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Growth and Employment Strategies in Austria

Panel Discussion

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It is certainly difficult to give a brief outline of how to foster growth and employment both in Austria and Europe. This is why I will concentrate on two possible starting points for our discussion:

- 1) The national level: The question we must ask here is whether the measures taken in Austria are sufficient to combat unemployment. In other words, is the Austrian National Reform Program (NRP) suited to tackle labor market problems?
- 2) The European level: One of the most pressing questions in this context is why EU policymakers do not utilize the existing room for budgetary policy maneuver to manage the economic cycle.

1. The National Level

The criticism leveled at the National Reform Program can be summed up as follows: It is not future-oriented, but primarily lists a series of measures, of which most have already been implemented. It does thus not provide any schedule or clearly defined goals, but is merely an unstructured catalogue of individual measures whose relevance for the labor market is not always obvious – see e.g. the ICT-supported school book campaign or the Sustainability Weeks initiative designed to promote sustainability in production and consumption. The NRP does not analyze existing problems (the rise in unemployment e.g. is not even included in the economic fundamentals), nor does it define an employment target. All in all, the message is that the NRP for Austria is nothing but a cumbersome paper exercise.

This approach stands in sharp contrast to reality: In fact, Austria is facing an increasing number of labor market problems. While the unemployment rate in the EU went down against the comparable figure of 2000, unemployment in Austria went up. Furthermore, it has increasingly become an issue for groups such as young people, who were definitely not at the center of attention a few years ago.

The official counterargument against this observation is that even though unemployment is increasing, employment is also on the rise. However, this statement needs to be put into perspective. While it is true that the number of employed persons has been rising, the volume of labor has not. Employment rates in Austria have been going up mainly due to an increase in part-time employment, which is characterized by a large proportion of female employees. While almost one-third (31.3%) of employed women in the EU-15 were working part-time in 1995, the figures for Austria (26.9%) were still clearly below the 30% threshold. In 2004, this trend reversed: The share of women in part-time employment reached 35.2% in the EU-15, but it jumped to 38.6% in Austria.

Part-time jobs are only unproblematic if people can make a living and if part-time agreements are entered voluntarily. More and more often, however, this is not the case. In the labor force survey for Austria, the majority of women working part-time (62.5%) do so because they have caretaking obligations or because of other family reasons. The negative consequences of spending shorter periods in paid employment (while spending more time doing mainly unpaid housekeeping work) range from a shorter average employment contracts to limited career opportunities and lower pensions. So there is clearly a trend toward precarity, but there are no political concepts to counteract it.

Several additional arguments underscore that employment growth in Austria is not as high as it appears: First, employment growth is not particularly high in a comparison with other EU countries and second, it does certainly not suffice to reach the goals defined in the Lisbon Strategy. The Lisbon employment target for 2010 (an average employment rate of 70% and of 60% for women) does not mean that Denmark and Sweden will have to reduce their employment rates only because these rates are already higher than the Lisbon targets. It means that, every country will have to make its contribution on the basis of its own national growth rates. According to calculations made by the European Commission in 1999 this means that by 2005, Austria should have reached an employment rate of 71.3% – and that by 2010, it should come to 73.2%. The Austrian employment rate of 67.8% for 2004 lags far behind these values.

Of course, global economic developments are the major reason behind slow economic growth in Austria; however, the country has failed to set any corrective measures in its own right. One approach to remedy this situation would be to invest in infrastructure and education and to carry out a tax reform that really relieves the burden on persons with middle and (above all) lower incomes. Moreover, it will be necessary to expand childcare facilities to promote the reconciliation of work and family life.

From a structural point of view – more precisely from the perspective of labor market policy – a positive feature of the NRP is that in 2006 and 2007, more funds will be available for active labor market policy measures (employment promotion package). When set in relation to cyclical developments, however, these additional

funds are arriving late and come as somewhat of a surprise even for the management of the Austrian Public Employment Service. It remains unclear what should be done to eliminate the stop-and-go approach in labor market politics after 2007 (when, as an additional factor, funds from the European Social Fund are likely to be cut considerably).

2. The European Level

In the current political debate, EU economic policy seems to be unquestionable. This is all the more surprising as many uninvolved economists (in particular from the U.S.A.) have difficulties understanding the European approach which, instead of reacting to current developments in a pragmatic way, concentrates – rather one-sidedly – on structural policies. This is also reflected in the Broad Economic Policy Guidelines and implemented in the EU’s monetary and fiscal policies.

It is an undisputed fact that constant deficits and the related high debt levels restrict the room for economic policy maneuver, and it is also clear that a monetary union needs certain rules to function. Still, it must be permissible to question the actual design of these rules – it is even mandatory to do so.

For a short time in 2004, there was hope that we might enter an open discussion on this topic. Unfortunately, since then – and in spite of necessary (and indeed interesting) ideas on how to reform the Stability and Growth Pact – the EU has returned to “business as usual”. The latest example in this context is that the U.K. was given an early warning for its excessive deficit of 3.5%, as the country’s public deficit will still be 0.1 percentage point above the 3% deficit limit in 2007 according to the European Commission. Considering, in particular, that economic growth in the U.K. came to 3.2% in 2004 (thus by far exceeding the EU average) and that the U.K. is likely to perform better than the other EU countries in the next few years, this move – to put it mildly – appears to be a mere formality that puts economic policy considerations second to inflexible rules of procedure.

In its monetary and fiscal policy, the U.K. has followed a different path than the euro area, focusing its policy considerations on achieving fiscal consolidation on the one hand and on increasing the scope of obtaining finance for necessary investments on the other. In 1997, the U.K. introduced the so-called “Golden Rule” of fiscal policy, according to which the deficit level may match the level of net investment. At the same time, a ceiling for public sector net debt was defined which is clearly below that of the euro area. These measures make fiscal policy decisions more transparent than decision-making within the Stability and Growth Pact.

At the EU level, however, there is no discussion on alternative fiscal policy rules. Instead, policymakers concentrate on how to save costs in key areas of social policy (e.g. pensions and health) and justify this course with considerations on the

quality of public finances. This approach certainly slows down economic recovery. Unfortunately, however, it appears to be an undisputable dogma of the prevailing European doctrine.