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## *Kamingespräch – Evening Discussion*

Ladies and Gentlemen, it is a pleasure to be here. Thank you, Mr. Governor, for this introduction. In order to simulate the “fireside chat”, I placed the candle on this desk. Why is there a candle? The truth is, the Governor is a heavy smoker and needs it for lighting his cigarette.

Ladies and Gentlemen, it is a pleasure to be at the 35<sup>th</sup> Economics Conference of the Oesterreichische Nationalbank. This conference is a good and old tradition: I am not quite sure, but I think I attended it when I was an assistant in economics at the University of Linz long years ago. It is a very important conference. It takes place in a situation where the world economy is in excellent shape. We have forecasts from various institutions, the IMF, OECD, the EU Commission, that the world economy is expected to be in very good and a very stable shape also for the next months and years. The important question is: Is it months or is it years? For us politicians, it is important to be aware that this very positive situation also carries risks for which we have to be prepared. One of the risks we are facing are the global imbalances in foreign currency reserves. There is also the risk of where raw material and world energy prices will go, and what influence these prices will have on inflation. We have also to be aware of the risks of asset bubbles in some countries. It seems to me that we do not yet see very clearly what the effects of climate change and of our ageing society will have on these forecasts.

On balance, we have to be optimistic on the one hand, but we have to be realistic and cautious on the other hand. This is key for politicians,

it is key for researchers and it is key for the economic sector as a whole.

The Austrian economy is also in a very strong position. Last year our economy grew by 3.2%, for this year 3% are expected. At the moment, we are having high job creation. For this year we expect more than 1.8% more jobs. We have a very stable situation with an inflation rate expected to grow by 1.9%. We have an absolutely positive development when we talk about the labour market, especially the unemployment rate. We expect in Austria an unemployment rate of 4.1%, 4.2% this year and also next year. There are some regions in Austria where the discussion is not about unemployment, on the contrary. When we talk to entrepreneurs, they say: “We have a problem on the labour market, because it is a really enormous problem to find well educated labour.” This means that full employment is the reality in some regions of Austria.

This very positive development is due to a number of reasons. First of all, Austria is benefiting from the high present and expected growth of our neighbouring countries, not only the new Member States of the European Union, but also the very strong and positive development in Germany. Second, there is a much greater flexibility in our economy and also of the entrepreneurs, as a result of our reform efforts during the past years. It is a clear target of the present government that we have to continue these reforms, because reform is the basis of success. This brings us the confidence of national and international economic actors in prudent fiscal policy in ongoing reform efforts in administration, labour market adjust-

ment, investment in human capital and physical infrastructure.

My message is quite clear. Austria, Austrian politics and the Austrian economy will remain on track for years to come, on the track that we laid during the last years.

There are three main pillars supporting the policy of the government. I will highlight some of the important questions pertaining to these three pillars. First, a balanced budget, which is key for the future. Second, investment, future investments in aspects like education, R&D and,



third, the continuation of structural reforms.

Let me talk about the Austrian government's policy mix. The target with respect to budget consolidation is to reach a balanced budget by 2010. Let me repeat the simple truth that good economic times are sometimes the most difficult times for Ministers of Finance. Thus, the real challenge in order to achieve this target at the latest by 2010 is that we have to point out very clearly that additional revenues will be only used for reducing deficits and debts. This is my clear message to all participants in the political discussion, because I hear many ideas for new expenditures. But the truth is that revenues are running with the growth rates, but expenditures do not. For us this means clearly

that expenditure growth must be below GDP growth. I say this also loud and clear, again and again to my colleagues in the government: "If there is additional revenue, and there is additional revenue, frankly speaking, then it will be used for reducing deficits and reducing debts." When we talk about budgets I see two main aspects. I plan to introduce a multi-year budget planning, based on new legislation. This will include the expenditure ceilings as an essential element. It will include the introduction of output- and outcome-based budgeting. We all know that at the end of the day it is not the amount of money you spend on a specific area, but its effectiveness and outcome that count. Therefore, I want to establish this new regulation, this new legislation as a framework for this strategic target. For Austria, this is something of a revolution. It is a revolution in sense that it gives us a jointly agreed framework for the federal budget; it leaves more leeway for the Ministries, of course, how to spend their budget appropriation. It is quite a clear framework for government expenditures and it gives the Ministry of Finance more possibilities for controlling. It is a new approach to budgeting, a multi-annual approach, which involves more responsibilities and more leeway for the Ministries, but also for the Ministry of Finance. I would like to achieve this revolution during this year, to have a decision in Parliament on this new legislation before the end of the year.

In addition, we have to make substantial progress on constitutional and administrative reform to ensure that our appreciated federal system can meet the challenges, not least

with the view to improve the effectiveness of public expenditure. We will attempt to come to clearer and more transparent and functional fiscal relations with the other levels of government, the “federal provinces” (Bundesländer) and the local authorities. We aim to better align spending and revenue decisions, to eliminate overlaps and parallelism, to achieve transparency as well as the joint responsibility of all regional layers for the overall budgetary outcome. I decided today that we will start these negotiations earlier than expected, i.e. in July of this year. And I say very frankly: It is, I think, one of the most difficult questions that the Minister of Finance can face in Austria. It is not a question of the party-political composition of the government. When we talk to our friends in the federal provinces, it’s not a question of political parties. It is still and strictly a question of interest. And the major question is how much money can especially the federal provinces spend effectively. There is one major problem which lies behind this question. When they talk about their budgets they are responsible for revenues which cover only 1.5% of their total budget. And for providing 98.5% of the budget the federal level is responsible. I am convinced that this is a situation which does not meet the challenges of the future. Thus, we have the question of what is the basis for taxation also at the level of the federal provinces. I know, it is very difficult to talk about that, but it is absolutely necessary. That means, talking about budgets, there are two real challenges. The first is, as I mentioned, the new legislation, the framework for our strategy, and the second

is the negotiation with the federal provinces and the local authorities to build up a new fiscal federalism. In German we call this “Finanzausgleich”.

The second pillar is investment into the future. There are two different types of investments. The first is in the physical infrastructure and the other, which is as important or more important, is investment in people and in their protection from existential risks. Competition for domestic and international investment remains high in times of globalisation. Therefore, we must continually upgrade Austria as a business location and as a desirable place to live in order to maintain and enhance the living standard of our people. We will re-evaluate and restructure our social protection system which we see – despite being completely conscious that here we have a different point of view to other European countries – as an important productive force. When people are secure from the existential risks of poverty, illness, unemployment and old age, they can devote all their creativity and innovative spirit to their work. This will enhance both their satisfaction in the work place as well as the economy as a whole because of higher productivity growth. There is a discussion between different institutions on this. I had a discussion with Joaquin Almunia, the EU Commissioner in which we talked about our strategy for the next years. I remarked that it is necessary to engage in these investments in the future also in order to promote social cohesion of a society. At the same time, we will have to further improve the flexibility in the labour market, in order to ensure global competitive-

ness. Our social partners have also agreed recently on a package of measures for a better working time regulation. We are also looking at a higher rate of employee participation in the profits of the enterprises. Thus, our overall concept is flexicurity, which will offer more flexibility for the entrepreneurs and the right level of security for the employees.

We are aware that the whole education sector is key for the future competitiveness of the Austrian society and economy. I think this is one of the key issues we face when we talk about the future. For this reason, we are not only putting more money into the education system. We will also make changes to the structure, because, as I said before, it is not only the amount of money we spend that counts, it is also a question of effectiveness, of how the money is used. It is especially the education sector, where we have to have this structural discussion. This extends also to our constitutional reform with the federal partners, with the federal provinces.

When we talk about education we also have to face the real problems in schools. The Austrian discussion is often superficial: the discussion on education reform revolves around the question of what is the name of the structure, what is the name of the system, what is the name of the school. When you discuss this topic with teachers or parents, you get totally different questions. You have to answer questions like: how to deal with new challenges, how to “build” human beings, how to go beyond just giving information, cognitive information. So, the question is: Are our teachers ready to do that? Is the education of the teachers in the best

shape? And those are questions we have to discuss when we talk about the question of the education system. We must go deeper than the headline. This is what I expect from the participants in this discussion on the future of education, these are the important questions for the future of our kids. Sometimes, it is my impression that it is not the needs of the children and the young people which are at the centre of the discussions, sometimes it is the needs of the system and of the participants of the system. That is wrong. Therefore, I am very interested to go into the details and also to go into the deep problems, into the real problems when we talk about education reform.

The third pillar I mentioned is structural reforms. Frankly speaking, structural reforms is the never-ending story, is the never-ending task. Each country must keep running in order to maintain its place in international rankings. This is also true of Austria. We have to learn from best practices in European and other countries. We still have a way to go in a number of fields where international developments require us to adjust and adapt. And there is no sector exempt from the need of further structural reform. We need reform in public administration, we need reform to foster entrepreneurship, we need reform, as I mentioned, in education, in research and development, in all the sectors. There is no sector sheltered from reform requirements. There is no sector we can set aside when we talk about structural reform. Why is this important?

It is important that Austria as a country learns to take up the challenges of a competitive globalised

market. But these structural reforms are necessary also because we have high expectations that these efforts will enable us to return money to the tax payers. Thus, it is the clear target of this government, and it is also my target, that we implement a tax reform in the year 2010. But first we have to earn this money. And therefore, I never give an answer to the question of how much relief the tax reform will bring, because we have to earn this money first. I will not stand for a tax reduction which deflects us from our path of prudent fiscal policy. As I mentioned, we have our strategic target of budget reform, but also one of tax reduction. But tax reform must not endanger our target of positive growth development in the future, and thus of prudent budgetary policy. Why do I point this out? Just as during good economic times there are a lot of ideas for new expenditures, but there are also a lot of ideas of reducing taxes already now. And I say: “No, this is not the right way to go.” We must keep track and stick to our agreed targets, even if there is a public debate.

These three pillars give some orientation on how we try and how we handle our political targets during the next four years, in order to keep the

Austrian economy strong, to do whatever we can do to keep growth strong. High growth rates are the basis for decreasing unemployment. Full employment is our target because we think that it is the best answer for all social needs and social problems. Other politics are second best. This is the reason, why we keep on track. The Austrian economy has achieved remarkable success from globalisation so far. Austrian citizens tend to underestimate their economy’s and society’s success, in spite of their achievements. We are one of the most beautiful, one of the most successful, most peaceful, most cohesive societies in the world. And it is my and this government’s political objective to extend this success story into the future. Above I outlined some of our instruments and the framework within which we make our political decisions. Sometimes we are criticized, that is okay, sometimes we are supported, and that is also okay. Thank you for having the possibility to deliver this statement. ❧

