Robert Holzmann
Director
World Bank

Globalization, Integration, Demography and Austria

This presentation[1] investigates the implications of three key challenges for Austria and elaborates on areas that need to be addressed to turn these challenges into opportunities. The focus of the presentation is thereby on employment and related policy issues as a successful handling of these challenges is emerging as a critical condition for political support of continued market opening, including migration and integration. For decades the social partners in Austria have been key actors to help address challenges to the economy and the workers in a successful manner. But is their business model still functioning to make Austria profit from the opportunities that the changing world provides?

In order to address these questions the presentation proceeds in three parts: Part 1 presents the three key challenges to Austria, Europe and the world: Globalization, integration and also demography as the emerging and projected demographic changes to the world are profound and often underestimated. Part 2 highlights some of the key areas that need to be addressed to turn the challenges into opportunities. Part 3 asks about the role of the social partners in this changing environment and the need for adjustment. The presentation ends with a few questions to the following high-level panel that is composed of the key social partners in Austria.

1 Key Challenges for Austria, Europe, and the World

Globalization is quite likely the most important challenge to the welfare of countries citizens and policymakers would typically identify. The world economy is integrating at unprecedented speed. Perhaps underestimated in Europe is fact that the developing countries have collectively moved to center stage in this transformation. And it is generally accepted that the process of globalization is working essentially through four main channels – trade of goods and increasingly of services; financial integration; migration; and the flow of technology and information.

To assess the challenge let us start out with my take on globalization – a view that is not unique but shared by many involved in international economics and policy analysis.

First, globalization is unavoidable in the sense that countries cannot escape its consequences in a sustained and welfare enhancing matter whatever they do. In consequence, protective strategies are essentially counterproductive while pro-active strategies are likely to achieve first-mover welfare effects.

Second, globalization as defined through the four channels outlined above is likely to accelerate during the next years and decades. This may be most felt in the area of financial integration and labor migration. In

[1] *The findings, interpretations, and conclusions expressed herein are those of the author and do not necessarily reflect the views of the World Bank and its affiliated organizations or those of the executive directors of the World Bank or the governments they represent. The paper has profited from very capable research support by Johannes Koettel, World Bank.*

consequence, more but not less proactivity may be required to benefit from the opportunities.

Third, globalization is, however, by no means automatic and subject to possible interruption. The key interruptions may emerge in any of the four transmission channels, or emerge as a consequence of a global pandemic or global warming.

Last but not least, globalization is by no means perfect as it creates winners and losers across and with countries. This calls for good policies to tilt the balance toward equitable globalization and calls for policies of support and compensation. BUT despite all shortcomings, globalization is so far the best known mechanism for wide-spread economic growth and sustained poverty reduction

To outline the positive impact on globalization let me quickly summarize key measured effects that are shared by most but maybe not all observers of international economic developments.

There is a strong conjecture that globalization and the working of the four transmission channels are closely linked to world-wide growth in per-capita income. Put very strongly, without globalization world-wide per-capita income that was essentially stagnant for much of the past millennium grew by some 25 percent in the 19th and by almost 90 percent in the 20th century. And the more open and integrated countries are, the more they profit from the growth effects of globalization (Mishkin, 2006).

Economic growth is the key ingredient in accelerated and sustained poverty reduction. In a global perspective the growth elasticity of poverty is statistically indifferent from one, i.e. one percent of per capita GDP growth leads to an equivalent change in the poverty rate of countries.

Economic growth does, in general, not increase income inequality. A plot in average annual per capita GDP growth and average annual change in income inequality (Gini coefficient) shows a broad range of outcomes but no relationship that is statistically different form zero.

Nor does trade increase income inequality in a systematic manner. A plot in average change in trade/PGD and average annual change in income inequality (Gini coefficient) shows again a broad range of outcome but no relationship that is statistically different from zero.

International inequality as (measured by the Gini coefficient) has been falling since the early 1950s from over 0.56 to slightly below 0.50 in early 2000. This effect is, however, driven by China and India as the inequality without both countries shows a marked increase since the early 1980s (Milanovic, 2006).

The translation of these effects into poverty reduction is impressive (table 1). The number as well as the percentage of people living in extreme poverty (i.e. on less then one US dollar a day) has more the halved between 1981 and 2002. It currently

Table 1

Poverty Development in the World Bank's Regions

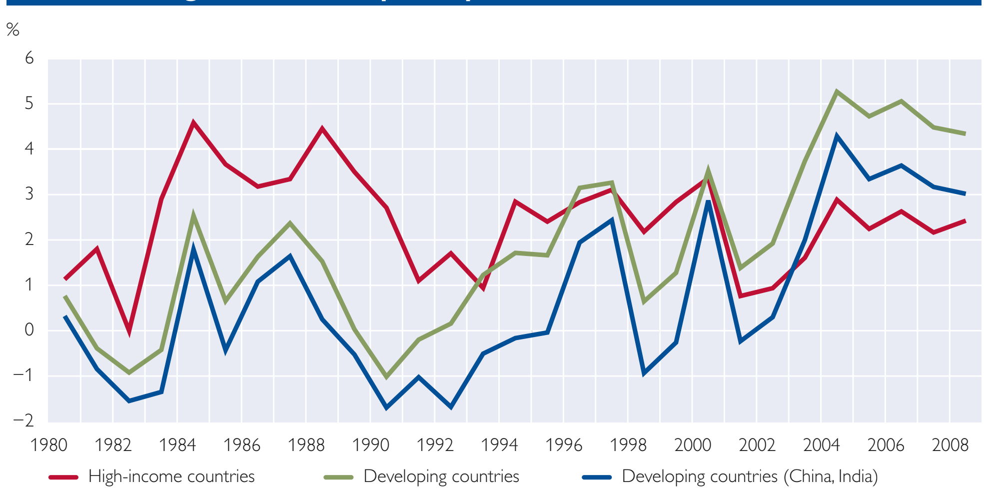
	Millions of people living on						
	less than USD 1/day				less than USD 2/day		
	1981	1990	2002	2015	1990	2002	2015
East Asia and the Pacific	796	472	214	14	1,116	748	260
China	634	375	180	11	825	533	181
Europe and Central Asia	3	2	10	4	23	76	39
Latin America and the Caribbean	36	49	42	29	125	119	106
Middle East and North Africa	9	6	5	3	51	61	40
South Asia	857	462	437	232	958	1,091	955
Sub-Saharan Africa	164	227	303	336	382	516	592
Total	1,865	1,218	1,011	617	2,654	2,611	1,993
Excluding China	1,231	844	831	606	1,829	2,078	1,811

	Percent of population living on						
	less than USD 1/day				less than USD 2/day		
	1981	1990	2002	2015	1990	2002	2015
East Asia and the Pacific	57.7	29.6	14.9	0.9	69.9	40.7	12.7
China	63.8	33.0	16.6	1.2	72.6	41.6	13.1
Europe and Central Asia	7.0	0.5	3.6	0.4	4.9	16.1	8.2
Latin America and the Caribbean	9.7	11.3	9.5	6.9	28.4	22.6	17.2
Middle East and North Africa	5.1	2.3	2.4	0.9	21.4	19.8	10.4
South Asia	92.5	41.3	31.3	12.8	85.5	77.8	56.7
Sub-Saharan Africa	41.6	44.6	46.6	38.4	75.0	74.9	67.1
Total	55.2	27.9	21.1	10.2	60.8	49.9	32.8
Excluding China	52.8	26.1	22.5	12.9	56.6	52.6	38.6

Source: Taken from Table 1.3 in World Bank. 2006. Global Economic Prospects 2006. Economic Implications of Remittances and Migration. Washington, D.C.

Chart 1

Annual Change of Real GDP per Capita



Source: World Bank, Development Economics – Prospects Group.

holds at some 21 percent of the world population and is projected decrease to slightly over 10 percent by 2015.

More recently the growth effects have also reached the laggards among the developing countries. Per capita income is now increasing in tandem between high and low income countries and this development includes sub-Saharan Africa (chart 1).

This overall positive assessment of globalization and its impact on economic growth and poverty reduction needs to be put into perspective as globalization creates winners and losers as not all countries or groups in countries do benefit. While there is little disagreement about the fact that not all benefit from globalization, the reasons for this unequal development and how to deal with it remains an issue of continued research and often heated debate.

Key concerns of this development include the low or even negative percapita growth rates in a number of developing countries, high and often rising un- or underemployment, an increase in income inequality and the decline in the labor share in a number of countries, and the decline in the labor intensity of growth. For example, in most Asian countries in the 1990s the employment elasticity of growth moved well below the level observed in the 1980s (Felipe and Hasan, 2006).

Areas of disagreement on key conceptual and policy issues include the following:

To what extend are these unequal effects of globalization simply unavoidable or the result of national or international policy? Leading proposals for the outcome of the welfare fate of countries and their citizens (with and without globalization) comprise the importance of sound institutions and good governance (Easterly, 2005), the lack of internal or external armed conflicts (Milanovic, 2005), and the capacity to adjust to the diverse shocks that economic development, including globalization, implies.

Is it possible or if so useful to try to compensate the losers of globalization in a careful design of social engineering? This is the request which underlies much of the human rights approach to development. Or is this a misguided approach in view of the massive informational and operational requirements that is dominated in its outcome by the support to adjustment to the new circumstances? A new version of Myrdal versus Hayek?

What is the role of equity in development, and is it sufficient to establish equity of opportunities or does a society need to move further to consider also aspects of equity of outcome, at least for the most marginalized groups in society? And what is the role of the international community to support such approaches in low income countries? Whatever the individual answer, equity is quite definitely back into the international development discourse (World Bank, 2005)

A special challenge for policymakers (and social partners) world wide is a conjectured big albeit temporary fallout of globalization: A global labor supply shock as China, India and the countries of the former Soviet Union get integrated into the economy (Freeman, 2006a). The estimated size of this shock amounts to a doubling of labor (from 1.460 to 2.930 billion – see table 2), an almost halving of the capital ration between 1990 and 2000 (table 3), and by implication a major pressure on wages world wide. The effect on the world equilibrium real wage has been very roughly estimated at minus 15 percent (Reisen, 2006).

Table 2

The Big Doubling of Labor

Millions of economically active persons

	Global	Advanced	LDC	New
1980	960	370	590	–
2000 before	1,460	460	1,000	–
2000 after	2,930	460	1,000	1,470[1]

Source: Freeman (2006a), tables calculated from ILO Laborsta (http://laborsta.ilo.org/).

[1] China, 760; India, 440; ex-Soviet, 260.

Table 3

The Near Halving of Global Capital to Labor Ration

	Before	After	Ratio
1990	USD 53,500	USD 29,800	0.56
2000	USD 61,300	USD 37,600	0.61

Source: Freeman (2006a), tables calculated using PWT, with perpetual inventory method based on investment (no distinction between buildings, equipment, housing etc.). China investment rate in current currency and ex-Soviet based on K/L ratio of 15 percent US.

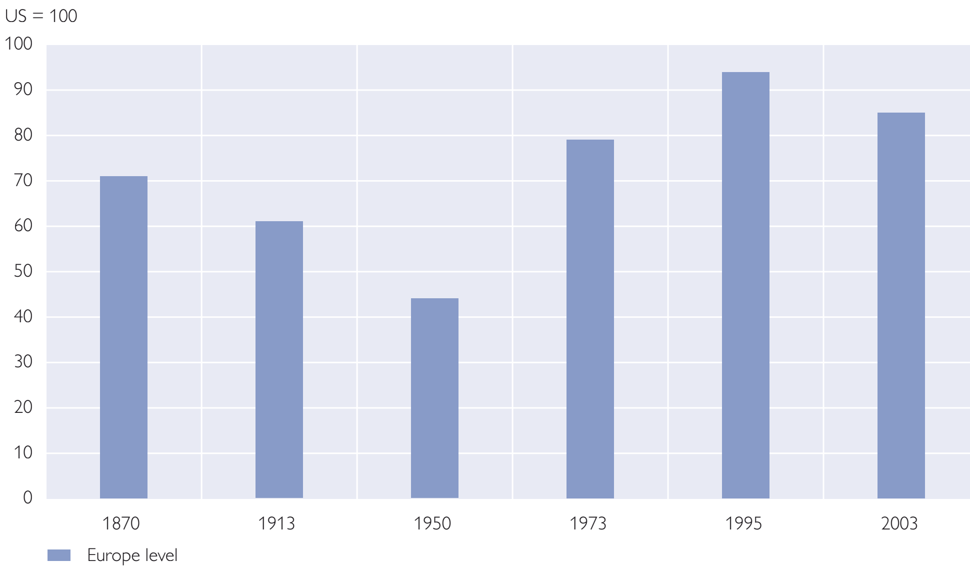
Note: Estimates are crude order of magnitudes (in 1996 International PPP USD). Penn World Tables (PWT) has not yet produced "official capital stock" figures.

The big winners of this global labor supply shock are, of course, the workers in the newly globalizing countries and the owners of capital – world wide. For the new globalizers it increases the demand for low skilled, allowing potentially to ingrate the peasants into the monetized economy, providing also opportunities for the high skilled via immigration and off-shoring. For the advanced economies the fallout includes a downward wage pressure on all types of workers and also the thread of job losses for skilled workers. While this development puts the education strategy of continuous upgrading under pressure, these advanced countries, including Austria, have the potential to keep a leading edge and real per-capita income growth through network effects, continued innovation and speed of adjustment. But they need to increase their efforts as the new globalizers create a challenge also in the high-tech area. It is the old LDC countries that are likely to face a main brunt from this supply shock that may put into doubt their pre-doubling growth strategy. They face a wage pressure on their unskilled and skilled but will be unable to compete with the wage rates of the globalizers. On the other hand they are lacking the level of development to profit from innovation and other economic rents the more advanced countries can hope for.

The challenges of *European integration* are conjectured to be more at the level of the European Union than in Austria. Overall Austria has faired very well and gained from both the long-prepared EU accession as well as the recent EU expansion. Highlights of this recent development include the strong presence of the financial sector in the former transition economies where the chances were well used; these developments are reminiscent of the Hapsburg times. This opening in the former crown countries allowed also SMEs to participate in globalization and keep good jobs in Austria. While Austria belongs to the countries in Europe that have been most exposed to migration pressure it has succeeded extremely well to absorb this labor supply shock both socially and economically. The social success may be linked with the origins of most migrants – the neighboring countries; the economic success may indicate relative flexible labor market structures. A further EU expansion into the Balkans and possibly to Turkey is conjectured to be more a problem for the European Union and

Chart 2

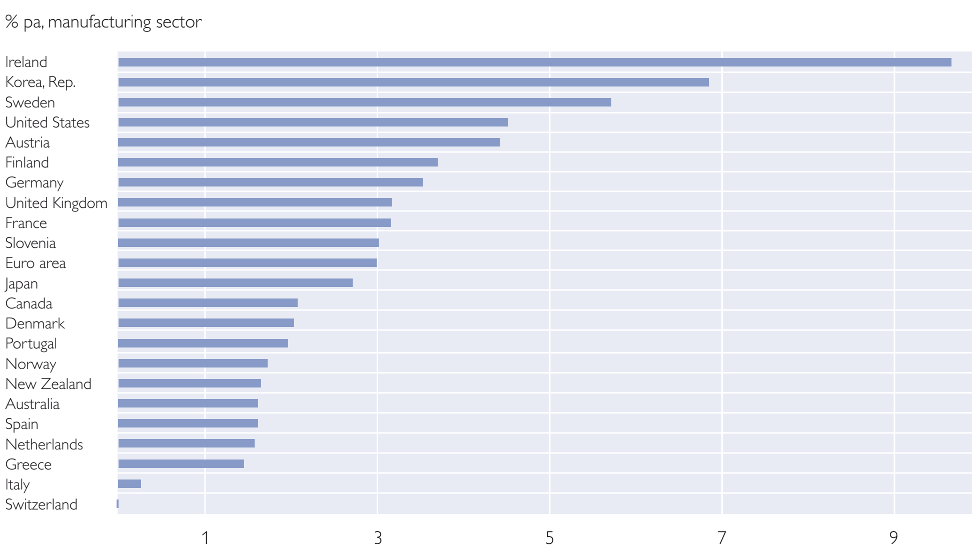
Level of GDP per Hour Worked, US versus Europe, 1870–2003



Source: Gordon (2004).

Chart 3

Annual Average Labor Productivity, 1995–2005



Source: IMF, World Economic Outlook, 2006.

its functioning than for Austria that is likely to gain again.

The critical issue of European integration is to make the European Union to live-up to its challenges and opportunities; and for a number of observers this is currently not the case. As a result the EU – on average – is trailing the US and other countries in productivity development as the catching-up with US levels has been stalled in the mid-1990s (chart 2). But there are notable exceptions to this development within the EU and sectors, and they include Austria (chart 3). The critical economic issues for need of rethinking concern the Lisbon agenda and the economic reforms in the euro area.

While Lisbon 2 constitutes progress over the first plan to bolster the growth, innovation and employment performance of the European Union while fostering the inclusiveness, there is still room of improvement (Pisany-Ferry and Sapir, 2006). The key critique concerns inter alia the national reform plans. While they have gained from integrated guidelines for the preparation they are still very much a laundry list instead of focusing on priorities and critical binding constraints. Doing the latter has been successfully applied in low and middle income country context in order to determine the critical constraints for growth (Hausmann et al. 2005). The approach is currently under investigation at the World Bank to foster employment creation in its client countries (World Bank, 2006). While in this second plan national ownership and buy-in have been importantly strengthened, this happened at the detriment of the effectiveness of coordination. Last but not least, also the new plan lacks totally the euro dimension in approach and implementation. But within the euro area the policy reforms do not happen as envisaged under a common currency and hence the adjustment mechanism in case of main shocks are likely to be insufficient or inappropriate. If such a scenario were to be realized this would put a main pressure on social partners in Austria.

Overall outside observers may often gain the impression that globalization and its support is considered politically unwanted or incorrect, at least as far as the adjustment mechanism typically proposed by (neo-classic) economists are concerned. At political level there seems to be a lacking vision of Europe in a globalizing world beyond a European social model that may not exist, and if it does, may not provide the answer.

The challenges of *demography* to Austria, Europe and world go beyond a few more old people that need to be taken care of. The demographic projections signal major demographic shifts between regions and countries with main implications for public policy that are little discussed and even less explored (see, e.g. Juvin, 2005). In a nutshell, without migration the labor force in the “North” consisting of Europe and Russia, North America, China, and the rich East Asian countries are projected to shrink till 2050 by 244 million, of which the majority in Europe and Russia while the labor force in the “South” is projected to expand by 1.550 million of which the region of North Africa and Middle East across the Mediterranean pond alone by 143 million (table 4).

This shrinking of the labor force in the North, including Austria, which is due to a fertility rate below replacement level adds an economic dimension in addition to an increase in the number of elderly due to rising life-expectancy. The latter can be easily addressed by delayed retirement and splitting the increase in life expectancy between more work and more retirement leisure. A fall in labor force implies a fall in the rate of return for (unfunded) pension but also health care programs. Simply put, the rise in life expectancy since entry into the labor market requires for each generation a rise in retirement age by some seven years to neutralize the financial effects on the social program. To neutralize the effects of a fall in labor force that amount for Europe and Russia to almost one percent per year on the pension level requires a further delay in retirement by similar magnitude (Holzmann, 2006a).

The options to neutralize the effect on labor force, i.e. achieve a zero growth result, are know and limited: Return to replacement fertility, increase in labor force participation (say to approach the best three countries in the world, rising that of female to match that of male, and an increase in effective retirement age by ten years), and increased migration.

Scenario calculations indicate that while these options are numerically, in principle, each able to compensate the labor force gap till 2050 in the North, the implications may not be politically be palatable and even if so the policymakers may miss the instruments to achieve the quantitative result. For example, while the net migration requirements to compensate for the falling domestic labor force may seem manageable the gross migration levels, i.e. including non-working family members and return migration may be less so. For the North at a whole it would gross-up the net migration need by 2050 from 232 million to the gross range of 546 million to 1.108 million. For Austria the net migration need by 2050 of 1.4 million would be boosted to the range of 3.3 to 6.6 million.

The challenges and limits of policy making to achieve the quantitative results are clearly visible at the level of labor force participation and fertility rate. To increase total labor force participation, in particular among the elderly in a significant manner is likely to require major policy changes across many sectors, including of social programs, education and labor market institutions. To achieve a sustained increase in the fertility rate may require an even more drastic policy change that goes well beyond mere economics and budget expenditure. Fiscal transfers as incentives seem to have only a marginal effect on fertility decisions while assisting women to participate in the labor market through public (crèche) or market-based (nannies) mechanism seem to be more effective. But profound changes in the way the partner, employer and society is dealing with female life chances may have the ultimate impact on fertility decisions (and the OECD has produced some interesting country studies, including on Austria: see OECD, 2003). Quite a challenge for policymakers, employers and employees associations.

Table 4

Labor Force Projections Based on Zero-Migration Varianta

changes in millions

	2025	2050		2025	2050
North	–29.0	–244.0	South	785.0	1,550.0
Europe and Russia	–46.0	–118.0	MENA	83.0	143.0
EU-27	–28.0	–71.0			
Austria	–0.7	–1.4			

Source: Holzmann (2006a), based on UN demographic projections.

Table 5

Required Immigration from 2005 to 2025 to Hold Labor Force Constant

Period and Region	Net requirement of labor force	Non-active migrants aged 15–64	Dependents aged 0–14 and over 65		Returning and circulating migrants aged 15–64		Gross requirement of migrants	
			Low	High	Low	High	Low	High
2005–25	Millions							
China	–	–	–	–	–	–	–	–
Europe and Russia	46	20	10	23	33	131	**108**	**219**
of which EU-27	28	12	6	14	20	79	**65**	**132**
Austria	0.7	0.3	0.1	0.3	0.5	1.9	**1.5**	**3.1**
High Income East Asia and Pacific	9	4	2	5	6	26	**21**	**43**
North America	–	–	–	–	–	–	–	–
Total	83	36	18	42	59	237	**196**	**397**
2005–50								
China	85	36	18	42	61	242	**200**	**406**
Europe and Russia	118	51	25	59	84	338	**279**	**566**
of which EU-27	71	30	15	35	51	203	**167**	**339**
Austria	1.4	0.6	0.3	0.7	1.0	4.0	**3.3**	**6.6**
High Income East Asia and Pacific	32	14	7	16	23	92	**76**	**155**
North America	9	4	2	4	6	25	**21**	**42**
Total	232	99	50	116	165	662	**546**	**1,108**

Source: Holzmann (2006a), based on UN demographic projections.

Note: Net requirements based on zero-migration variant. Gross requirements calculated according to Holzmann and Muenz (2004).

2 Turning Challenges in Opportunities

The key question for Austria, Europe, and the world is how to turn the challenges into opportunities, that is how to develop and apply appropriate strategies that take advantage of the ongoing changes that globalization, integration and demographic shifts imply. These essentially exogenous changes constitute in a nutshell the key challenges and can be conceptualized as shocks to which countries need to adjust. Three considerations are suggested to be crucial:

First, the size of the shocks implied by globalization, integration and demographic shifts are already high but are likely to further increase. This is the assessment by most observers of international development and was the core of the discussions at the World Economic Forum in January 2006.

Second, beside the size, also the frequency of shocks is likely to increase with possibilities of repeated and bunched shocks, i.e. shocks that happen concurrently.

Last but not least, there will be less time to adjust to these shocks as size and frequency of shocks demand faster (re-)action but also because of an adjustment competition in which the early movers are more likely to benefit most.

For Austria, the needed adjustments will take place in a changing international environment and under less supporting circumstances. This is the result of the decreasing importance of Europe on the world's economic scene in which it will soon be overtaken by China (that in output in PPP is estimated to overtake Europe by 2015) and India (estimated to happen before 2040). The effects will be felt also at the level of international norm setting and policy decisions. The governance structures in WTO, IMF and World Bank are going to change and European influence reduced even if Europeans were to act jointly and quickly which is currently little the case. The increasing exogenous character of economic development for Europe and Austria renders any reactive instead of pro-active strategy even more sub-optimal.

Beside the assessment that pro-activity and speed matter, what are the likely areas where policy changes and a refocusing in priorities are needed to keep or even strengthen the competitive edge for a small open economy in a globalizing, integrating and aging Europe? Let me offer a few suggestions for key sectors and processes that are conjectured to be necessary conditions for such an attempt.

Strengthening the education system is key to turn challenges in opportunities. The emergence of highly skilled labor in the new globalizing giants makes it even more necessary to give human capital an extra and sustained push across all education levels. In order to be able to do so, however, it will require major shifts from current policy positions, including increased private financing of tertiary education to provide world-class teaching and research to an increasing share of youngsters, a capacity to be competitive and attractive to the best and brightest in world, and mechanism and institutions that create incentives and capacity for life-long learning.

Improving health outcomes across all age cohorts is a multi-sector task that, of course, includes the improvements of the health care system by making it more effective and equitable. An emphasis of avoiding early death and creating incentives to stay healthy throughout lifetime will strengthen the educational incentives and outcomes, is conducive to later retirement, contributes to lower health expenditure and is a crucial element of addressing long-term care issues. While the medical profession will undoubtedly be able to make main contributions, the required policy changes go well beyond and include critically workplace arrangements and life-style behavior.

The identification of key production sectors where the competitive edge can be established, kept or enhanced is often considered as a main element of addressing the challenges of globalization. Ideally such an approach would be based on government and private sector coordination, strategic public and private expenditure on R&D, and structures and resources that provide the educational underpinning. Critics of such an approach argue that governments are not good in picking winners, that it invites for rent-seeking behavior, and that it fosters political collusion. In consequence, and in order to potentially work, such an approach requires a watertight governance structure, including accountability and transparency toward the broad public. In some countries this would involve quite some change in operation.

To provide the drive for economic dynamism while creating broad political buy-in from the population will require a twin strategy: Strengthening both entrepreneurship and equity in a globalizing world. Suggested key considerations and proposals include the following:

There is rising empirical evidence that investment climate and incentives matter for the sector and type of firm where creation/destruction takes place that is ultimately responsible for the creation of good or decent jobs (World Bank, 2004). Schumpeter matters and thus the climate for the entrepreneur that drives the process.

To be effective as such an entrepreneur requires also financial systems in place that foster innovations, such as markets capable of pricing risk and of providing venture capital. This may require additional or strengthened market institutions beyond banks and insurance companies, such as pension funds.

Under the pressure of globalization many low-skill workers may not be able to achieve a living wage from the market and a too high minimum wage risks to be counterproductive. This calls for efficient income support for those marginalized workers during their working life (e.g. through an adequate refundable tax credit or other means to be investigated and experimented with) and their retirement (such as social pensions and top-ups).

To balance efficiency and equity considerations calls for an enabling welfare state that protects the individual and not the job. The notion of "flexicurity" is increasingly used to express such a model. An additional consideration is to think about security through flexibility of an economy and the underlying markets.

3 Where in all this Are the Social Partners in Austria?

Social partners continue to play an important role in Austria, and social dialogue between employer and employees organizations and government are considered as a critical element of the European market capitalism. "The European Union uses social dialogue institutions to help determine economic outcomes, particularly in the labor market, whereas the United States relies more on market forces" (Freeman, 2006b). Austria belongs to the countries in Europe where social dialogue among well-defined social partners (trade unions, chamber of labor, chamber of commerce, chamber of agricultural) and government has been well established since the aftermath of World War II and with much justification is (or has been) considered as a main element for the impressive economic development ever since.

This strong involvement by social partners in policy design and implementation begs the question about their role in a globalizing, integrating and aging world. Is there still role for them and if so in what areas, and does their business model need to be adjusted, and if so in what direction? After addressing these issues with a few sketched considerations, the presentation ends with a number of (provocative) questions to the following high-level panel that brings together key representatives of Austrian social partnership.

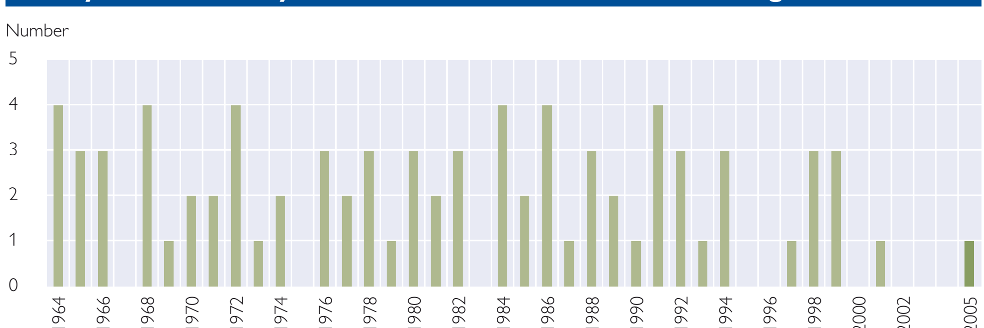
My very personal take is that social partners in a small and open economy such as Austria have, in principle, a crucial role to play in this rapidly changing world in order to turn the key challenges into main opportunities. The small size of the country will tend to limit opportunistic behavior and a resulting cooperative approach may lead to efficient solutions in key areas ahead of a fully competitive approach in both outcome and speed. On the other hand the cooperative approach may also lead to collusion between employers and employees institution and policy proposals that attempt to circumvent tough decisions or that may be detrimental to the population at large. Two examples each may sketch both possible outcomes.

Section 3 argued that effective lifelong learning is a critical element for a knowledge society and crucial to address the challenges of both globalization and aging. While there is some agreement what lifelong learning should entail with regard to outcome, there is much less agreement worldwide how this can be best achieved. And there is even less agreement how it should be financed. A recent internal paper by the Austrian Social Partners provides a quite good assessment of issues but when it comes to financing of lifelong learning the chapeau is passed on to the public purse (Beirat, 2006). Asking government for some subsidies for lifelong learning makes sense as it creates externalities that may not be fully internalized by other means. However, labor market research suggests that most of the benefits accrue to employers and employees, and quite likely more to the latter. This suggests a different financing structure and to the suggested approach in which collective bargaining is opened from wages and working hours to include content and expenditure for lifelong learning.

The important role of social partners in Austria is traditionally linked to the production of think-pieces by a Council for Economic and Social Issues (Beirat für Wirtschafts- und Sozialfragen). It is composed of members appointed by the social partners and the work and publications have the important role of forward-looking joint assessments on issues considered critical for the future of Austria. Important publications since 1964 include topics such as proposals for capital market policy (1964 and 1968), industrial policy (1970), labor market policy (1984), and investigations into "internationalization" (1989). More recently both the relevance of the issues and the number of publications seem to have declined (see chart 4). And despite all the discussion about globalization or aging these topics have not yet been approached in the traditional joint man-

Chart 4

Yearly Publications by "Beirat für Wirtschafts- und Sozialfragen"



Source: www.sozialpartner.at/beirat/publ/beirat_publ.htm.

ner. Without a joint and proactive vision it will be difficult to make the point that social partners will keep their past relevance.

This lack of joint forward-looking assessments seems to be replaced by more recent (non-council) internal papers and publications by the Austrian trade union federation and the federal chamber of commerce that sound much more defensive. A recent trade union memorandum calls for a "Social Europe" and a furthering of the European social model while requesting for a review of further liberalization measures in the European Union against their labor market implications (OeGB, 2006). The call for strengthening of the European social model seems to be the centerpiece of much of the reaction to globalization in Austrian and other member countries of the European Union. This begs, of course, the question which European social model is meant. Charts 5 and 6 borrow from World Economic Outlook 2006 that presents the labor market (input) indicators and the social policy outcome indicators for four groups of European countries with distinct features of social policy. The charts show quite some differences in policy approach and outcome across Europe, with room for benchmarking and trade-offs. On the other hand there are limited efforts in Austria and the European Union to move toward more coordinated pension and health care programs across professions and countries to strengthen mobility – a critical aspect of integration under a common currency (Holzmann, 2006b).

In the same defensive manner the federal chamber of commerce seems to have discovered the role of core labor standards in international development. While labor standards have a crucial role in economic development and are to be promoted as an important right issue, they are likely to provide little mileage as protective instrument against conjectured social dumping. In particular South East Asian countries have discovered that compliance with labor standards help them to gain a competitive edge through better market access in OECD countries as well improvements in local productivity. Hence a joint pushing by social partners for the enforcement of core labor standards in developing countries may have even the opposite effect on Austrian firms and workers while not substituting for forward-looking adjustment strategies in Austria.

A second key question about the future of social partnership concerns the question if the old business model, while successful, is still adequate for current challenges. The old business model has (or had) three main components:

(i) focusing on efficiency (productivity) improvements and not on distributive fights, i.e. the existing personal and functional income distribution was not questioned;

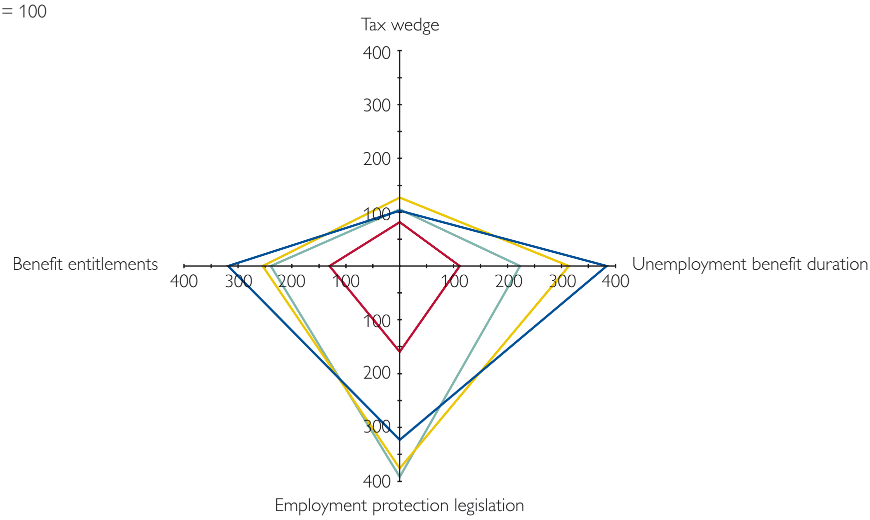
(ii) joint management of the (typically smaller and less frequent) economic shocks; and

(iii) joint assessment of future development and preparation of strategies and implementation. Each of

Chart 5

Western Europe: Labor Market Indicators

US average = 100



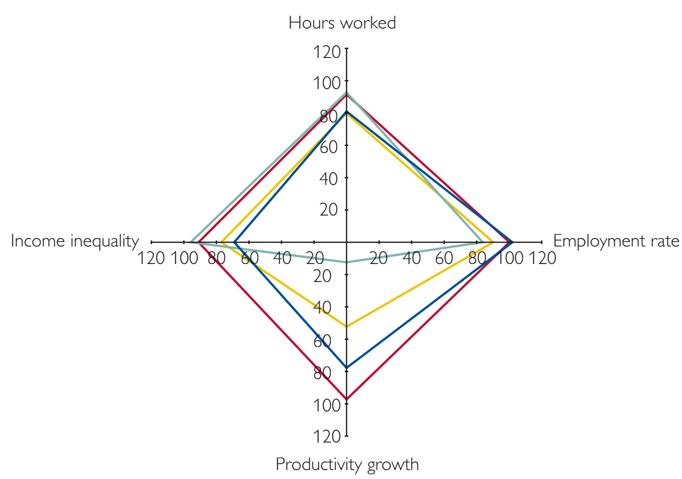
Nordic countries — Anglo-Saxon countries — Continental countries — Mediterranean countries

Source: IMF (2006), chart 1.12.

Chart 6

Western Europe: Social Policy Outcomes

US average = 100



Nordic countries — Anglo-Saxon countries — Continental countries — Mediterranean countries

Source: IMF (2006), chart 1.12.

these elements may require some review to be relevant for current and future challenges.

With European integration and globalization output and factor markets have become much more competitive in the European Union and in Austria. As a result it has become much more difficult, if not impossible, for the social partners to keep functional and personal income distribution largely unchanged. While it is still possible for the social partners to jointly focus on efficiency aspects their capacity to influence or correct market outcomes is reduced. Even where it could take place it may have main efficiency costs. But is such a bargaining position for the trade unions acceptable? In the last years this seems to have been the case. If not, does a distributive correction need to bring another player back to the table – the government – in order to help full the equity part of the globalization package?

Helping in the adjustment of firms and workers in a changing world was another key aspect of social partnership but this happened at a time when shocks were typically much smaller and less frequent. But can negotiated and coordinated approaches be applied on a large scale when faced with much larger and more frequent shocks (as evidenced after the oil-price shocks)? Aren't in many cases then market-driven approaches of adjustment much faster and more efficient? In such circumstances is there still a role for social partners to soften the adjustment burden or does this call for government and financial markets to provide the needed risk management instruments?

The joint forward-looking assessment of key challenges could still be a main contribution by the social partners. Joint views on issues and development of strategies and pathways of implementation would remain a powerful instrument in a fast changing world. But is it possible to keep this third component of social partnership in isolation if the distributive and adjustment aspects cannot be satisfactorily addressed? Is there a joint vision between the representatives of labor and business on the key challenges and opportunities, or is there at least as much difference among employees and employers then between? Most highly skilled workers profit from globalization, including the migration of cheap labor as many but not all enterprises. And the reverse may be perceived by low skilled workers and small shops and firms. If the representation by social partners were to be tilted toward the latter a joint view risks to become counterproductive for the future of Austria.

4 Concluding Remarks and Panel Questions

The World is faced with unprecedented challenges and opportunities. Globalization and migration offer static and dynamic welfare effects of essentially unlimited scope if the potential gains from economies of scale and scope, arbitrage, etc. are proactively seized and politically absorbed. European integration can crucially support this process to the advantage of member countries if the appropriate strategies under the right governance structure are developed and implemented. In Austria, social dialogue among social partners has been a crucial element to foster economic and social development and to address the many shocks which globalization, integration and aging apply. But is the past successful approach and business model of social partnership still relevant or has the demise of the corporate model already set-in (Talos and Fink, 2003)?

The presentation has explored some of these issues and closes with some questions to the high-level panel of social partners, including the head of the Austrian trade union federation, Austrian federal chamber of commerce, federal minister of the economy, and high-level representatives from the chamber of labor, association of industries, and institute for advanced studies). The purpose of the question is to tease out the joint understand of issues and solutions, and hence future of a successful partnership.

– What would they name as the
  - three most important challenges of globalization, integration, and demography?
  - three most important policy actions required to profit from these developments?
– What prevents the implementation of required actions, if any?
– What are the areas the social partners are seen to provide most assistance in facing the challenges/providing solutions?
– What are the obstacles for the social partners to provide solutions? Is their reaction/business model still fast enough to deal with changes?
– Are the social partners still part of the solution or already part of the problem?

References

Beirat für Wirtschafts- und Sozialfragen. 2006. Chancen durch Bildung – Konzepte und Strategien der österreichischen Sozialpartner zum lebensbegleitenden Lernen als Beitrag für mehr Wachstum und Beschäftigung. Draft, as of March 16. Mimeo.

Easterly, W. 2005. National Policies and Economic Growth: A Reappraisal. In: Aghion, P. and S. Durlauf. Draft chapter for Handbook of Economic Growth. Mimeo.

Felipe, J. and X. Hasan. 2006. The Challenge of Job Creation in Asia. Manila: Asian Development Bank.

Freeman, R. B. 2006a. The Great Doubling and Economic and Social Policy in the Era of Globalization. World Bank Seminar, March. Mimeo.

Freeman, R. B. 2006b. Searching for the EU Social Dialogue Model. NBER Working Paper 12306, Cambridge, MA: National Bureau of Economic Research.

Gordon, R. 2004. Two Centuries of Economic Growth: Europe Chasing the American Frontier. NBER Working Paper 10662. August.

Hausmann, R., D. Rodrik and A. Velasco. 2005. Growth Diagnostics. John F. Kennedy School of Government. Cambridge, Mass.: Harvard University. http:/ksghome.harvard.edu/~drodrik/barcelonafinalmarch2005.pdf.

Holzmann, R. 2006a. Demographic Alternatives for Aging Industrial Countries: Increased Total Fertility Rate, Labor Force Participation, or Immigration. In: G-20 Workshop on Demographic Challenges and Migration. Canberra: Commonwealth of Australia. 75–112.

Holzmann, R. 2006b. Toward a Reformed and Coordinated Pension System in Europe: Rational and Potential Structure. In: Holzmann, R. and E. Palmer. (eds.). Pension Reform: Issues and Prospect for Non-Financial Defined Contribution (NDC) Schemes. Washington, D.C.: World Bank.

Holzmann, R. and R. Muenz. 2004. Challenges and Opportunities of International Migration for the EU, Its Member States, Neighboring Countries and Regions: A Policy Note. Stockholm: Institute for Future Studies.

IMF – International Monetary Fund. 2006. World Economic Outlook 2006. April.

Juvin, H. 2005. L'avènement du corps. Paris: Gallmard.

Milanovic, B. 2006. Worlds Apart: Measuring International and Global Inequality. Princeton University Press.

Milanovic, B. 2005. Why Did the Poorest Countries Fail to Catch Up? Carnegie Papers 62. November.

Mishkin, F. S. 2006. The Next Great Globalization: How Disadvantaged Nations Can Harvest Their Financial Systems to Get Rich. Princeton and Oxford: Princeton University Press.

OECD. 2003. Babies and Bosses: Reconciling Work and Family Life (Vol. 2): Austria, Ireland, and Japan. Paris: OECD.

OeGB – Österreichischer Gewerkschaftsbund. 2006. ÖGB Memorandum Villach. Arbeit – Gerechtigkeit – Solidarität: Für ein Soziales Europa. Mimeo.

Pisany-Ferry, J. and A. Sapir. 2006. Last Exit to Lisbon. Bruegel.

Reisen, H. 2006. China's and India's Implications for the World Economy. PowerPoint presentation. Paris: OECD. Mimeo.

Talos, E. and M. Fink. 2003. Sozialpartnerschaft in Österreich: Das korporatistische System am Ende. In: Jochen, S. and N. A. Siegel (eds.). Konzentrierung, Verhandlungsdemokratie und Reformpolitik im Wohlfahrtsstaat. Das Modell Deutschland im Vergleich. Opladen und Budrich. 194–209.

World Bank. 2004. A Better Investment Climate – For Everybody. World Development Report 2005. Washington, D.C.: World Bank.

World Bank. 2005. Equity in Development. World Development Report 2006. Washington, D.C.: World Bank.

World Bank. 2006. Employment and Development: A Multi-Sector Approach to Foster Job Creation, Poverty Reduction and Growth. A Policy Note by Social Protection & Labor Department, World Bank. Washington, D.C. July. Mimeo.

World Commission on the Social Dimension of Globalization. 2004. A Fair Globalization – Creating Opportunities for All. Geneva: International Labor Organization.