

Strategies for Growth and Employment in Austria

On March 3, 2006, the Oesterreichische Nationalbank (OeNB) hosted a one-day workshop on “Strategies for Growth and Employment in Austria.” The workshop’s objective was to propose concrete measures for the promotion of growth and employment in Austria. In the introductory session, Andreas Wörgötter (OECD) spoke about growth-promoting reforms in Austria, while Jürgen Janger (OeNB) addressed the National Reform Programs under the Lisbon Strategy. Karl Aiginger (Austrian Institute of Economic Research – WIFO) commented on both presentations and outlined his views on growth policy. Michael Böheim (WIFO) suggested implementing a growth-oriented competition policy, particularly in the field of public utilities, in the service sector and in the liberal professions. Iain Paterson (Institute for Advanced Studies – IHS) pointed out that the liberal professions are highly regulated in Austria. Ludger Wößmann (ifo Institute for Economic Research) and David Audretsch (Max Planck Institute of Economics) emphasized the significance of the secondary and tertiary education systems for growth and employment. The final workshop session on maximizing employment potential included an overview of labor market developments in Austria by Helmut Hofer (IHS), a talk on how to increase female employment by Gudrun Biffli (WIFO) as well as a presentation on the employment of older workers by Alfred Stiglbauer (OeNB).

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Growth Strategies from an International Perspective

The workshop started with contributions that examined Austria’s growth policy from an international angle. The first speaker, *Andreas Wörgötter* (OECD) – who has co-authored the OECD’s Economic Surveys of Austria for several years – emphasized that Austria is not criticized a priori for adopting a special position with regard to economic policy in some respects, as the country shows a very sound overall economic performance. He referred to the concrete recommendations contained in the Economic Surveys as well as in various specific OECD publications.

According to Wörgötter, Austria with its sound economic indicators is probably not in the market for any radical economic policy reforms in the near future and even in the medium term. Austria could fare better, however, if it continued searching for solutions with a constant willingness

to embrace reform. Austria’s gross domestic product (GDP) per capita in purchasing power parities is almost as high as U.S. GDP; in terms of labor productivity, however, Austria is significantly lagging behind the U.S.A. Given the high national debt, fiscal policy is also relatively unsatisfactory according to Wörgötter. Setting up limited liability companies should be facilitated and childcare benefits (*Kindergeld*) should be replaced by benefits in kind, i.e. a childcare voucher scheme (*Betreuungsscheck*). Wörgötter also pointed to the necessity of improving the school system and competition policy, of facilitating the access to risk capital and advancing research promotion. And finally, he called for further improvements in public sector efficiency and for a reform of the fiscal sharing plan.

Jürgen Janger (OeNB) developed a set of ideas for Austria’s economic policy on the basis of the National Reform Programs that have to be

drawn up in the course of the reformed Lisbon Process. The programs of selected countries in a similar situation as Austria contain many suggestions regarding the form and content of economic policy, in particular for pursuing a more proactive competition policy, improving the quality and quantity of education and training systems, promoting employment, increasing public sector efficiency as well as promoting the foundation of new companies. Janger suggested modeling Austria's economic policy on the forward-looking, interdisciplinary and target-oriented programs of other countries. In the second part of his presentation, Janger raised the question whether the National Reform Programs actually generate additional benefits or merely serve the purpose of reporting. He found that the reform programs could indeed form the basis for a medium-term growth strategy, if they became better known to the public, if measures were described in greater detail and if an official institution published and evaluated the implementation progress (see Janger, in this publication).

Karl Aiginger (WIFO) discussed the fact that Europe is lagging behind the U.S.A. in terms of growth. Economic policy strategies should aim at creating an equilibrium between liberalization/deregulation (e.g. domestic market, flexibility), stabilization (e.g. price stability, deficit reduction) and acceleration of growth (e.g. research, education and training). According to Aiginger, Austria's economic growth needs to climb to approximately 3% in order to reduce unemployment and nonwage labor costs as well as to cut public debt. This goal could be achieved by adopting employment strategies on a regional, na-

tional and European level. Moderate growth, as it is currently forecast for Austria, would keep the unemployment rate on a more or less steady level.

Aiginger considered research and location policy as well as growth-promoting monetary and fiscal policy as starting points for achieving higher growth. In addition, he advocated increasing labor market flexibility in a fair manner, promoting higher qualification at all levels and implementing a specific strategy for the low-wage sector. According to Aiginger, detailed recommendations on growth and employment policies in Austria are being drawn up as part of the WIFO's White Book project.

Role of Product Markets

The second workshop session dealt with the regulation of product and service markets. *Michael Böheim (WIFO)* addressed the question whether it is possible to raise the growth potential in Austria by furthering market integration and increasing the intensity of competition. He outlined the theoretical foundations of a growth-oriented competition policy in a literature overview. The positive impact on innovation, efficiency and growth by increasing competition is only observed up to a certain level of market concentration. A negative impact, however, becomes obvious only if the intensity of competition is very high.

Given the energy markets' structural problems (e.g. electricity price structure as a market entry barrier) and high market concentration, Böheim considered these markets the biggest challenge for competition policy in Austria. A further increase in market concentration may even jeopardize the benefits resulting from the

electricity market's liberalization. He believes that it is generally possible to increase economic growth by stepping up competition. To this end, however, the deregulation and liberalization of the energy markets has to be combined with a more proactive competition policy. Böheim pointed to another problem that has to be solved: The Austrian provinces are the owners of energy utilities and at the same time also the legislative bodies which influence the framework conditions for liberalization as well as the supervisory authorities in charge of unbundling. Böheim maintained that a legal unbundling without compromise is necessary to increase the intensity of competition, as non-discriminatory access to the electricity infrastructure is indispensable for a competitive, liberalized electricity market. In addition, Böheim is skeptical about any utility company mergers with the intention of creating national "champions."

Furthermore, Böheim pointed to persistently existing barriers for setting up companies and called for the thorough elimination of all national regulations that do not serve the purpose of ensuring the required quality levels. Any efforts to change the framework conditions for competition should become an integral part of a coherent competition policy.

Harald Badinger (Vienna University of Economics and Business Administration) emphasized the significance of foreign trade for increasing productivity. He argued that, while Austria is undoubtedly an open economy, remaining trade barriers in some industries should be lifted and the export ambitions of small and medium-sized enterprises should be supported. In the field of manufacturing, competition has intensified drastically since

the 1990s and the domestic market has been functioning smoothly. In the service sector, however, the domestic market has not yet been fully realized according to Badinger. This shows that de jure liberalization does not necessarily lead to de facto liberalization, which hinges upon the design of legal provisions and on a proactive competition policy.

Iain Paterson (IHS) talked about the regulation of liberal professions, stating that the theoretical basis to justify regulation is asymmetric information between suppliers and clients. As a result of this information asymmetry, clients cannot assess the quality of the service, which may be either too low or too high (thus possibly causing prices to be higher than necessary). Regulation can, however, also decrease welfare according to Paterson (e.g. rent seeking in case of self-regulation, less competition through advertising bans).

Paterson presented the results of a survey comparing the degree of regulation in liberal professions in the EU Member States on the basis of market entry barriers (e.g. required qualifications) and market behavior (e.g. regulation of prices and advertising options). The example of lawyers and notaries shows that Austria is a highly regulated country. As regards the economic repercussions of the regulation of liberal professions, the survey results showed some interesting correlations. While the number of practicing lawyers and notaries and the sector's total turnover was found to be lower in highly regulated countries, the turnover per company was higher. Productivity (i.e. turnover per employee) turned out to be negatively correlated with the level of regulation. According to Paterson, excessive regulation of the liberal pro-

fessions leads to lower employment and welfare.

Economics of Education – How Education Impacts on Growth

The third workshop session dealt with the empirical findings of economics of education as regards the correlation of education and growth. In his introduction, *Ludger Wößmann* (*ifo Institute for Economic Research, Munich*) pointed out that it is the quality of education rather than its duration that has an influence on economic growth, and that simply increasing the resources does not necessarily improve this quality. In order to attain a higher quality level of school education, an institutional environment is required which provides incentives for administrators and teachers to promote the students' performance. Wößmann presented empirical findings based on the data of three large-scale international school studies to describe such an institutional environment in greater detail.

The findings suggest that school autonomy in conjunction with standardized external final examinations plays a particularly important role in enhancing the quality of education. School autonomy permits the schools to apply teaching methods that increase the quality of education, while external final examinations provide a benchmark to ensure that the available resources are used in the best possible manner. School autonomy without standardized external examinations, however, leads to lower levels of student performance.

Wößmann maintained that publicly funded but privately administered schools can also help raise the quality of education, as they create

additional options and, subsequently, provide incentives for innovation. He also touched upon the possible positive effects of a sound preschool system and performance-related teacher salaries as well as the possible negative impact on students' performance when they have to choose a particular school type at an early age.

According to *Ferdinand Eder* (*University of Salzburg*), Austria's school system has taken a few steps toward the best practice examples Wößmann mentioned, but it still has a long way to go.

David Audretsch (*Max Planck Institute of Economics*) raised the question whether an entrepreneurial economy needs entrepreneurial universities. In the past, economic policy focused on monetary and fiscal policies as well as on large corporations. A reorientation took place in recent years, however, and knowledge spillovers from entrepreneurial universities have become ever more important. Audretsch pointed out that merely increasing the investments in research and development at universities is not enough; this knowledge must ultimately lead to the development of marketable products. As an example of how to increase the spillovers from university research, Audretsch cited the Bayh-Dole Act (1980) adopted in the U.S.A., which gave universities the right to market their research results, thus increasing the spillovers from university research and creating favorable effects on growth and employment. Audretsch maintained that an entrepreneurial society is of key importance in increasing economic growth; therefore, he argued, the old university model does not make sense any more – nowadays universities simply have to be entrepreneurship-oriented. Universities should not only

engage in academic research, but also play an important role in the change-over to an entrepreneurial society.

Hans Pechar (University of Klagenfurt) highlighted the differences between higher education institutions in the U.S.A. and in Europe. Contrary to European universities, which are funded by the government and private sponsors, U.S. colleges have to prove their usefulness. With the economy being increasingly based on knowledge, this approach may well become a selection advantage. As regards Austrian universities, Pechar doubted whether the introduction of lump sum budgets and performance contracts has actually made decision-making more transparent. Furthermore, he criticized the still existing division of staff into junior faculty (*Mittelbau*, i.e. university teachers, researchers and assistant professors) on the one hand, and full professors on the other hand, which is not conducive to continual career development. He advocated the creation of a European area of higher education and research to raise competitiveness through the promotion of mobility and cooperation.

Maximizing Employment Potential

The final session addressed structural problems of Austria's labor market and the Lisbon objective of a higher employment rate. In his presentation, *Helmut Hofer (IHS)* discussed labor market developments in Austria and the associated policy challenges against the backdrop of the OECD's and the European Commission's economic policy recommendations. Structural unemployment in Austria seems to have climbed over the past decade, but it still remains on a comparatively low level. Hofer noted that

the observed growth in employment concerned exclusively female employment; most of these jobs, however, were part-time. Male employment, by contrast, has been stagnating. Both the OECD (Jobs Strategy) and the European Commission (European Employment Strategy, Lisbon Process) have given similar reform recommendations which aim at increasing labor market adaptability and innovative strength.

Hofer emphasized two aspects in particular, namely the skill structure of employees and the cyclical fluctuations of labor supply. He pointed out that the rise in unemployment over the past decade is almost entirely attributable to the increase in unemployment of low-skilled persons who have only completed compulsory education. This fact constitutes a particular challenge for economic policy. Given the high sensitivity of labor supply to economic activity in the past, minor cyclical fluctuations used to cause changes in unemployment rates; this effect has, however, weakened over the past few years. Among others, this development is probably ascribable to the declining cyclicity of job migration and the better integration of women into the labor market these days as well as to the expansion of a proactive labor market policy. According to Hofer, labor market policy needs to focus on the school system and especially on persons with low qualifications in the next few years, as the latter will continue to face difficulty on the labor market. He called for lowering nonwage labor costs for these problem groups, promoting career development and lifelong learning particularly in aging societies as well as creating stronger incentives for women to participate in the labor market. Furthermore,

Hofer recommended taking measures in the field of unemployment insurance to reduce the large proportion of those employed in seasonal industries. He also advocated more flexible wages at company level and more flexible work schedules.

Gudrun Biffl (WIFO) addressed measures for increasing female employment in Austria. Raising the female employment rate in the EU to 60% is an explicit objective of the Lisbon Strategy. While the labor market participation of working-age men varies relatively little in an international comparison, the female employment rate varies greatly. Biffl argued that the level of female employment depends on the social organization of work. In countries with high female labor force participation, home production has to a large extent shifted to market production. Compared with other European countries, Austria ranks above average in the field of female labor market participation, but growth rates are comparatively low. This is to some extent attributable to the relatively small size of the Austrian service sector. Biffl maintained that the gender pay gap has hardly become smaller, that a sectoral segmentation by gender continues to be prevalent and that old role models are still strongly rooted in the education system.

Compared with other countries, Austrian women tend to stay away from the labor market for quite a long time after childbirth, and their children are usually cared for at home rather than being entrusted to childcare facilities. The introduction of the childcare benefit system seems to have aggravated the situation. Biffl made a number of concrete suggestions for promoting female labor market participation. They include re-

placing transfer payments with benefits in kind in the fields of childcare and care for the elderly, establishing information platforms and childcare associations (especially in rural areas) as well as aligning the working hours for women and men.

In his presentation on early retirement in Austria, *Alfred Stiglbauer (OeNB)* talked about the labor force participation of older workers, which is extremely low by international standards. At 29%, Austria has the lowest employment rate of employees aged 55–64 in the EU-15. Stiglbauer refused to consider the process of population aging as a crisis scenario only. Instead, it is the result of a demographic transition process, which entails sinking birth rates, declining infant mortality and rising life expectancy. The youngest societies worldwide (in terms of average age) are also the poorest. Raising the employment rate and extending the time in active employment vis-à-vis the time in retirement is crucial for demographic reasons, in particular with a view to the pension insurance system. In Austria, the retirement age has declined and the age at which people enter the labor market has risen over the past few decades. The budgetary projections recently published by the EU's Economic Policy Committee show that expenditure for public pensions, measured as a percentage of GDP, does not necessarily increase, provided that the aspired employment rate of older workers is achieved.

In the past, a number of options was available for employees to take early retirement. Stiglbauer welcomed the fact that most of these options were eliminated in the course of the pension reforms of 2000, 2003 and 2004. Given the numerous transitional provisions, the employment

rate of older workers will hardly increase over the next few years. According to Stiglbauer, early retirement should not only be seen as a labor supply problem. He underscored the importance of ensuring the employability of older workers by placing emphasis on staff training and continued education, among other things. Furthermore, he recommended reconsidering the steep age-income profiles in some sectors and closely monitoring the situation of older workers in the labor market over the next few years.

Panel Discussion: Strategies for Growth and Employment

A panel discussion concluded the workshop. *Silvia Angelo* (*Chamber of Labor Vienna*) called for investments in infrastructure and education as well as for a tax reform reducing the tax burden on medium and especially low incomes. Furthermore, she advocated the expansion of childcare facilities to promote the reconciliation of work and family life. Angelo argued that fiscal policy discussions at a European level, which focus primarily on ways to cut costs, are not conducive to a quick economic recovery.

Peter Part (*Federal Ministry of Finance*) emphasized the significance of sound public finances. The relevant report of the Economic Policy Committee defines three requirements: First, budgets must focus on expenses which help increase total factor productivity (e.g. education and infrastructure). Second, these reallocated resources have to be used as efficiently and effectively as possible, and third, any such efforts have to be incorporated in a coherent economic and fiscal policy. Part maintained that countries with medium-term budget planning and target-oriented budgeting

have been successful in promoting growth and employment over the past few years. He considered the introduction of the new medium-term budget framework legislation in Austria an important step by the government to promote growth and employment.

Verena Farré Capdevila (*Federal Ministry of Economics and Labour*) argued that election cycles and other aspects related to political economy were the root causes of the insufficient implementation of the National Reform Programs and the big differences in their contents.

Ralf Kronberger (*Austrian Federal Economic Chamber*) advocated reforming the fiscal sharing plan but regarded further fiscal decentralization not necessary. He criticized that the draft of Austria's new medium-term budget planning does not specify the underlying macroeconomic assumptions and that it does not determine the spending path, which could therefore be set too high. Kronberger argued that an empirical evaluation of the corporate tax reform should take into account not only demand effects but also supply effects. Finally, he recommended carrying out empirical trade analyses in many sectors to learn more about the effects of trade on growth.

Martin Zagler (*Vienna University of Economics and Business Administration*) spoke in favor of a broad agenda for promoting innovation. This agenda includes promoting competition, allocating more resources to highly specialized tertiary education institutions, eliminating distorting effects in the tax system, amending the *Gewerbeordnung* (Trade Code regulating small business and trade), eliminating barriers to setting up companies, reforming the bankruptcy law,

establishing business centers in universities to market ideas, pursuing a stable interest rate policy as well as promoting long-term employment contracts for young employees. Given the high returns to tertiary education, students could be increasingly required to contribute to its funding.

In view of the strong signals of an upturn, *Karl Pichelmann* (*European*

Commission) called for accelerating the implementation of the Lisbon Agenda to increase employment and productivity on the one hand, and on the other hand to proactively tackle the challenges posed by globalization.

The contributions summarized here will be published in the OeNB Workshop series in fall 2006.