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Structural Reforms: A Response from Austria

1 Introduction

As is well known, the Lisbon agenda is a comprehensive programme for higher and – what is important – sustainable growth in Europe, where sustainability addresses three dimensions, the economic, ecological and social one. Traditional debt financed demand stimulation by the government would not be sustainable, nor encouraging investment through lower environmental standards, nor improving profitability of companies by major wage cuts or substantial reductions in social security benefits.

The challenge of the Lisbon agenda is indeed to reach a higher growth path through a broad range of structural reforms while maintaining or improving macroeconomic stability and fostering or rather strengthening the European model of social cohesion and environmental protection.

One of the problems of such a comprehensive structural reform programme is that – except for the internal market – the major competences and responsibilities are with the Member States. This is true for training and education, for R&D and innovation, for infrastructure, for labour market reform and so on. The open method of coordination tries to tackle this problem, however with mixed results.

This leads to an important conclusion: Contrary to what is frequently said and complained about, there is ample room for specific growth stimulating national policies despite globalisation and European integration. The three Nordic countries are excellent examples for the successful use of this room for manoeuvre. However, implementing such structural reforms is politically much more difficult and costly than

to follow traditional recipes of macroeconomic demand management and to decelerate structural adjustments.

In this context I would like to shortly comment on the Stability and Growth Pact. There is no doubt that a monetary union cannot function without common rules for national fiscal policies. However, there is also no doubt that in many EMU member countries the Stability and Growth Pact has led to a structural deterioration of the expenditure side of public budgets, detrimental to the Lisbon growth target. The simple reason is that governments find it easier to cut expenditure for investment and productive services than for transfers or other social outlays. This weakness of the Pact should be repaired as soon as possible.

By the way it is interesting to note that obviously smaller countries are more successful in implementing the national part of the Lisbon Agenda than large ones. There may be several reasons for this: decision-making processes may be easier in small countries and the pressure to adapt to the challenges of globalisation and European integration may be higher in small economies without a large domestic market. The experiences of past major external shocks like in Finland may be conducive to closer cooperation and national efforts. And last but not least smaller countries have often a tradition of corporatism which in some instances may facilitate broad consensus, but may also hinder bold structural reforms.

2 Structural Reforms in Austria

Austria is an example for a small country which fortunately had not to experience major negative external shocks in the last decades, but where structural reforms were difficult to implement in a very pronounced environment of corporatism and broadly based coalition governments. On the other hand trade unions in Austria have a long tradition of growth orientation, of taking into account the international competitiveness of Austrian companies and of shaping their wage policies accordingly and also of allowing for flexible solutions as far as work time and other labour market regulations are concerned.

During the nineties of last century, when a coalition of the two large parties – the social democratic and the popular one – was in power, a real stalemate developed and urgent reforms and growth-oriented policies were unduly delayed. In this environment the new government, which came into power in 2000, could present itself as reform government and gain increasing political support form the electorate which, however, has been weakening recently.

The present government succeeded indeed in improving the framework conditions for business in Austria and in making a lot of progress towards the Lisbon goal. This is reflected both in the Lisbon benchmarks and in several other international competitiveness rankings. While the overall performance of Austria has constantly improved in recent years in the light of these rankings, they point to weaknesses in growth-relevant areas like R&D, overall productivity trends and venture capital. Therefore it is imperative for Austria to eliminate these weaknesses in order to be able to defend or even improve its high per capita income (rank 4 in Europe).

Major achievements of the present coalition government were:

First of all the long-standing tradition of deficit spending was stopped, though rather by increasing the tax burden than by cutting expenditure. Thus, the general budgets for 2001 and 2002 were in equilibrium and the deficits for 2003 and 2004 are far below 2%.

The pension reform which became effective in October 2002 reversed the trend to early retirement and to ever increasing budgetary subsidies for the pension system. Despite a quite satisfactory overall employment rate of 68% Austria belongs to the group of countries with the lowest participation rate of elderly people.

Explicit targets were announced for increasing R&D expenditure as a share of GDP, namely to 2.5% in 2005/06 and to 3% in 2010. Special additional public funds, the installation of a National Foundation for

R&D and a generous tax regime for corporate R&D outlays led to an increase of the R&D share within five years from 1.8% to around 2.3% this year.

The system of "Fachhochschulen" (vocationally oriented establishments of higher education) was expanded and a major University reform implemented geared at more autonomy from public administration and at improving the conditions for cooperation with the private sector.

Originally, under the pressure of EU legislation, the government made market liberalisation (telecommunication, energy) a pillar of its reform policies and started an impressive programme of privatisation of nationalised industries.

Just recently a tax reform was voted by Parliament which will cut the corporate tax rate from 34% to 25% by 2005, thus taking up the challenges coming from the new EU Member States. Furthermore, the tax reform greatly improves the group tax regime for corporate conglomerates.

Finally a new initiative to develop the ailing transport infrastructure was started with special emphasis on links to the neighbouring accession countries. Measures were also taken to restructure the national railway company and to cut public subsidies.

Overall, this is quite an impressive record for a country which was not known for its reform spirit and which was under no acute pressure from major external shocks. Nevertheless, the necessary reform agenda is far from being exhausted. The pension reform was a courageous first step, more has to follow. Little progress has so far been achieved in reforming the health care system. Improving governance and efficiency of the costly federal system of government is urgent. Modernising and expanding professional training and life-long learning is another major challenge for Austria. As far as risk capital is concerned, Austria lags far behind the European average. And with the Austrian EU presidency and the next general elections in 2006 approaching, the useful time for additional reforms is running out. ❧