

# The Lisbon National Reform Programs: New Ideas for Austria's Economic Policy

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Following the relaunch of the Lisbon Process, the EU Member States drew up their national reform programs (NRPs) in the second half of 2005. This paper starts by pinpointing potential new ideas for Austria's economic policies and policymaking from a selection of other NRPs, with the aim of suggesting means how to further improve the quality of the Austrian NRP. The author then examines the question of whether the reform program in itself can increase the likelihood of actually transforming the measures announced in the NRP into tangible policies.

The topics discussed include competition policy, education and further training, employment promotion measures, public sector reform, and support programs for small and medium-sized enterprises (SMEs). Austria's economic policymaking may find stimulus in the forward-looking, cross-sectoral and goal-oriented political strategies and action plans of other countries, which also contain elements of monitoring and evaluation.

The NRP's prospects for success in improving the implementation of economic policies depend on whether or not it can become an effective commitment device for growth- and employment-oriented economic policy. Arguably, this will only be possible if a number of conditions are met: The NRP must achieve a higher profile in public consciousness and its signaling effect must be clarified through precise analyses of the influence on growth and employment engendered by the measures set out in the program. Furthermore, the appointment of an official body (such as the European Commission or an independent research institute) to evaluate and report on the progress of each country would be of value.

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## 1 Introduction

In 2000, the Member States of the European Union (EU) agreed on a common European growth strategy in response to unexpectedly high productivity growth rates experienced in the U.S.A. over the period from 1995 to 2000. The EU's initiative to boost employment and economic growth – the Lisbon Agenda – broadly aimed at making the EU the world's most dynamic and competitive economy by 2010. It defined numerous subsidiary goals in several sectors (employment, research and development, education and further training, market integration, environmental sustainability, and social cohesion). The scientific foundations for this agenda were only provided retrospectively in the form of the Sapir Report's economic analy-

sis (2004), and scientific debate about the strategy itself is only now beginning to be published (e.g. Kohler, 2006). These analyses conclude that, for more than ten years now, the U.S.A. has been turning what was initially a negative productivity growth differential with the EU into a positive one, which has led to a divergence rather than convergence of gross domestic product (GDP) per capita. The Lisbon Strategy, at heart a supply-side-oriented growth policy, is therefore justified if it focuses on an increase in productivity growth rates.

The mid-term evaluation of the Lisbon Strategy for growth and employment found fault with the generally inadequate progress in many areas and saw a lack of national accep-

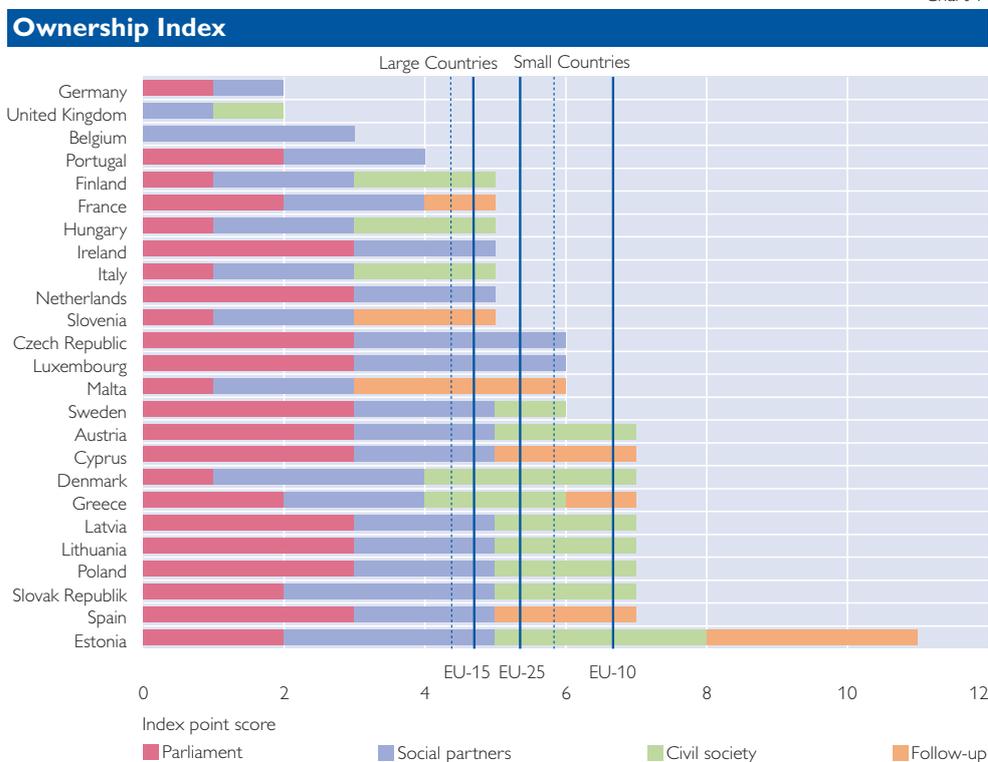
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tance and implementation of the Lisbon goals as one of the main causes for this disappointing delivery (Kok, 2004). Consequently, the reformed Lisbon Process requires Member States to produce forward-looking strategy papers for the promotion of growth and employment, referred to as national reform programs (NRPs), which are valid for three years (Farre-Capdevila, 2006, for a more comprehensive presentation of the new course of action). This approach corrects for the criticism that many countries did not have consistent growth strategies. According to the proposal issued by the European Commission (2005a) the NRPs should consist of succinct political documents (approximately 30 to 40 pages in length) that identify the key country-specific challenges and set out the policy initiatives and concrete measures taken or planned in response to these challenges. The implementation of the NRPs will be evaluated annually, and minor adjustments may be made each year. The new Integrated Guidelines, which bring together two existing sets of guidelines – the previously separate Employment Guidelines and the Broad Economic Policy Guidelines – will now serve as a basis for Member States' NRPs. The guidelines, which cover a three-year period, provide the basic structure for the economic

policy of the Member States, to be proposed by the European Commission and adopted by the European Council. The focus is on three priority areas – macroeconomic guidelines (e.g. quality and sustainability of public finances), microeconomic guidelines (e.g. internal market, innovation, education and training, SMEs) and employment guidelines.

The fact that all Member States submitted their NRPs to the European Commission by fall 2005 in spite of the very short deadline was seen as a cause for renewed optimism. However, initial evaluations of the NRPs by the European Commission (2006) and others (e.g. Mariusz and Bates, 2006), detect significant heterogeneity between the programs. Smaller or new Member States seem to have taken the NRPs “more seriously” than the larger or older Member States, as can be seen from a comparison of the levels of involvement of different stakeholders in the drafting of the NRPs and the monitoring of their implementation (chart 1). For the evaluation of parliamentary engagement, a score of 0 (no involvement) to 3 (plenary discussion) was allocated, likewise for that of the social partners and civil society. In the category of follow-up, the scale ranged from 0 (no follow-up) to 3 (follow-up at prime minister level).

Chart 1



Source: Pisani-Ferry and Sapir (2006).

The Austrian NRP consists of three sections. Part 1 describes the program's seven strategic priorities and details a number of policies (table 1). In parts 2 and 3, which are only loosely related to part 1, individual policies are assigned to the 24 guidelines (part 2 is a tabular summary and part 3 provides detailed comments). The Austrian NRP is described as an overview of existing measures and can therefore be characterized as taking a predominantly backward-looking view. In its summary of the Austrian NRP, the European Commission (2006) points out the program's strengths (innovation and environmental technology, active labor mar-

ket policy, and improvements in the apprenticeship system; a generally coherent package of measures) and weaknesses (competition in the service sector, in particular a lack of commitment to the liberalization of the liberal professions; adult vocational training; the employment rate of older workers; childcare facilities; improvement in the literacy and numeracy skills of schoolchildren at all levels; lack of lifelong learning strategies; integration of migrants in the labor market). The summary concludes that overall a more ambitious and long-term approach would have been welcome.

Table 1

Overview of the Austrian NRP		
Priorities	Goals	Measures
Sustainability of public finances	Balanced budget over the economic cycle; reduction of total tax ratio to 40% of GDP by 2010; increase in growth potential through stronger future-oriented investment (in research, education and infrastructure)	Administrative reform; reform of tasks
Labor market and employment policy	Economic growth; flexicurity; reconciliation of work and family life	Pension reform (active old age); 2005 Employment Promotion Act
Research and development, innovation	3% R&D ratio; increase in performance and efficiency of the research and innovation system	"Research Billion" program; research tax allowance; consolidation of support structures
Infrastructure (including broadband)	Main focus on upgrading and extending Central and Eastern European transport links; Brenner Base Tunnel; broadband infrastructure	Infrastructure initiative: EUR 300 million in financing in May 2005; 2000 to 2014: EUR 40 billion in total funding for road and rail infrastructure
Strengthening Austria's position as a business location and SME action plan	Facilitation of business start-ups and attracting new companies; maintaining and expanding business headquarters; improvements in business financing	Regional employment and growth initiative 2005; procedural initiative; tax reform 2004; entrepreneurship initiative; start-up initiative; better regulation
Education and further training	Improvements in the quality and quantity of education and further training	Working paper on lifelong learning; modular design of vocational training (2006); apprenticeship initiative; 2002 University Act
Environmental technologies and efficient management of resources	Promotion of renewable energies, improvement of energy efficiency; use of environmental technologies to stimulate growth	Implementation of the Environmental Technology Action Plan (ETAP, a database on environmental technologies, awarding of pilot projects for the establishment of technology platforms, etc.); formulation of an action plan to increase resource efficiency (2006); emissions trading (2005)

Source: NRP for Austria.

The first part of this study was made possible by the availability of all NRPs on the Internet<sup>1</sup>. It presents an overview of economic policy measures and processes from other countries that either do not exist in Austria or are currently under discussion and that might help improve the quality of the Austrian NRP.

Based on findings drawn from the literature on the political economy of reforms, the second part of this study attempts to evaluate the prospects for success of the Austrian NRP in terms of actually transforming the proposals contained in the program into tangible results (and any subsequent additions to the program, e.g. the ideas of other countries or proposals from

the WIFO white paper to be published in the fall of 2006): Will the NRP actually contribute to growth and employment or, like the National Action Plan for Employment, fundamentally remain just one more report to the European Commission?

## 2 What Can Austria Learn from Other NRPs?

Two-way learning and the communication of best practice models are one of the NRPs' explicit aims (European Commission, 2005a). The following collection of potential ideas for Austria's economic policy is based exclusively on an assessment of the NRPs drawn up by Germany, the United Kingdom, Sweden, Finland, Den-

<sup>1</sup> [http://europa.eu.int/growthandjobs/pdf/nrp\\_2005\\_en.pdf](http://europa.eu.int/growthandjobs/pdf/nrp_2005_en.pdf)

mark and the Netherlands, as well as, to a more limited extent, those of Estonia and Ireland. It does not contain an evaluation of actual economic policy or any specific measures; rather it is a brainstorming of ideas intended to provide new impetus for the structure and content of Austrian economic policy. The countries evaluated were selected for a variety of reasons: strong growth or employment (all except Germany), institutional compatibility with Austria (Germany), an experience of similar problems (e.g. Denmark – research, training and education) or the quality of the national NRP (e.g. Finland, Denmark).

According to Ochel (2004), international comparisons are conducted either to observe weaknesses vis-à-vis comparable countries and to thus build up pressure on decision-makers to vindicate their policies, or to adapt other countries' solutions as a basis for one's own economic policy. As this study does not conduct a policy evaluation, it can only fulfill the second aim, which is to propose ideas for the solution of problems. Only a small proportion of the many and varied NRPs produced by other Member States can be presented in this paper.

## **2.1 Potential Ideas for Economic Policy Measures**

### **2.1.1 Proactive and Investigative Competition Policy**

In its comparison of NRPs, the European Commission (2005b, 2006) criticized the fact that few of the programs had set priorities in competition policy. An exception was Denmark, which pursues a proactive competition policy based on economic analysis. Denmark's aim is to

halve the number of sectors experiencing competition problems from 64 in 2001 to 32 by 2010 and to reduce the level of net retail prices to the EU average.

The Danish competition authority has identified these sectors in a number of forward-looking reports using a tailor-made template for economic analysis and cross-country comparisons. The analysis procedure comprises three steps. First, the importance of a sector is established using size indicators (turnover, employment). This step is followed by a purely quantitative examination in which a series of different indicators (table 2) are allocated weightings, which are then added together. The key point here is the overall picture these indicators present, as high concentration alone, for example, does not always indicate competition problems. If, however, a sector also demonstrates low levels of market share mobility, high earnings, above-average wages and a below-average entry rate, competition is likely to be weak. If the overall score is above a certain level, the competition authority carries out further assessments by analyzing more closely past competition cases initiated in the sector in question as well as by conducting comparisons with other countries or the findings of the European Commission.

Also Estonia and the United Kingdom both follow a proactive competition policy. In 2004, the latter carried out a review of the regulations of legal services with the aim of increasing competition and innovation while safeguarding public interests and improving consumer protection (Clementi, 2004).

Table 2

### Competition Indicators for the Identification of Sectors

#### with Weak Competition

	Criterion	Weighting score
Public regulation	Competition restricted by regulation, yes = 1, no = 0	3
Concentration	Share of turnover of the four largest companies (concentration rate 4) higher than 80%	2
Import-adjusted concentration	Import-adjusted concentration rate 4 higher than 50%	1
Entry rate	Annual entry rate less than 3% in the manufacturing industry, less than 8% in the services industry	2
Market share mobility	Less than 10% p.a.	2
Diversification of productivity	Diversification of productivity 25% above average	2
Wage premium	Wage level 15% above that of the Danish furniture industry	1
Rate of return	Rate of return 50% higher than the average for all Danish sectors	2
Price level	Price index three percentage points above the average of nine selected EU Member States	3
Assessment by the competition authority	Specific assessment	x

Source: NRP for Denmark.

#### 2.1.2 Education and Further Training

The area of education and further training from the primary to the tertiary level is a core element in many of the NRPs, most of which are geared toward the goals of the European Education Strategy to be achieved by 2010 (European Commission, 2005c):

- 15% increase in the number of graduates in science and technology (annual growth rate of 1.6%) and elimination of the gender gap (Austria: 3.3% growth between 2000 and 2002; share of women graduates in 2002: 21.4%; EU-25: 30.5%);
- reducing the number of young people aged 18 to 24 that are educated only to lower secondary level to 10% (Austria 2004: 9.2%);
- 85% of all 22-year-olds should have completed upper secondary education (Austria 2004: 85.3%);

- level of participation in lifelong learning at least 12.5% of the adult population (Austria 2004: 12%);
- reducing the percentage of 15-year-olds with only the lowest level of reading and writing proficiency to 15.5% (Austria: increase from 14.6% to 20.7% from 2000 to 2003).

The Austrian NRP does not mention these goals; the objectives in education and further training concentrate heavily on apprenticeship training and less on school education.

There is a clear trend throughout all of the NRPs examined as far as tertiary education is concerned: a variety of measures are to be taken to increase the quality of top-level research and doctoral studies as well as the number of graduates (both in general and in scientific and technological subjects).

Germany plans to implement an Excellence Initiative, i.e. a strategy to

increase top-level research through the development of graduate schools (structured doctoral studies), centers of excellence, and excellence clusters at existing universities and research institutes. The European Commission (2006) described this initiative as exemplary. The goal is to raise tertiary education entry rates to 40% by 2010 through a variety of approaches, such as opening up universities to students who have successfully completed an apprenticeship training program and making it easier, in general, to switch between apprenticeship, lifelong learning and university education.

Finland plans to introduce new selection and application procedures for students with the aim of reducing the average age of new students (21) and graduates (27) by one year. Students will have access to a tax-deduction scheme for study loans, and the competitiveness of university education is to be enhanced through networks of graduate schools.

Sweden intends to establish top-level research institutes, investment more in postgraduate education and increase the share of individuals who have completed tertiary education. In Sweden, the expansion of university education falls within the responsibility of the universities and is evaluated by the government. One priority is the inclusion of migrants and those segments of society that usually have little contact with the education system into the pool of potential new university students. Students aged 40 to 55 will receive better access to university grants, and the level of grants available to students with children is to be raised.

The Netherlands plans to improve the quality of doctoral studies, establish centers of excellence at universi-

ties, create better career prospects for researchers, and achieve the European growth targets for university graduates. Talented students and researchers from other countries are to be recruited to the country in greater numbers through a combination of less onerous official procedures, higher grants and an increase in the number of Dutch information centers abroad.

The NRPs also contain numerous proposals to improve the quantity and quality of primary and secondary education, in particular through the introduction of nationwide standards and assessment procedures. In addition, some countries place strong emphasis on the greater integration of migrants into the educational system.

In this respect, Denmark is particularly interesting for Austria, as it faces similar challenges: very high education spending on the one hand and only average results in international performance comparisons on the other. In response to this problem, Denmark plans to introduce the "reform program for upper secondary education", which entails improving teacher education in mathematics and the sciences while raising the quality of teaching in these subjects at the same time, drawing up a national action plan for reading, reducing the number of subjects taught at the upper secondary level (the long-term goal is one subject per teacher) and introducing assessment procedures to promote overall quality development. The objectives of the program are to increase the share of people aged 18 to 24 with an upper secondary qualification from the present 78% to 95% by 2015 and thus to provide a solid basis for lifelong learning, and to step up the percentage of university graduates from 42% to 50%.

The program entitled “A new chance for everyone” was especially designed for the children of migrants, who tend to record high school drop-out rates. The program guarantees the availability of apprenticeship position, but at the same time obliges all young unemployed people (aged between 18 and 25) who receive social assistance and have no vocational training qualification to take up the available position. Those who fail to do so will lose their benefits. In addition, child benefits will only be paid to the parents of young adults aged 15 to 17 if their child is participating in an education program or holds a job that contains an element of vocational training. This interplay between state guarantees and personal obligations is typical for the overall policy approach in Denmark, for example in its labor market policy.

Germany intends to introduce all-day schooling to promote a new culture of teaching and learning, to improve the quality of education and to reduce the effects of social background on educational achievement. In addition, the introduction of standards in pre-school education, mandatory continuing training for teachers and school evaluation procedures are planned. Migrant children are to receive additional language training as well as early skills diagnosis and support programs.

As the foundations for innovative thinking are laid at a very young age, Finland aims to promote creativity in early childhood (productivity growth ultimately being based upon creativity).

In 2006, Sweden implemented individual development plans for all school children in addition to implementing a comprehensive quality improvement agenda that introduced

nationwide educational standards. The development plan sets out the specific steps that are required for each pupil to attain the national targets. Sweden also has individualized schooling programs, which e.g. enable students to complete some subjects at school while at the same time receiving vocational training in the form of an apprenticeship.

All of the NRPs contain proposals of how to raise the participation of the adult labor force in lifelong learning and how to finance continuing education initiatives.

In its strategy for lifelong learning, the German government seeks to encourage the social partners to agree upon individual training time accounts and to accompany these with protection against company insolvency. The systematization of further training is to be promoted by a nationwide framework of standards. Quality assurance and educational consultation are aimed at making the range of educational opportunities offered more transparent, thus enabling all segments of the population to participate in education and further training activities.

Ireland follows the enterprised network approach “skillnets” ([www.skillnets.com](http://www.skillnets.com); cited as an example by the European Commission). This approach encourages small and medium-sized enterprises (SMEs) with similar skill needs to form collective training networks and to decide upon the content of their individual training programs. The skillnets program provides funding and support for the establishment of the network, e.g. by providing trained managerial specialists. It enables companies to achieve economies of scale when jointly purchasing training services. At the same time, the forma-

tion of networks according to individual demand maximizes educational relevance and can create additional positive externalities (e.g. knowledge spillovers similar to those occurring in clusters).

### 2.1.3 Employment

Almost all of the NRPs aim to boost employment by encouraging the reconciliation of work and family life. According to the EU's employment strategy (European Commission, 2005d), the Member States should, by 2010, achieve an overall employment rate of 70%, a 60% female employment rate and a 50% employment rate among older workers. In addition, childcare is to be provided to 90% of children between the age of three and the mandatory school age and to 33% of children under the age of three.

Germany intends to double the number of childcare facilities available for the under three-year-olds from the current level of 10% to almost 20%. Several partnerships (Allianz für Familie, local alliances for families) have been established with companies, trade unions, the authorities and various associations and organizations with the aim of creating tangible improvements toward reconciling work and family life, e.g. by helping to tailor opening times at childcare centers to working hours and by assisting women to return to work. The "Erfolgsfaktor Familie 2005" initiative ([www.erfolgsfaktor-familie.de](http://www.erfolgsfaktor-familie.de), a competition for companies to encourage them to adopt a more family-friendly employment policy), the Internet portal [www.mittelstand-und-familie.de](http://www.mittelstand-und-familie.de) (which focuses on workforce development in SMEs) and the project "Work-Life Balance – Motor für wirtschaftli-

ches Wachstum und gesellschaftliche Stabilität" all aim to give examples of best practice and raise the awareness of the issue of family-friendly work policies.

To address the fact that fertility rates are particularly low for women with an academic education and to promote employment opportunities for highly qualified persons, parents who interrupt their employment career to raise a family will receive 67% of their previous net pay for one year (up to a maximum of EUR 1,800 per month).

The United Kingdom aims to deliver universal, high-quality and affordable childcare for all children aged 3 to 14 through its Ten Year Childcare Strategy.

Sweden wants to reach the EU target figures for childcare availability by 2010, and in Denmark a "Family and Working Life Commission" is developing recommendations for actions to be taken.

### 2.1.4 Public Sector Reform

All of the NRPs examined contain administrative reforms that seek to improve the effectiveness and efficiency of public administration while directing more public funding to growth-promoting sectors.

The United Kingdom pursues a strongly target-oriented approach, in which public service agreements and spending reviews are set for a period of three years and efficiency targets linked to output indicators are specified for each administrative department. An efficiency increase of at least 2.5% per year is mandatory. Any financial or human resources saved will not be merely dispensed with, but reallocated to other public services experiencing greater demand (frontline services). The implementa-

tion of this reorganization plan will be driven and coordinated by a cross-departmental "efficiency team." Moreover, the efficiency of the public sector is also evaluated by independent experts (Gershon, 2004).

Finland has launched a productivity action program for the public sector. Each ministry has to prepare a productivity improvement plan for its respective area of administration with the aim of filling only one out of every two positions that become vacant through natural attrition. This approach translates into a productivity increase of 2% p.a. or corresponds to the labor input of 17,500 persons (almost 15% of the public sector workforce). By 2011, some 35,000 employees will have left the public sector by natural attrition (i.e. through retirement or a move to the private sector), and this development is to be used to introduce organizational and strategic changes. Administrative departments and agencies will increasingly be transformed either into unincorporated state enterprises or private companies. Where similar services can be provided across several public sector departments, e.g. in the areas of finance and human resources administration, service centers will be created, which will stimulate an estimated 40% productivity increase by 2009. The resources freed up through this process will be redeployed elsewhere.

Denmark plans to merge some jurisdictions and municipalities to enhance public sector efficiency. As in Finland, service centers will be created within public administration to ensure better quality and the concentration of administrative functions (e.g. accounting and financial management). Public-private partnerships are to be promoted throughout.

Germany intends to modernize civil service law with a view toward stronger performance orientation and flexibility in career progression, as well as to facilitate an interchange of personnel between private enterprises and public administration, thus establishing closer links and stronger cohesion between the two sectors.

#### 2.1.5 Small and Medium-Sized Enterprises, Business Start-Ups

The proposals to promote small and medium-sized enterprises (SMEs) and to boost the number of business start-ups are complex, with common aspects being a stronger focus on fast-growing SMEs (known as "gazelle companies"), a rise in the number of female entrepreneurs and increases in venture capital.

The United Kingdom intends to increase the relatively low share of women in the overall number of founders of enterprises with a special action plan: The intermediate target is to achieve 20% female business ownership by 2006. The measures adopted to reach this goal will be evaluated on a regular basis and include improvements in childcare facilities, the establishment of women's networks, special education opportunities for women, etc. The Centre for Female Entrepreneurship at the University of Luton conducts research on the subject and also offers support and counseling services. In addition, a package of measures to provide business coaching for small high-growth companies is being developed, addressing, among other things, the particular difficulties in financing, opening up new markets, innovation and employee training encountered by such companies.

In 2005, Finland introduced legislation to provide unemployment

coverage for entrepreneurs, thus lowering another barrier to the creation of new businesses. High-growth companies will be supported by appropriate venture capital, research and development (R&D) and export policies. Another of Finland's priorities is to encourage female entrepreneurship.

In Germany, initiatives such as the "Bundesweite Agentur für Gründerinnen" (a national agency for female entrepreneurs) aim to promote the career and business potential of women in a more targeted manner. Another objective is to reduce the outlay in money and time required to start a limited liability company.

Denmark is introducing a benchmarking system to measure business start-up rates and the number of growth companies, as well as the quality of business environment conditions. Another initiative provides special tax relief for growth entrepreneurs.

## 2.2 Ideas for Economic Policymaking

Besides detailing a number of possible policy approaches, the NRPs also deliver insights into the ways in which other European countries plan and implement economic policy initiatives.

### 2.2.1 Forward-Looking, Cross-Sectoral Economic Policy Implementation Programs

Each year, Finland compiles a "Government Strategy Document" containing detailed implementation measures that translate the government program into concrete actions, which are then broken down into an-

nual schedules. Furthermore, the Finnish government produces cross-sectoral policy programs that focus on specific key areas and are subject to mandatory evaluation.<sup>2</sup> Recent examples cover cross-sectoral topics such as employment, entrepreneurial activity, and information and communication technologies (ICT). These programs aim at the effective deployment of resources, the development of policies demonstrating a high degree of consistency and the utilization of synergies between sectors and shall therefore take precedence over the initiatives of individual ministries.

Estonia also uses its NRP as the basis for detailed annual "working schedules."

### 2.2.2 Prioritization Based on Analyses of Strengths and Weaknesses

Few of the NRPs subject their national economies to an analysis of strengths and weaknesses, a process that would facilitate policy prioritization and sequencing. This is partly attributable to a lack of basic methodological harmonization of the NRPs (Pisani-Ferry and Sapir, 2006). Finland and Denmark first identify their medium-term challenges and then set priorities based on numerical goals.

None of the NRPs discuss the sequencing of initiatives in terms of their impacts on budget, growth or employment. Answering the questions of how much of an effect on GDP or employment growth rates a policy will have, and how quickly, would certainly improve an NRP's prospects for success, while at the same time enhancing consistency not only with other initiatives, such as stability and convergence programs,

<sup>2</sup> For more information, see <http://www.government.fi/toiminta/hallitusohjelma-seuranta/strategia-asiakirja/en.jsp>

but also with real economic development. A new study analyzing the impact of the Lisbon targets (Gelauff and Lejour, 2006) e.g. concludes that attainment of the R&D and employment targets will significantly influence growth rates, while regulatory reforms and internal market integration will have a comparatively lesser effect. Human capital goals only start having an impact with a certain time lag.

### 2.2.3 Numerical Targets and Indicators for the Evaluation of Success

Many countries go beyond the strategic objectives established by the Lisbon Strategy and use numerical targets or indicators in their NRPs. To set realistic targets, it is helpful to ascertain the policy scope and leverage available. Once set, targets permit the monitoring and evaluation of policies and serve to ensure transparency on matters such as the future direction of economic policy, the instruments employed to reach economic policy goals, and the measures taken by other economies to achieve similar objectives. The European Parliament, too, has started to demand a more target-based approach (the individual countries are to make stronger commitment to targets by 2007).

Estonia continues to use the structural indicators published by Eurostat to gauge the progress and the effectiveness of the measures in place. At the European level, the tables comparing the different national situations and assessing the progress achieved in the Member States were abandoned with the reform of the Lisbon Process. This is because comparisons across all indicators are of only qualified value, as the Member States have different strengths and weaknesses and their priorities can

therefore differ considerably. A benchmarking exercise taking these national characteristics into account would nevertheless be of critical value (see the criticism expressed by Pisani-Ferry and Sapir, 2006).

The Netherlands has set a number of targets for specific policy areas, e.g. innovation policy, where the country aims for an EU top-five position in the following areas by 2010: R&D spending by companies, turnover share of new products, patents per million inhabitants, and share of science and technology graduates in the overall workforce. As far as SME policy is concerned, the goal is to raise the share of entrepreneurs in the workforce to at least 10% and to exceed the EU-25 average by at least 0.5 percentage point. Between 2003 and 2010, the turnover generated by technology-oriented new businesses (technostarters) is planned to double to EUR 2.6 billion.

### 2.2.4 Transparency and Communication of NRPs

Ultimately, the NRPs provide insights regarding the transparency of policy-making and the communication of their respective objectives and contents to the public. The Swedish government, for example, drafted its NRP jointly with its constituent provinces; as a result of this effort the NRP complements local and regional growth programs, which has the benefit of ensuring coherent policy decisions. The NRP was communicated to representatives from civil society, the social partners and other stakeholders, who were invited to suggest priorities and submit their own proposals.

### 2.3 Summary: Possible Solutions for Austria

In summary, solutions that could be implemented in Austria can be identified in several areas. A forward-looking, investigative competition policy could actively make out sectors facing competition problems and propose remedial changes.<sup>3</sup> The education system could benefit from a number of initiatives aimed at both quantitative and qualitative improvements (in the university sector, this could include top-level research, graduate schools and a general increase in tertiary education participation). In many countries, specific programs for the promotion of disadvantaged groups of the population, e.g. migrant children, are being developed. In terms of promoting employment, all countries are moving as one in the direction of reconciling work and family life through more and better childcare facilities, local alliances between businesses and other civil society groups, improvements to family support services, etc. Education and employment initiatives are largely consistent with the corresponding European strategies. Public sector reform focuses on the transition to output-based systems: an approach intended to improve efficiency while maximizing cost-effectiveness by concentrating public expenditure on growth promotion. Support for SMEs is shifting more and more toward fast-growing companies for which specific counseling services and improved financing terms are made available.

The strategies and action plans of other countries that seek to achieve preset targets through a forward-

looking, cross-sectoral approach can also provide new ideas for structuring Austria's economic policy processes. The definition of targets is based on an analysis of strengths and weaknesses that makes it possible to set clear priorities. The measures to be put in place are described in detailed implementation plans, and their implementation itself is monitored continually. Furthermore, the success of policy measures in achieving their goals is evaluated. Other countries' NRPs also provide new ideas for making the preparation process more transparent and for communicating the NRP to the public, e.g. in the form of seminars for stakeholders from civil society.

For part of Austria's economic policy, a similar approach to that described in section 2.2 has been successfully put into practice (at least in part): The federal government has set targets for an increase in the R&D ratio from an initial 2.5% to 3% (starting from 1.9%), and the Austrian Council for Research and Technology Development (a central advisory committee) develops medium-term strategies and is responsible for monitoring and coordination activities. With the introduction of the Austrian Research Promotion Agency and the Austrian Science Fund, the number of bodies charged with administering support schemes has been greatly reduced. The Austrian government's Research and Technology Report is used as an annual monitoring instrument; projects and institutions (for example the Austrian Science Fund and the Austrian Industrial Research Promotion Fund) are subject to evalu-

<sup>3</sup> In principle, this is already one of the tasks of the Austrian Federal Competition Authority (BWB). However, with only 17 qualified employees (compared with 68 in Denmark), it is somewhat difficult to implement (BWB, 2005).

ation. A network of independent research institutes and consultants (WIFO, Joanneum Research, ARCS Technopolis, Austrian Institute for Industrial Research, etc.) regularly compiles analyses and new sets of measures.

The 2005 ICT master plan developed by the Austrian Regulatory Authority for Telecommunications and Broadcasting (RTR-GmbH) is an excellent example for the conceptual design of economic policy. Detailed analyses of strengths and weaknesses, the definition of targets, proposals for the implementation and sequencing of policies (e.g. via a central ICT coordination agency, an institution that has been successful in other countries), are always described in comparison with international best practice. The master plan is, however, still awaiting its political implementation. Nevertheless, a similar approach could be considered for other areas (e.g. competition policy, education and training, etc.).

### **3 NRPs: Real Economic Growth Strategy or Just Another Report? Reflections on the Political Economy of Reforms**

The political economy of reforms deals with questions such as why reforms take place at all, why reforms are not implemented in spite of the long-term positive effects they would have, and what effects different political systems have on reforms. For an overview, see Rodrik (1996). Research in this area centered primarily on transition and development economies and has only recently begun to expand its scope of analysis to OECD countries (e.g. IMF, 2004). In spite of numerous theoretical and empirical studies, complete and robust

empirical generalizations are yet to be established (Williamson, 1994; Castanheira et al., 2004). Rodrik (1996, p. 32) e.g. observes that “most economists are on the side of speed, stealth, and consequently reform from above,” while Munchau (2006a, p. 13) writes: “In the absence of a perceptible strategy, why should voters accept reforms that bring certain sacrifices in the short run and only vague benefits at some distant time in the future?” Change processes can only be assessed, and the prospects for the success of change instruments (such as a national reform program) can only be evaluated against country- and situation-specific criteria, taking into account factors such as prevailing electoral law, the economic position, and structural circumstances.

The NRPs are fundamentally a commitment device for the Member States to ensure the development of a consistent strategy for growth in line with the demands of the Kok Report (2004), which calls for redoubled efforts on a national level. Is Austria's NRP an effective commitment device for a growth- and employment-oriented economic policy? Does it improve the implementation prospects for the policy proposals it contains? Does it support the integration of concepts from other countries? Can it contribute to overcoming vested interests and uncertainty? Can it act as a catalyst for reform? Does it provide a feasible coordination strategy for policy sequencing over the coming years?

On the one hand, the NRPs adopt a gradual approach, with economic policy reform being implemented through a process of stepwise successive changes. As they are supposed to be drawn up using the input of as

many stakeholders as possible (e.g. representatives of the social partners and civil society), they are participatory and do not advocate “quick reforms from above.”

The purpose of economic policy in Austria does not consist of initiating a fundamentally new beginning or launching a growth process such as might be required in a developing country. The key issue is rather to effect a gradual, progressive change in economic conditions and economic policy measures in order to facilitate sustainable growth (Wörgötter, 2006).<sup>4</sup> The critical challenge for Austria is to transform the country's economic structure and economic policy toward maintaining its position at the forefront of the most productive OECD countries in the long run. The transition from a catch-up model of progress to an innovation-oriented approach requires the setting of new and different priorities (Aghion and Howitt, 2006; Sapir et al., 2004), e.g. in the fields of university education and competition policy.

### 3.1 Can the NRP Help to Initiate Changes and Reforms?

Empirical evidence shows that long periods of stagnation or prolonged episodes of slow growth or crises tend to lead to reform (IMF, 2004). When it comes to finding ways to implement growth- and employment-oriented economic policy measures, such observations are of relatively limited value, as provoking a crisis to push reform is obviously not a feasible approach. The international discussion about the role of crises in reform processes is strongly influenced by the macroeconomic crises in emerg-

ing economies, such as interventions by the International Monetary Fund (IMF) or debt and currency crises. That being the case, they hardly provide a useful comparison or model for the Austrian situation. Furthermore, deep recessions often lead to bad economic policy, as measures are implemented out of short-term necessity rather than with sustainable improvements in mind, and crisis-driven reform programs focus only on narrow aspects of the economic picture (Krueger, 2005).

Reforms would be easier to launch in periods of economic upturn, as increasing taxation revenues provide more funding flexibility for changes: In times of adequate financial resources, there is no need to take away from one group in order to give to another. The prevailing mood is less uncertain, and there is more tolerance and willingness to accept change. In actual fact, however, observations show that fewer changes tend to be implemented in economically favorable times (IMF, 2004; Blanchard, 2006). The NRPs could therefore act as key instruments in establishing regular adjustments to the changing macroeconomic conditions beyond the economic cycle. The most relevant criterion in the evaluation of the Austrian NRP's success potential is therefore whether the program will contribute to strategically directing the country's economic policy toward medium- and long-term employment and growth policies. Another important question is whether the NRP will promote changes, particularly in times of economic upturn.

The NRP institutionalizes the annual debate about growth and employment policy and thus at least

<sup>4</sup> See Rodrik (2005) for the different requirements to ignite and sustain growth.

makes it onto the political agenda. However, to have a real impact on growth policy during economically favorable times, the NRP must send sufficiently strong signals to the population at large, in order to engender public pressure and foster a willingness to accept change.

Climate policy finds itself in a situation similar to that of the Lisbon Agenda. Everyone is aware that there is a problem, but there is no immediate crisis in sight, and therefore political initiatives, Kyoto-style goals and time schedules have, to date, barely led to tangible steps being taken. Any real changes in behavior are becoming apparent only now with the hefty increase in oil and fuel prices. This demonstrates that clear (price) signals, transmitted to the general public directly or via the media, are important catalysts for reform. An economic crisis also makes it very obvious to both policymakers and the population that something must happen. Likewise, the NRP must contain strong signals that the public will recognize. One way of generating such signals ("pseudo prices") would be to put the effects of the growth and employment initiatives into detailed figures, not only in terms of their extent, but also in terms of their temporal effect and possible interdependence. This requires superior understanding and a broad consensus on the part of economists.

What role does the communication and implementation of planned reforms play, and what is the NRP's contribution in this context? Based on his many years of experience with reform processes within the OECD,

Koromzay (2004, p. 4) writes that "...the timing of reform can surely be influenced – perhaps decisively – by political leadership. Effective communication can crystallize the vague sense that "something is wrong" into a broad perception for the need for change." However, Tichy (2003, 2005), in a comparison of trend indicators from continental Europe and Scandinavia, warns against the use of crisis rhetoric to secure the acceptance of reforms because this approach unsettles the public and ultimately makes reform even more difficult as it increases risk aversion. Comprehensive economic and social policy reforms must always be incorporated into a credible overall concept. Munchau (2006b) shares Tichy's opinion: "By embedding economic reforms in a transparent strategy, Sweden avoided the uncertainty emitted as a toxic by-product elsewhere."<sup>5</sup>

The implementation and communication of changes within the NRP as a broad, transparent strategy for growth is thus far more likely to have a positive impact on the overall success of reform efforts.

### 3.2 Can the NRP Help to Overcome Vested Interests?

If a relatively small group of people secures high per-capita profits by maintaining the status quo, but a relatively large group will achieve small individual per-capita profits from change, then there are completely different incentives for the political pursuit of special interests (Olson, 1965). Due to its size, the small group can and will behave more aggressively and in a more coordinated manner to maintain the status quo than the large

<sup>5</sup> See Tichy (2003, p. 17) who finds that in Scandinavia, a well-coordinated and credible combination of education policy, technology policy, social policy and targeted deregulation might have played a decisive role.

group will in pushing for change. This is how an initiative which, despite leading to an overall improvement in collective benefit, would entail losses for the small, well-organized group will fail in the face of this small group's opposition. A variation on this theme is that the loss for one group is certain and will occur immediately after the introduction of a particular measure, whereas the benefit for the population at large is uncertain and may only take effect after a number of years. The anticipated benefit to the large, diffuse group mostly bears little relationship to the outlay required. Classic examples of special interest groups are those of the liberal professions in Austria, and also the French agricultural interests.

Commitment devices can help to ensure that what is good for the population at large prevails over the interests of individual groups. The degree of commitment is derived from the (political) costs that would result from failure to meet the agreed targets. Probably the strongest instrument of this kind in recent Austrian economic history was the accession to the European Union. Joining the EU required numerous adjustments, in particular to product markets. The credibility of economic policy was strongly improved by its "all or nothing" approach ("We must implement these measures or we won't be able to join.") (Janger, 2005). It was plain to see for the broad public that a high price would have to be paid if Austria failed to implement the measures necessary for EU accession.

In comparison with this, the NRP is clearly lagging behind; it can never attain the same level of importance in terms of commitment because there are no clearly visible immediate consequences (refusal of acceptance into

the European Union) and no obvious costs of nonimplementation. Failure to apply the reforms set out in the NRP would probably only in the medium term lead to a noticeable economic downturn, which the population as a whole would most likely not view as a direct result of the nonimplementation of NRP reforms.

In its empirical study of reforms in OECD countries, the IMF (2004) notes, however, that comprehensive packages of measures (such as the NRP) facilitate the implementation of economic policy measures because they communicate to the public that change is not a process directed against individual groups, but rather a broad transformation affecting nearly all stakeholders, which makes reform easier to accept. Losses arising from one policy measure are balanced out by the benefits resulting from another (this assumes that there is general public awareness of the measures or, indeed, of the entire program).

In summary, the NRP may not be as powerful a tool as accession to the EU in terms of its ability to overcome vested interests, but it is still better than the status quo.

### **3.3 Can the NRP Help to Overcome Uncertainty?**

Uncertainty about the economic effects of a reform (aggregate uncertainty) can hinder the implementation of reform programs. Even if, on an economic level, the overall effect of a change is perceived with certainty to be positive, uncertainty about this effect on a personal level may constitute an obstacle to implementing the reform (Fernandez and Rodrik, 1991). In other words, although a measure would add to the collective good, it is impossible to ascertain who the winners and losers

will be before it is actually adopted.<sup>6</sup> Too many stakeholders might believe that they would be on the losing side and not support change, thus creating a bias toward the status quo. This phenomenon may especially occur in the context of labor market or welfare system reforms.

National and international debate and research, which form the basis for the NRPs, could very well reduce both aggregate and personal uncertainty in relation to individual policy measures. The IMF (2004) also stresses the importance of international spillovers – success in other countries helps to reduce uncertainty. NRPs directly encourage this international exchange, and as a small, open economy, Austria has a natural tendency to look beyond its borders. The NRP has, by all means, the potential to alleviate the uncertainty surrounding reform efforts.

### 3.4 Sequencing of Economic Policy Measures

Is a participatory, gradual and sequential reform approach more successful than a fast, radical transformation imposed by government representatives without input from the stakeholders it will affect? The NRP is a clear example of the former. Upon closer consideration, this question is easy to answer. The most recent debate about gradual versus radical reform stems from the former communist countries' transition to market economies and is thus of little practical use for

Austria's situation. In contrast to these countries' experiences, most reforms in industrial countries take place gradually (IMF, 2004). There are three arguments in favor of this approach.

From a purely budgetary point of view, it is difficult to implement many changes at once, particularly in periods of relatively slow economic growth – and not only because of budgetary restrictions. Moreover, private enterprise needs a stable environment for planning economic activities such as making investments: Expectational stability is an important factor for boosting investment activity.

Rapid changes to complex systems (e.g., competition or education policies), such as the measures required in Austria to reduce the gap to efficiency leaders, are extremely difficult for government to implement without the input and assistance from the stakeholders affected. In addition, there is a risk of unintended consequences. Also, although Jean-Claude Juncker once declared that it was clear what needs to be done (The Economist, 2006), this is in no way the case. Munchau (2006c) challenges his assertion, citing Blanchard's labor market survey (2006), which questions the merits of labor market measures that were considered to be proven. On the surface, policy priorities might actually seem quite clear (everyone believes that more education and research is a good thing), but

<sup>6</sup> One strategy for the defense of narrow group interests often consists of making the consequences of change appear uncertain on an aggregated level because the members of the interest group are certain on a personal level of the disadvantages of the initiative (see Annett et al., 2004).

when it comes to the details, there are many unresolved problems.<sup>7</sup>

A final argument relates to the sustainability of change: In the event of a change in government, a prior involvement makes canceling growth policy measures unlikely (Rodrik, 1996; Castanheira et al., 2004). Austrian electoral law, which is based on proportional representation and seldom leads to absolute majorities, also makes rapid reform on the part of the government unlikely. Consideration of the social partners' views does not necessarily lead to reform blockades either: on balance, in Austria their policies have been directed toward the benefit of society as a whole rather than the defense of narrow special interests. In addition, the social partners can support the NRP process by publishing their own ideas.

Altogether, the way the NRP is structured on the basis of a broadly inclusive and gradual approach appears to favor the implementation of growth and employment policies.

#### **4 Conclusion: Conditions for the Effective Implementation of the NRP**

Will the NRP be successful in Austria? Although the program has some points in its favor, it does, however, also suffer from three fundamental weaknesses: It does not wield the same power as e.g. the prospect of joining the EU did, it does not send out any strong "price signals," and the population is largely unaware of its existence. Therefore, it can only avoid the fate of the National Action Plan for Employment and become more

than just another report if the following conditions are met:

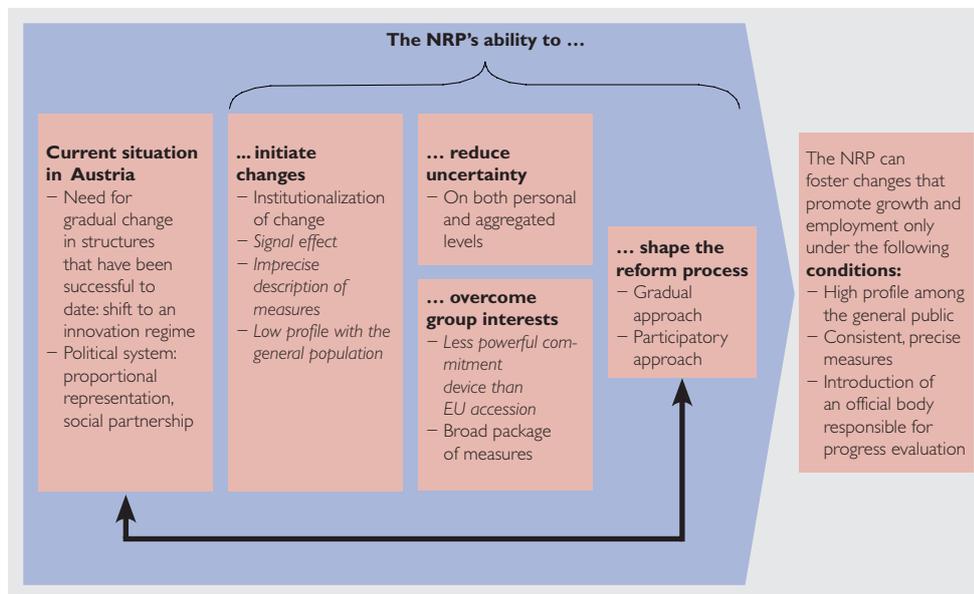
First, a clear understanding of its content and aims is essential: (1) which policy measures promote growth and employment, and (2) what will the exact impacts on growth and employment be (scope of the program; time lag)? This should ensure that clear signals are sent out. Austrian economists are challenged to provide the necessary analytical fundamentals and, in this context, the white paper currently being produced by WIFO is very welcome. The NRP must, of course, be adapted to new insights that might arise.

To increase its commitment power, the NRP must gain a higher profile in the public's awareness than it presently has. Its presentation and discussion in parliament was hardly covered by the media at all. "Public rather than peer pressure" (Tabellini and Wyplosz, 2004) calls for extensive debate in national parliaments, in the media, with the social partners, etc. The NRP's content must be actively communicated. However, this will most probably only happen after the program has been implemented with some success, as governments are hardly likely to call their own actions into question. Despite the emphasis on implementation at a national level, it may well be useful to charge a government-independent body with the official task of assessing the progress achieved against national priorities, e.g. by comparing national progress at a European level – a practice that was abandoned in 2004 – and communicating the results. This need

<sup>7</sup> On this subject, see Rodrik (2005, p. 1), who contrasts two statements Arnold Harberger made on the issue of economic policy in developing countries in 1985 and 2003: "Countries that have run their economies following the policy tenets of the professionals have on the whole reaped good fruit from the effort; likewise, those that have flown in the face of these tenets have had to pay the price" (1985) vs. "When you get right down to business, there aren't too many policies that we can say with certainty deeply and positively affect growth" (2003).

Chart 2

**Prospects for Success (Based on the Structure of the NRP)**



Source: OeNB.

Note: Possible structural deficiencies of the NRP are printed in italics.

not necessarily be the responsibility of the European Commission; it would be equally appropriate to assign this role to research institutes.<sup>8</sup> A fair comparison would, however, require a standardized methodology for the analysis of a country's strengths and weaknesses, followed by the identification of priorities on the basis of the results gathered (Pisani-Ferry and Sapir, 2006).

The NRP has, in principle, the potential to become more than just another report, subject to a number of improvements. If these do not materialize, the NRP's success is in jeopardy.<sup>9</sup> The degree of success, in this context, must be considered relative to the scope of the Austrian NRP, which definitely has potential for future expansion. Section 2 of this study presents policy ideas from other

NRPs that might be useful for Austria's program; moreover, we suggest that the content of the WIFO white paper should, if possible, be incorporated into the NRP. Furthermore, the Austrian NRP contains very few numerical targets, whose attainment would represent a tangible measure of the program's performance: the "top 3 strategy" (positioning Austria among the three best performers across the European structural indicators), which occupied a prominent place in the Cardiff Report (Austrian Federal Chancellery, 2004), is no longer part of the program.

The questions of whether or not the NRP can contribute to the institutionalization of change and whether it will become a medium-term, credible and transparent growth concept in the sense of Aiginger (2004), Gnan

<sup>8</sup> For the European level, see Annett et al. (2004, p. 67): "Given the absence of an external enforcer under the open method of coordination, incentives must be put in place to promote self-enforcement, which will be facilitated by building consensus over a core body of reforms and making peer pressure more effective."

<sup>9</sup> In this case, only an improvement in interministerial cooperation is likely, since growth and employment are often cross-sectoral issues.

et al. (2004) and Tichy (2003) is ultimately dependent on political will. The European Union may provide support for the process of economic reform, but even without the European dimension – and independently

of the Lisbon Agenda – the pursuit and implementation of a medium-term, consistently applied employment and growth strategy would be highly beneficial.

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