.

Incubators can be found in France too, and the Chamber of Commerce in Paris runs a service that advises people on how to start companies and handles their paperwork. The French government also provides financial aid and advice. What's lacking in France is a U.S.-style network of night schools, Web sites and resource centers for prospective entrepreneurs.

Insurance and Taxes

Nouzareth said he's never heard of night classes on starting your own business. And French entrepreneurs complain that the efforts are splintered among hundreds of different local agencies and it's very difficult to find out what aid you can qualify for.

"It's a French tendency to pass new laws and create new agencies on top of laws and agencies that already exist," said Thomas Legrain, president and founder of CoachInvest, which helps start-ups raise money and find office space.

Payrolls at Cineticvision and Zona show how much more it costs to employ people in France.

About 8 percent of Zona's monthly personnel expenses go to the U.S. government for Social Security, unemployment insurance and Medicare. Costs for employee health-care benefits add another 8 percent.

That leaves the employee with 84 percent of what Zona pays out in wages and employee costs. Workers also have to pay their share of Social Security and Medicare, as well as their own income taxes. Those are withheld from pay checks.

Pay Slips

Zona has 17 full-time staff, mainly engineers who create and maintain computer systems that keep online games running, working in its Redwood City offices. The company also employs four people in South Korea, Japan and Taiwan, as well as two part-time consultants in the U.S.

Singman reckons taxes are a "necessary evil," though not an impediment to hiring: "Not to hire people because of employee taxes seems extreme to me."

At Cineticvision, which employs four people including its founders and shares its headquarters with other start-ups near the Louvre museum, about 23 percent of total payroll goes to the government to pay for unemployment insurance, health care taxes and national retirement.

By the time employees' share of payroll taxes is subtracted, they'll end up with about half of Cineticvision's wage bill. The French pay income taxes directly to the government.

All in all, payroll taxes equal 17.5 percent of gross domestic product in France, compared with 6.9 percent in the U.S., according to the OECD's figures for 1999. For the EU, payroll taxes were 12 percent of GDP.

Sat for Hours

In France, employees and employers must pay for state medical insurance, the national unemployment-insurance fund and retirement funds. Pay slips must also list entries for money set aside for company training as well as a "13th month" of salary that all French employees must receive.

Both sets of entrepreneurs are working flat out. Mathieu and Romain say they work 70-hour weeks. Singman's U.S. workday can last till 9 p.m. On a recent trip to Asia, his meetings stretched to past midnight.

The Nouzareth brothers handle sales and marketing themselves, and have hired consultancy Cap Gemini SA to help their two software writers.

Mathieu said he decided to seek outside help the first time he tried to figure out a pay slip. "I sat there for hours and just couldn't figure out all the withholdings," he said.

The Nouzareths say they hope they can escape a 1998 law that limits the French working week to 35 hours. Companies with fewer than 20 employees were given until the end of next year to comply. Then in June, French voters overwhelmingly elected a new government that plans to roll back parts of the 35-hour law.

"The best thing the new government could do for small businesses is water down the 35-hour law," Nouzareth said.

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Story illustration: To view employment statistics for Europe and the U.S., select {ECST <GO>} and then click on the flags of the U.S., France, European Union or any other country.

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