



OESTERREICHISCHE NATIONALBANK

Stability and Security.

WORKSHOPS

Proceedings of OeNB Workshops

*Strategies
for Employment and Growth
in Austria*

March 3, 2006



No. 10

Comments on the Presentations on “Tapping the Employment Potential”

Johannes Schweighofer
Federal Ministry of Economics and Labor

1. Introductory Remarks

Section IV of the workshop on “*Strategies for Employment and Growth in Austria*” organized by the Oesterreichische Nationalbank (OeNB) focused on how the employment potential could be more fully exploited. The larger question of which growth strategies are needed at the moment is obviously based on the idea that growth is currently inhibited, among other things, by unused labor reserves and by an undefined shortage of labor and skills. In my opinion, this presumption is questionable and was not – or, as in the case of Stiglbauer, only briefly – elaborated on.

Is the calling for an increased exploitation of the employment potential currently justified? A first look at the labor market suggests that the answer is no. The unemployment rate reached a historic high in 2005 (7.2%) and is unlikely to decline significantly until 2007. Labor supply will continue to increase within the next few years, either because of longer-term trends (e.g. women), because of recently taken political measures (older workers, pensions), or for other reasons (e.g. migration). In this context it seems advisable to explain the implied effects of additional labor supply (complimentary or substitutive?). In particular, the expected dampening effects on wages should be described. As mentioned before, this highly interesting question is merely touched upon in the papers presented. This is regrettable, as neither supporters nor opponents of supply-side measures have ever explicitly discussed this issue. The OeNB workshop would have provided an opportunity to do so.

Before discussing the individual papers, I would like to make the following remark: I fully agree with 90% of what Hofer, Biffel and Stiglbauer say in their papers. In the following, I will, however, focus on the remaining 10% to enrich the debate.

2. Ad Helmut Hofer

Helmut Hofer's topic – *The Austrian Labor Market: Success Model or Need for More Reforms?* – seems to cover more than just the question of how the employment potential can be tapped (obviously the organizers have asked Mr. Hofer to chose this broader approach). This in itself does not really present a problem. However, some of Hofer's arguments, such as the suggestion that Austrian labor market and employment strategies should focus on low-skill workers – a standpoint one may of course agree with – inevitably contradict the calling for increased employment potential: Unemployment is particularly high among low-skill workers. Additional supply (of equally unskilled workforce) would aggravate the problem.

Hofer's remark (see chart 1 and 2) on the fact that structural unemployment (NAIRU, trend unemployment) has remained at a constant level or even increased since 2000 requires following up: Does this increase indicate that the numerous reforms taken on the Austrian labor, products and services markets, for example within the Lisbon Agenda or the European Employment Strategy, have failed to bring about the desired results? Or should we be more sceptical when it comes to the types of methods used for measuring structural unemployment? Clear and reliable answers to these two questions are certainly needed, as they are a prerequisite for many discussions about the labor market and about labor market reforms.

In chart 3 Hofer convincingly demonstrates that the increase in active employment that has taken place since the beginning of the 1990's can almost exclusively be attributed to women. This seems to somewhat contradict Biffel's statements. To some degree this contradiction can be explained by the use of different data by Hofer and Biffel (social security data versus Eurostat survey data).

In the chapter on economic policy recommendations voice by the Organization for Economic Co-operation and Development (OECD) and the European Commission (EC) Hofer states that, interestingly enough, some of the political measures taken in Austria were not based on respective OECD or EC recommendations. On the other hand, some of the existing recommendations were not implemented. Unfortunately, Hofer fails to provide a conclusion, and the chapter thus somewhat lacks substance.

Hofer stresses two fundamental factors influencing unemployment: (1) Since 1988, migration, the rising number of women participating in the labor market, and the increased implementation of active labor market policies have reduced traditionally high cyclical labor supply responsiveness in Austria. In this context one has to inquire about the consequences these developments bring about: Do they cause a rise in the average level of unemployment? (2) The increase in unemployment since 1990 can almost exclusively be attributed to the near doubling of the unemployment rate among low-skill workers (having completed nine years

of compulsory schooling or less). Among all other educational groups the unemployment rate rose to a comparatively small extent. This fact certainly deserves an enormous amount of attention from policy makers.

Hofer mentions the problem of “apprenticeship education“ several times, focusing in particular on the lacking long-term sustainable distribution of financial means, something I certainly agree with. However, Hofer fails to discuss alternative “*structural*” reforms.

3. Ad Gudrun Biffl

Gudrun Biffl concentrates on obstacles to employment for women. A look at the empirical evidence on how the number of employed women has developed over the past decades shows that employment among women has increased continuously, at least in terms of headcount. The title of Biffl’s contribution thus seems somewhat unsuitable, as Biffl mainly seems to be concerned about the quality of female employment and not so much about increasing the number of female employees (as the title would suggest).

One of the key aspects in Biffl’s paper is “*marketizing home production*”. Apart from the size of the two sectors affected by the distribution of home production (i.e. the informal and the services sectors) it is the distribution of home production itself that causes differences in employment rates among EU Member States. Freeman and Schettkat (Economic Policy, January 2005) use time allocation data to prove that women in the U.S.A. are generally engaged in market work 28.7 hours per week, whereas European women only do 20.7 hours of weekly market work. The former spend 30.1 hours on home production, and the latter 40.5 hours. The distribution of home production thus plays a key role when comparing U.S. and EU data. In this context Biffl argues – very much in line with the Lisbon Agenda – that female participation in the labor market must be increased: When looking at Sweden, on the one hand, and the U.K., on the other hand, one has to ask how “the Swedish way“ is supposed to be financed as the current political situation does not seem to allow for tax increases and whether “British conditions”, i.e. a more unequal distribution of income (which is necessary to enable higher-income households to employ cheap household staff), are really desirable.

In her paper Biffl switches focus several times. At one point she speaks about the employment rate, then again about the labor force participation rate. This shift causes distortions, especially when unemployment rates are high, and thus hampers the analysis.

When it comes to the gender pay gap in Austria it would be helpful to be able to break down the differences in gross monthly wages between men and women into the following categories: differences in working hours, educational level, occupational and sectoral segregation and pure discrimination. Then, respective policy recommendations could be made.

Concerning Biffi's argumentation on the segregation of women, one may wonder, when looking at Sweden, whether this unequal distribution is really all that bad for women, or whether it is just a certain form of segmentation.

Biffi reveals that marginal effective tax rates particularly restrain low-skill women workers from working, which is certainly true. However, a more differentiated analysis is necessary at this point in order to develop appropriate policies.

Unfortunately Biffi's concluding suggestions lack some of the scope that she provides in her profound analysis.

4. Ad Alfred Stiglbauer

Stiglbauer wonders whether Austria will (forever) remain the country of early retirement. He provides numerous interesting arguments and much empirical evidence but fails to give a clear answer at the end. In this context he rightly says that both a necessary (reduced access to early retirement, in particular to invalidity pensions) and a sufficient (additional older workers have to find employment) condition must be fulfilled to allow for a real trend reversal in the employment rates among older workers.

Given the large reforms of the pension system that were conducted in 2000, 2003 and 2004, the long transitional periods, and the uncertainty about how many of the additional older workers will actually find a job, Stiglbauer's empirical evidence (chart 3, table 3, table 2 and chart 7) does, after all, seem to indicate the beginning of a trend reversal.

Interestingly enough, the long-term forecast published by the Economic Policy Committee (EPC) and the European Commission, which Stiglbauer cites in his paper, presumes an increase in the employment rate among older workers in Austria to 54.4% (2020). After all, the EPC and the European Commission are commonly not known to downplay the retirement problem.

One can only agree with Stiglbauer when he criticizes the fact that the retirement debate is at times dominated by a "crusading" language ("demographic bomb"), which does not describe the issue appropriately.

Generally – and this is an aspect Stiglbauer does not mention – the appearingly so simple and thus seemingly sacrosanct demographic forecasts should be faced with more scepticism, as they often insufficiently take into account possible consequent changes in behaviour and political reactions – similar to the forecasts the Club of Rome published at the beginning of the 1970's on the use of natural resources.

Although additional government expenditure toward the first pillar of the pension system has become a central aspect in the retirement debate over the last few years, Stiglbauer only briefly mentions this issue. In their most recent calculations the EPC and the European Commission obviously find that overall

expenditure on state pensions will slightly decrease until 2050 (–1.2 percentage points). This contradicts the commonly voiced complaint that the state can no longer finance the pension system and is certainly a remarkable argument, which has so far not been attended to sufficiently.

With regards to corridor pensions, Stiglbauer draws the interesting conclusion that because of existing incentives, most people concerned are likely to retire at age 62. This is a thesis that can at least be verified!

Relating to the common argument that older workers are less productive, Stiglbauer actually cites empirical data. Other authors rarely do so.

Another interesting aspect Stiglbauer mentions is that older people seeking employment often face discrimination.

Finally, Stiglbauer makes the truly interesting remark that the depicted age-income profiles may underlie selection bias (low-income workers tend to leave the labor market more frequently).