The Motown way can get Greece motoring

To solve the eurozone crisis cut wages and free up hiring and firing. It's working in Detroit

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Can Greece stay in the euro and not suffer austerity? If you think the answer is no, think again. The road to recovery for Europe lies not in the cul-de-sac of austerity or the dead-end of a Grexit. Rather, it runs through Detroit, Michigan, the capital of the US automobile revival.

In 2009 Detroit was similar to Greece today. Youth unemployment was running at 50 per cent. Demand for Motown's under-engineered and over-priced vehicles, which was already weak before the recession, had shrivelled. GM and Chrysler were bankrupt, haemorrhaging cash and on their way to a massive liquidation that would have created millions more unemployed.

Meanwhile neighbouring North Dakota was humming along at 4 per cent unemployment, disproving the claims of eurosceptic pundits that, in contrast to Europe, the US has good labour mobility and is an optimal currency area.

Today, despite the anaemic US recovery, and with large car factories in Europe being mothballed, plants at the big three (including Ford) in Detroit are running flat out, three shifts a day and unemployment there is way down. The city everyone had given up on is well on its way to an unlikely revival.

How?

The Detroit answer to the euro crisis does not lie in futile, highfalutin ivory-tower debates between central bankers over optimal currency areas and theories of labour market mobility. Rather, it lies in homegrown grassroots grit, determination and flexibility.

Steve Rattner, who was appointed by President Obama to find a solution to the motor industry crisis that involved neither mass redundancies nor endless infusions of government cash offered Ron Gettelfinger, the president of the United Auto Workers union, a stark choice.

Either the union could keep its current wage and benefits deal and face the inevitable liquidation of the industry, the loss of more than a million jobs and its own destruction. Or, at a stroke, it could match the deals at the foreign car plants in the US (Honda, Toyota, and others) allowing it to save jobs and the union, not to mention Chrysler, GM, the city of Detroit and, quite probably, the state of Michigan. Mr Gettelfinger, a smart man, understood the stakes, made the right choice and brought his union along.

A key element that made the restructuring palatable was a two-tier wage structure. New (tier 2) workers are paid $14 a hour and get only basic health benefits; while existing (tier 1) better-paid workers also made some concessions. And nobody has a guaranteed pension plan any more.

> Lower short-term wages are better than earning €0 an hour

With vastly reduced labour costs, as the US started its recovery, the big three hired thousands of cheap workers. In 2007 Motown was one of the most expensive places on the planet to make a car. Today it is cheaper than Canada, Japan, South Korea and all of Western Europe, and is perhaps the best place on Earth to own a vehicle plant. Mexico, China and India may be cheaper, but they are not easy places to grow capacity and efficient, large-scale supply chains. They are unlikely to unseat the lean, mean fightin' machine that is now Motown anytime soon.

Three years ago, disaster loomed. Now Detroit's car factories are humming

How do we apply the lessons of Detroit to the eurozone? The affected countries need to make these changes to their labour laws:

- Freeze union membership for the next 20 years. If a worker is already part of a union, his or her benefits are untouched. But no new workers can join a union or be part of any collective bargaining arrangement for 20 years
- Reset the minimum wage to €4 an hour for all new workers for the next 20 years. Limit employers' costs for social benefits and payroll taxes (beyond wages) to 25 per cent of the wages paid to all new workers
- All futures hirings should be able to have their contract terminated at any time by their employer without explanation with two weeks' notice

In countries that made these changes, lower wages would lead to lower prices. There would be huge capital inflows as multinationals invested to get access to the EU via a low-cost, well-educated and skilled workforce. Hiring would shoot up and manufacturing take-off.

A 20-year period of competitive wages will give the Daimlers, Boeings and Komatsus of the world plenty of incentive to hire tens of thousands of young Greeks, Italians and Spaniards to work in sparkling new plants. After 20 years, the unions can flex their muscles again and negotiate better terms. By then, with unemployment below 5 per cent, even the lowest-paid worker will be making many times the legal minimum wage.

Even if wages are significantly lower in the short term, it beats being paid €0 an hour. Today, many of the Club Med's youth are a burden on the State. Anything at all is better than that. Gainful work will save a generation scarred by unemployment. And as they heal, the country heals.

These changes would need breach EU law. But it is in northern Europe's interests to offer such temporary relief to its southern neighbours. There is no doubt that these are not easy solutions, but neither are the problems. And a youth unemployment rate that is breaking through 50 per cent requires desperate measures.

Europe can get back on its feet if it learns the lessons from the US auto bailout. A single currency lean, mean, fightin' machine.

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