9 out of 10 European employers are no longer investing in training. Governments need to encourage them to invest in this area before Europe faces a massive skills deficit.

*Throughout the Eurozone crisis, most commentators have focused on budget deficits and levels of public debt. But what about Europe's skills deficit? **Bob Hancké** argues that investment in training across Europe has plummeted, and that governments must now intervene through tax breaks in order to kick start businesses' investment in this area. He argues that a skilled workforce is often a good guard against unemployment.*

'People are the most important resource in a company.'

'After carbon copy paper, no?'

'Yes, OK, after carbon copy paper.'

Thus (more or less) a cartoon in the Dilbert series, which offer a satirical look at life in large companies and particularly at the prevailing clichés in management-speak. Reading about the European Business Summit in Brussels on 25 April, and the report commissioned by the Belgian employers organization (VBO/FEB) on skills (on Euractiv), reminded me of this bitter joke. Europe, let's face it, is not doing all that well: slow growth, falling business confidence, a sinister economic outlook for 2012 and 2013, governments stumbling and falling all over the continent, and a fast rising unemployment rate. One part of the diagnosis is slowly gaining traction: after Italian PM Mario Monti, presumptive French president François Hollande and ECB president Mario Draghi, European Council President Herman Van Rompuy has invited European leaders to a 'dinner for growth'. It may not lead to much without enthusiastic support by Germany, but at least the issue is on the, no doubt sumptuous, table.

But it is surprising how little is being said today about the supply-side of the European economy, except for the ubiquitous and in my opinion profoundly ill-informed clamours for more labour market deregulation (as if the unemployed choose not to work in the midst of a double-dip recession and falling standards of living everywhere). According to the VBO/FEB report, almost nine employers out of ten (yes, 86%) in Europe (probably meaning the EU or the EEA) have cut or frozen their training expenditures, and fewer than a fifth of 500 European business and government leaders polled planned to increase spending on skills and training over the next 12 months. At the same time, almost half of them declared that they faced a skills shortage, and almost three-quarters agreed that more investment in skills was needed.

Skills are not a panacea: without something big to get economic growth going again, even the best-skilled workforce can face a high unemployment rate. In the 1990s and early 2000s, Germany demonstrated that it is one thing to have a workforce that is the envy of the world and quite another to employ it. But skills are necessary if a continent such as Europe is to thrive. Without ready access to raw materials and with a politically vocal working class that refuses massive wage and welfare cuts, the only sensible medium and long-term sustainable strategy for Europe in today's integrating global economy is to rely on the development of a sophisticated, skilled workforce. This will allow producers on the continent to stay ahead of low-wage competitors snapping at their heels: sophisticated skills make sophisticated products that mean that companies can afford to pay high wages. And skills are, all other things equal, still the best insurance against unemployment.

Now, put two and two together: nine employers out of ten have stopped investment in training; three-quarters think more investment in skills is needed, and Europe can only thrive with a well-trained workforce with broad, flexible skills. If ever there was a need for government intervention, this must be that time. A target subsidy (or tax relief, in the contemporary lingo – subsidies are bad, after all, but lower taxes are good) that induces companies to assess skills needs, and that helps them pool resources to address those, would go a long way to making the nine out of ten think again about investment in training. Practically every EU country has a well-developed network of employment agencies with experience in organizing training in cooperation with companies – or, at the very least, has tried organizing such training initiatives. Some money and some experience of this kind will go a long way to resolving the fast-growing skills deficit.

'But how will cash-strapped governments fund this?' – the standard objection everywhere. A few thoughts. First of all, governments are already explicitly or implicitly spending all this money on unemployment benefits. The marginal increase may not be insignificant everywhere, but it will remain a marginal increase, usually from an already relatively high level. Secondly, unless Monti, Hollande, Draghi and Van Rompuy have reinvented standard macro-economics without telling us, any growth strategy is going to require some not insignificant government investment, as Keynes argued. Keynes may have thought that it was sufficient to pay someone with the money in a pot that is perennially dug up and buried to get an economy growing again (and who would disagree with the Master, especially since in quantitative terms the argument simply has to be correct), but there is nothing wrong, I guess, with spending it on actually useful things.

Finally, training expenditures are, in fact, very flexible tools: extremely easy to target and to switch on and off, with very little demand leakage, and governments can lower training subsidies as economic activity picks up and the private sector takes on the expenditure again. After that, the government expenditure on training (which is really a form of investment) more or less pays itself back through higher growth and more secure jobs. A win-win situation, in other words, as the ugly policy-makers cliché goes. Oh, and before I forget: it is also a pretty good thing for the vast majority of the population who rely on salaried work for their livelihood – the 99%, as they are called today.

Please read our comments policy before commenting.

Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

Shortened URL for this post: **http://bit.ly/Il5BWc**

About the author

Robert Hancké – *LSE European Institute*

Bob Hancké is Reader in European Political Economy at the LSE. His research interests include the political economy of advanced capitalist societies and transition economies as well as macro-economic policy and labour relations. His most recent books areIntelligent Research Design (Oxford University Press 2009) and Debating Varieties of Capitalism (Oxford University Press 2009).

No related posts.