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Revamping policy governance in Austria

The EU's impact 25 years on

This contribution reviews some economic governance aspects of the EU's 1995 enlargement. The focus is on selected fields of internal market pertinence in Austria compared with Finland and Sweden. The analysis starts with an overview of Austria's initial position and reviews the instruments of EU economic governance at the time, including fiscal rules and instruments. The central part of the paper is devoted to the adjustments required to comply with the gradual completion and refinement of the internal market. Special attention is given to competition policy and public procurement. Overall, economic governance in Austria was significantly "modernised" in the course of approaching and implementing EU membership. Although this contributed to a sustained improvement in competitiveness, Austria was in many respects lagging behind the comparative performances of Finland and Sweden.

JEL codes: F15, H11, H60, K21, K23, L16
Keywords: economic and fiscal governance, internal market, competition policy, public procurement, network industries, competitiveness

1 Introduction

25 years ago, when the Fourth Enlargement was to form the EU-15, the three accession countries Austria, Finland and Sweden were already part of the free trade area between the European Free Trade Association (EFTA) und the European Community (EC, established in 1973), of the Single Market as an element of the European Economic Area (since 1994), and, given the Maastricht Treaty of 1992/93, of the evolving monetary union. Austria and Finland subsequently introduced the common currency, while Sweden until now has obviated such a step.

The following remarks will concentrate on the consequences for economic policy governance in the countries of the Fourth Enlargement. Norway and Germany will sporadically be covered as reference countries. The next section is devoted to the initial position of the accession countries[1] with special emphasis on the structural characteristics of the Austrian economy just before entering the EU. Section 3 covers the economic and fiscal governance of the EU at the time of the Fourth Enlargement and the developments thereafter. Drawing on Austrian experiences in selected areas, Section 4 asserts that EU membership was expected to effectuate, and it actually entailed, a swift implementation of the internal market rules. The final section 5 summarises these aspects under the heading of competitiveness.

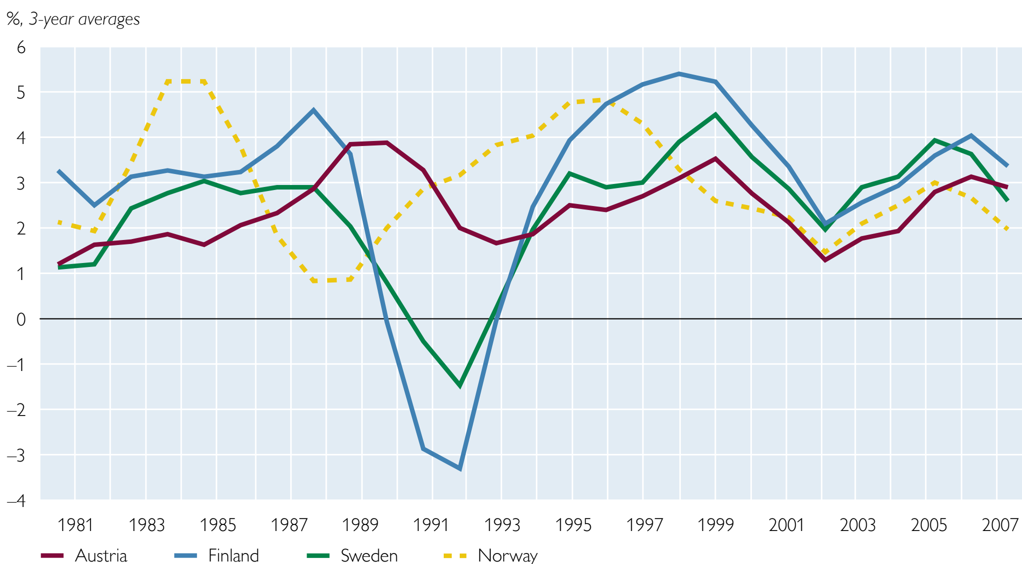
2 Diverging conditions in the candidate countries

In the decade before joining the EU, the countries concerned showed quite differing economic developments. In terms of the real growth of GDP, the three accession countries experienced a steady increase in growth rates during the 1980s. In the first half of the 1990s, political turbulences and the trough of the European business cycle were mirrored in low growth and even in recession. Finland was severely hurt by the dissolution of the USSR in 1991 and the ensuing collapse of bilateral trade between Finland and Russia, followed by a stunning recovery. In Sweden, the banking crisis of 1991/93 resulted in a backlash, followed by a dynamic recovery. In Austria, economic development was only mildly hurt by these events, but after accession growth remained more hesitant

[1] *„Accession countries" here always refers to Austria, Finland and Sweden.*

Chart 1

Real GDP growth rates



Source: AMECO.

than in the other two countries. Norway was anyway a special case because of the oil and gas exploration and extraction activities, and a production structure lopsided towards shipyards and fishery (Handler, 1976). Since then, and until the onset of the financial crisis, GDP growth exhibited the ups and downs of regular business cycles, partly disturbed by early liberalisation efforts and the ups and downs of international prices of crude oil (chart 1).

In Austria, accession to the EU was preceded by

- a long history of discussions, starting already in the 1960s, as to the political possibility of joining the EU (given the Peace Treaty of 1955, obliging Austria to refrain from any association with Germany, and the following constitutional law to remain a permanently neutral country);
- fierce public debates as to the economic feasibility of EU membership (weighing the pros and cons); and
- a series of policy decisions to make the Austrian economy compatible and competitive with conditions in the EEA and the EU.

At the beginning of the 1990s, Austria availed of a solid structural basis for joining the EU, chiefly characterised by a functioning social partnership and the experiences from the hard currency policy. Still, a number of weaknesses remained, as repeatedly assessed by consultation missions from the IMF and the OECD as well as by national witnesses:[2]

- a large sector of nationalised industries with limited exposure to competition;
- low productivity in the heavily regulated services sector;
- meagre efforts to liberalise the financial markets, with setbacks such as the "Ordnungspolitische Vereinbarungen" of 1985 (reducing competition between banks and resulting in an overbanked economy);

[2] *Among the latter are Breuss, Handler and Stankovsky (1988), Handler (1989), Kramer (1994), Butschek (2004), Seidel (2017).*

- higher inflation in Austria than in Germany (in spite of pegging the Austrian schilling to the Deutsche Mark); and
- deficiencies in the structure of industry, leading to a rather weak export performance.

In January 1987, the newly-formed Federal Government stated in its inaugural declaration that "the narrowness of the Austrian domestic market is one of the main obstacles to Austria's economic development" and therefore "participation in the further development of the European integration process is of central importance to Austria" (Legtmann, 1989). At this stage, Austria followed a threefold approach to integration: multilateral efforts via EFTA, bilateral initiatives with the EC in specific areas (free movement of labour, freedom of establishments, financial services), and autonomous measures to harmonise Austrian legislation with EC law. The overarching goal was to achieve a level playing field with other countries of the emerging internal market, either with or without EU membership.

However, membership was seen to round off previous integration steps such as the free trade agreement between EFTA and EEC and the Treaty on the EEA, including the internal market for members. One of the major arguments in favour of Austria joining the EU was the chance to participate in the wider policy making system and to "internationalise" the rather inward-oriented sectors of the Austrian economy (chiefly services, agriculture and the public sector). This would extort long-overdue structural improvements and, in the medium term, would strengthen the competitive position of Austrian firms on world markets.

Stemming the original opposition from small business and agriculture, the social partners joined forces and endorsed the government's accession strategy, supporting the "cost pressure model", already applied earlier by the hard currency policy: More competition would increase productivity of firms which in turn would be compensated by lower inflation, so that real incomes would be sustained and competitiveness improved. The economic challenges of membership seemed manageable, but were amplified when in late 1995 the federal government was dissolved and parliamentary elections were called. Some of the planned liberalisation measures had to be postponed, especially in the telecommunication and postal sector. The natural gas market was already quite open, while liberalisation in the electricity sector was partly guided by environmental concerns to further hydroelectricity and keep off electricity generated by nuclear power plants.

3 Backlogs in economic and fiscal governance

Before the financial crisis, a recurring criticism of the *EU's economic governance system* was the dominating focus on short-term fiscal and medium-term competitiveness targets, thereby losing sight of the long-term vision of improving the well-being of the peoples, as stipulated in Article 3(1) of the Consolidated Version of the Treaty on European Union (TEU). This changed as the euro-crisis called for decisive action with immediate effect, also allowing for medium to long-term goals such as social justice and sustainable development. In 2010, the long-term growth strategy was laid down in the "Europe 2020" programme for employment, education, innovation, climate and the fight against poverty. The major coordinating instrument was the European Semester, guiding the economic policy cycle of Member States during the

calendar year. On the short end it includes the Macroeconomic Imbalance Procedure (MIP) and the accompanying scoreboard, aiming to identify and counter early on any macroeconomic risks and imbalances.

In the second half of 1998, when Austria for the first time held the European Presidency, an impulse was given to establish a consultative forum among representatives from the Commission, the Council, the European Parliament, the European Central Bank, national governments, and the European social partners: the Macroeconomic Dialogue (MED). It was formally established at the European Council of Cologne in June 1999 as a biannual event for the joint discussion of monetary, fiscal, and incomes policies. In a reformed version, the MED still exists, and a complement for the Eurozone is in discussion (Koll, 2020).

A more modest success has so far gained the recommendation of the Council of the European Union (Council, 2016) to establish a National Productivity Board (NPB) in each country of the euro area, other EU Member States being invited to join in. As independent institutions, NPBs are supposed to engage in high quality economic and statistical analysis with results open to the public domain. In its progress report, the European Commission (2019b) complained that advances have been slow and uneven across Member States. In the meantime, NPBs are existent in 14 euro area countries and 3 non-euro area Member States, although neither in Austria nor in Finland and Sweden.[3] Sweden has actually decided not to participate in the exercise, while in Austria the reasoned concept of entrusting the Austrian Institute of Economic Research (WIFO) at least with a coordinating function (as noted, e.g., in Lacuesta and Tello, 2016) has not been affirmatively answered by the relevant authorities.

In contrast to economic governance, the principles of the *EU's fiscal governance* were already well established around the mid-1990s. Compliance with the rules, though, differed markedly from country to country. While Austria was well prepared in terms of monetary policy, the fiscal deficit was running out of line in the early 1990s, culminating at some 6% of GDP in 1995. The main reason was a gracious social policy in 1992-93 and a tax reduction package in 1994. After the collapse of government in late 1995, the eventual consolidation happened in 1996-97, bringing the deficit back to the Maastricht range of less than 3% of GDP. Even more disturbing were the developments in Finland and Sweden, where net lending in percent of GDP gyrated between plus 4% to 6% in the late 1980s and minus 8% to 10% in 1993 (chart 2), returning to high positive values by the end of the 1990s.

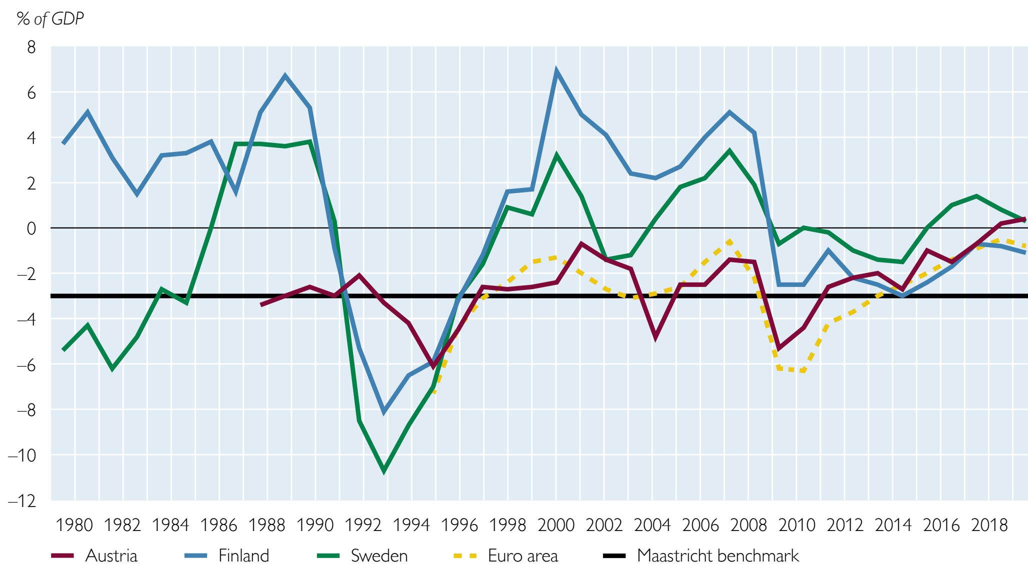
When Austria prepared for joining the euro area, public debt was just increasing beyond the Maastricht limit of 60% of GDP. That threshold has never been reached since. The debt ratio remained quite stable before the financial crisis but surged up thereafter, culminating in 2015 at almost 85% of GDP. The downturn since has now been stopped by the fiscal and economic consequences of the COVID-19 pandemic (chart 3).

By comparison, the Finnish debt ratio was just in the tens before the breakdown of the Soviet Union, it surged dramatically upwards thereafter but remained just below 60% of GDP. In the first phase of Finnish EU membership, the debt ratio declined (to less than

[3] *See European Commission, National Productivity Boards. https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/national-productivity-boards_de (retrieved 13 June 2020).*

Chart 2

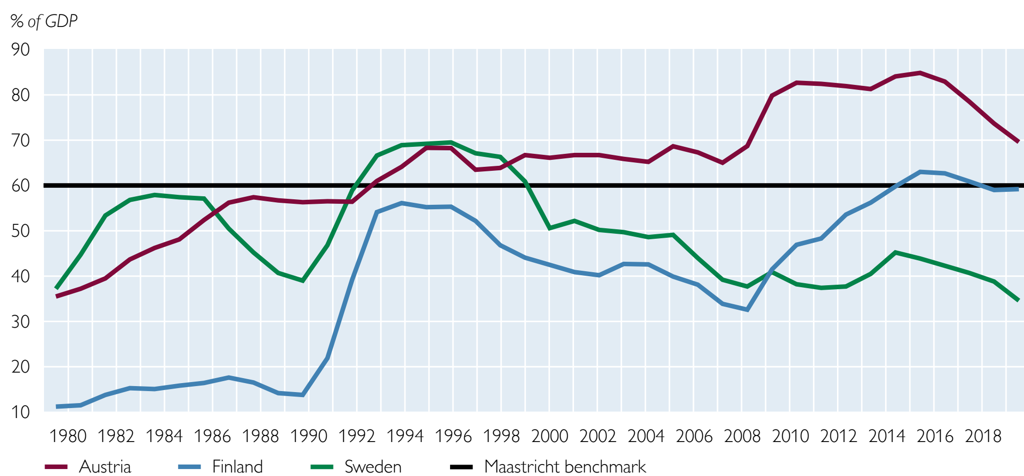
General government net lending from 1980 to 2019



Source: AMECO and World Bank.

Chart 3

General government debt from 1980 to 2019



Source: AMECO.

33% in 2008), but almost doubled in the following period until 2015 and 2016, when the ratio slightly surpassed the benchmark. The Swedish debt ratio, not being bound by euro rules, meandered around the Austrian ratio in the years before EU membership, hitting a high value of almost 70%. In the years preceding the financial crisis, it experienced a similar decline as the Finnish ratio, but remained stable thereafter and in 2019 amounted to less than 35%. All three countries are now confronted with the fiscal and economic consequences of the COVID-19 crisis, Austria starting from a relatively uncomfortable debt position with many years to come devoid of meeting the Maastricht criterion.

When the international financial crisis developed into a fiscal crisis, the focus turned to the possible surveillance role of independent fiscal institutions (IFIs) which the European Commission sees as "non-partisan public bodies aimed at promoting sustainable public finances." IFIs are now operating in most EU Member States. Sweden established the Fiscal Policy Council in 2007, Finland the National Audit Office in 2013, and Austria the Fiscal Advisory Council also in 2013 (replacing a forerunner that was in place since 1970). Beetsma and Debrun (2016) have shown that the existence of a national fiscal council contributes to the quality of fiscal policy by taming the deficit bias of well-intended governments.

4 The internal market as productivity boost for Austria

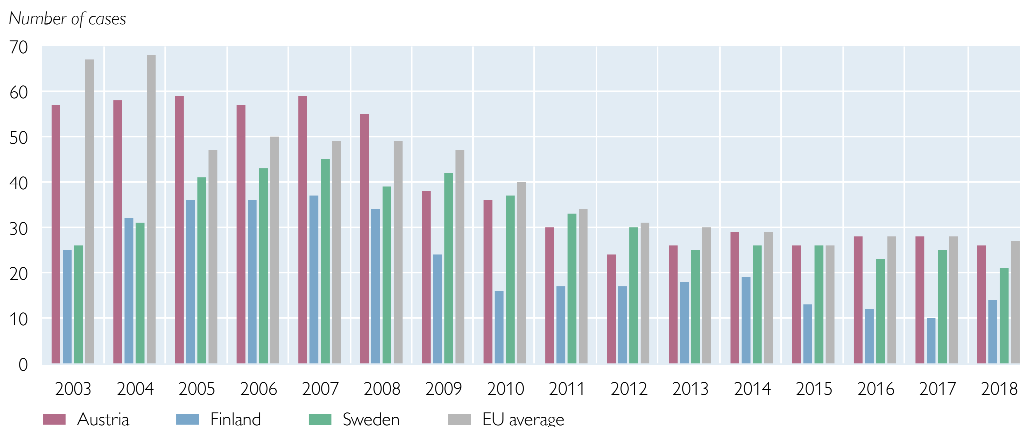
Although the internal market was declared complete in 1992, the years thereafter were laden with lagging compliances but also with further improvements of the system. To keep pressure on EU Member States to implement the internal market legislation, the European Council of Amsterdam in 1997 established the Single Market Action Plan. National advances of countries and their relative performance were publicised by the Single Market Scoreboard. The Austrian Presidency in the second half of 1998 was keen to take up open internal market issues, such as "better regulation" (Handler, 1998), and long-term aspects of competitiveness (Darlap and Handler, 1998). Austria also proposed to drastically reduce the number of Councils to just a Macro-Council and a Micro-Council but failed to get a majority of Member States on board. Already in 1997, Austria had started to liberalise shop-opening hours (Burger, 1998), moving ahead jointly with Finland, and both following the lead by Sweden where deregulation had occurred already in 1978.

The Single Market Scoreboard (SMS) measures the national *transposition deficits* as the percentage of Single Market Directives not yet notified to the Commission in relation to the total number of Directives that should have been notified by a specific deadline. When the SMS was first published in November 1997, Austria (with a deficit of 10.1%, largely the result of delays in transposing agricultural legislation) attained the worst position of all EU-15 Member States, closely followed by Germany and Belgium. Finland (4.3%) was among the most advanced countries, Sweden (6.2%) somewhere in the middle range. Five years later, all new members had achieved significant progress with Sweden (0,4%) scoring best among all EU Member States. Since the late 2000s, the transposition deficit of Austria has generally been somewhat above EU average. Sweden's deficit has mostly stayed below average, while Finland's deficit has grossly moved in line with the EU average. Latest figures for December 2018 show deficits for Austria, Finland and Sweden of 1.2%, 0.5% and 0.1%.

In case a Member State does not apply Single Market rules correctly or fails to transpose an EU Directive timely and correctly into national law, the Commission may initiate an *infringement proceeding*. In the last fifteen years or so, the number of new infringement cases against Austria has consistently been higher than in Finland and mostly also higher than in Sweden (chart 4). This is also mirrored in the number of infringement cases pending. In December 2018, Austria was subject to 66 cases pending, of which 34 were late transposition cases and 22 cases of incorrect transposition. The figures for Sweden were 48, 26 and 17, for Finland 32, 22 and 6.

Chart 4

Number of new infringement cases



Source: European Commission (2019a).

Wolfmayr et al. (2019) compare various indicators for the compliance with Single Market legislation and conclude that the transposition of EU Directives to national law is fairly advanced, while the potential of reducing infringement proceedings and increasing the number of solved cross-border disagreements is still large.

5 Rewriting the basic understanding of competition policy

The start of the EEA in 1994 also marked the application of EC competition law in the accession countries. Competition policy itself was in a stage of transformation, characterised by a gradual shift from the orthodox legal approach to the "more economics-based" approach which weighed legal principles against economic efficiency (Hildebrand, 1998). It anyway required an adjustment of Austrian legislation, although many of the existing rules were not in stark contrast to EU law and could therefore remain unchanged. However, the basic understanding of competition policy had to be reshaped fundamentally. The old Cartel Act (Kartellgesetz) had provided for a strong realm of the social partners who could bring cases to the Cartel Court and who were also involved in nominating laymen judges. This system was known to create conflicts of interest, making the system vulnerable to pressures from special interest groups (OECD, 2001). A weird result was the evolvement of market concentration in various areas, most prominently in the media sector and in food retailing, as the Cartel Court did not prevent mergers that resulted in severe market dominance (Böheim, 2002).

A formidable improvement was accomplished in 2002, when the reform of the Austrian competition law entailed the creation of the independent Federal Competition Authority (Bundeswettbewerbsbehörde) with broad investigative power (on background considerations, see Barfuß, 2001). Alongside the Authority, the Federal Cartel Prosecutor (Bundeskartellanwalt) was established as an official arm of the Federal Minister of Justice. Both bodies can now bring cases to the Cartel Court where the influence of the laymen judges was reduced. The social partners have retained some consultative influence, though, via the newly established Competition Commission. The central deficiency of the Austrian Competition Authority was for many

years the insufficient number and quality of professional staff. This has partly been corrected in 2017 and the years since. 2017 also brought an update of competition rules including the legal possibility to act as a whistle-blower.

6 Deficits in the implementation of public procurement rules

In industrial countries, the share of goods and services procured by public authorities absorbs about one quarter to one third of general government expenditures. According to OECD data for 2017, general government procurement spending in percent of GDP accounted in Austria for 13.2%, in Sweden for 16.2% and in Finland for 17.8%. Compared with 1995, these shares declined in Austria and Sweden but remained fairly stable in Finland (table 1).

Of much less importance is cross-border procurement within the EU with just 1.5% of all public contracts awarded, which suggests "that the full benefits of cross-border trade and competition are not being fully reaped" (European Commission, 2010). Part of the explanation may be found in the tenacious implementation of EU Directives, as already demurred in the White Paper on Completing the Internal Market (European Commission 1985, para.81–87). At that time, important fields of production – energy, transport, water and (in the case of supply contracts) telecommunications – were not even covered by the Directives.

The regional distribution of direct public procurement contracts with bidders from other countries differs substantially according to the respective neighbourhoods. Between 2009 and 2015, Austria allotted 64% of all contracts to German and 8% to Italian suppliers. In Finland, 29% went to Swedish and 9% to German bidders. In Sweden, 28% were contracted with Danes and 13% with Germans (European Commission 2017, Table 23).

With its public procurement legislation, the EU "seeks to create an open and competitive pan-European procurement market" which "can be an important source of support for innovation, environmental protection and employment" (European Commission, 2010). The "2014 Directives" have broadened the view from the dominant orientation on competition and efficiency to a broader view that has been termed "strategic procurement" (Handler, 2015). Instead of focusing on the lowest price, tenders under the new regime are evaluated to potentially include issues of environmental sustainability, social policy,

Table 1

General government procurement spending

Country	1995	2000	2007	2010	2015	2017	2007	2017
	% of GDP						*% of general government expenditure*	
Austria	18.4	17.1	12.4	13.7	13.5	13.2	25.2	26.9
Finland	16.3	15.4	14.4	17.2	17.5	17.8	30.8	32.9
Sweden	22.1	19.4	14.5	16.1	16.0	16.2	29.3	32.8
Norway	×	×	11.2	12.6	13.9	14.6	27.0	29.2
Switzerland	×	×	7.7	8.3	8.8	9.1	25.2	26.6
Germany	18.0	17.0	12.9	14.8	15.1	15.5	30.2	35.3
EU-15	17.3	16.0	×	×	×	×	×	×
OECD	×	×	11.8	13.1	11.9	12.2	30.2	29.1

Source: OECD, Government at a Glance, various issues.

Table 2

Single Market Scoreboard: Public procurement in 2018

	Austria	Finland	Sweden	Norway
Single bidders	Average	Average	Average	Satisfactory
No calls for bids	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Publication rate	Unsatisfactory	Average	Average	Not available
Cooperative procurement	Unsatisfactory	Satisfactory	Unsatisfactory	Satisfactory
Award criteria	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Decision speed	Satisfactory	Satisfactory	Satisfactory	Satisfactory
SME contractors	Unsatisfactory	Satisfactory	Satisfactory	Unsatisfactory
SME bids	Average	Average	Average	Unsatisfactory
Procedures divided into slots	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory

Satisfactory | Average | Unsatisfactory | Not available

Source: Based on European Commission (2019c).

Note: The colours are based on qualitative policy judgment on what constitutes good practice.

innovation, education, and public health. According to the Public Procurement section of the SMS for 2018, the accession countries of 1995 and Norway were all facing various deficits in the implementation of common procurement rules, Austria being on the low side (table 2).

Major deficiencies in Austria stem from a low publication rate in the Tenders Electronic Daily (TED), lack of procurement with more than one public buyer (cooperative procurement), only few SME contractors and unsatisfactory division of procurement procedures into slots, indicating that mostly large companies are suited to bid. When approximated by the average number of bids per procurement in the period from 2006 to 2010, Austria (5.2 bids) ranked below Sweden (5.6) and Finland (5.7) – for comparison, the figure for Germany was 7.6 bids. With respect to procurement procedures (open, restricted, negotiated, competitive dialogue), Austria stood out with a comparatively high share of negotiated contracts with TED publication. In a comparison with other EU Member States, Strand et al. (2011) moaned about the low degree of competition in Austrian public procurement.

7 Liberalisation of network industries: Austria late and expensive

The network industries (telecommunications, electricity, transport) were long regarded as "natural monopolies" subject to state regulation, if not state ownership. EU legislation has attempted to unhinge from vertically integrated networks those parts that can be ceded to the market, and to create independent regulators for the non-competitive parts.

When the "Northern Enlargement" became effective, the liberalisation of network industries was in Austria proceeding along the following timeline:

- The liberalisation of the telecommunications sector was under way and was completed in 1998.
- 1999 marked the start of the stepwise unbundling of the electricity sector with effective completion by October 2001, much earlier than required by EU Directives (OECD, 2001). Also, the natural gas market was liberalised earlier than the required deadline in autumn 2002.
- Only in 2001 started the liberalisation of the railway system, also delayed was the opening of postal services.
- Independent regulatory authorities were introduced in 1999 for railways;

in 2001 for telecommunications and electricity, in 2002 for natural gas and financial services.

In all competitive sectors analysed by Gönenç et al. (2001), Austria was less open in 1998 than Finland and Sweden. This holds for mobile telephony, air passenger transport, road freight, and especially retail distribution. Also, in industries with non-competitive segments, Austria was visibly behind the other two accession countries.

In the *energy sector*, liberalisation efforts in Austria were rather modest at the outset, permitting only large customers to freely choose their suppliers, without sufficient unbundling of production and transmission. National implementation of Directive 96/92/EC was accomplished in Finland already in 1997, in Sweden in 1998 and in Austria not before 2001 (Steiner 2001). A few years later, the OECD (2005) criticised that „Although the electricity sector is completely liberalised in Austria there is still lack of competition. … All in all, it appears that intensity of competition is rather low and that mergers of the past have contributed to this situation."

The slow pace of harmonising the EU energy markets is visible in the widely diverging electricity price levels. On the low side were prices in the Nordic countries with open borders between them and low-cost hydroelectric production facilities, while in Austria, in spite of its abundant hydroelectricity, prices were mostly above EU average. For the period from early 1997 and mid-2002, the European Commission (2003) observed an improvement in the overall level of market opening in the electricity sector, while the prospects for competition in the gas market were significantly behind. Over the whole period, the EU experienced a sweeping drop in electricity prices and an increase in gas prices – also mirrored by price developments in the accession countries (table 3).

The deregulation of *telecommunication services* brought a significant drop in prices for telephone calls via fixed networks (table 4). Between 1997 and 2003, the average price level of EU-15 member states was slashed almost by half. Just Finland experienced a slight increase, though starting from a rather low level. In contrast, Sweden, with comparably low prices, reduced them further by 45.5%. Among the accession countries, Austria started from the most

Table 3

Development of energy retail prices between January 1997 and June 2002

	EU average		Austria		Finland		Sweden	
	Jan. 97	June 02	Jan. 97	June 02	Jan. 97	June 02	Jan. 97	June 02
Electricity consumption	*EUR per MWh*							
Large: 24 GWh/year	52	48	69	60[1]	37	37	37	26
Medium: 50 MWh/year	108	92	163	97	60	57	70	36
Small: 3.5 MWh/year	99	96	98	77	73	70	68	69
Gas consumption	*EUR per GJ*							
Large: 418 TJ/year (120 GWh/year)	3.6	4.4	3.8	4.8	3.6	4.4	–	3.5
Medium: 418 GJ/year (120 MWh/year)	6.5	7.7	×	8.1	×	×	6.7	7.1
Small: 16 GJ/year (4.5 MWh/year)	10.9	12.0	8.3	11.6	×	×	9.9	11.6

Source: European Commission (2003).

[1] *Latest available data: 1/1999.*

Note: Current prices before taxes.

expensive position which it still held after a formidable reduction of 71.7% (Handler et al., 2004).

The deregulation of vertically integrated network industries is closely related to the issue of *privatising state-owned enterprises*, although providing services of general economic interest (SGEI)[4] is not primarily an issue of ownership, but is rather guided by the general targets of improving market conditions, fostering competition, and increasing efficiency (European Commission, 2016). Within the EU, privatisation projects started in the late 1980s and boomed in the second half of the 1990. The results were ambiguous, depending inter alia on the government level of ownership. Loeffler et al. (2012) concluded that "increased competition was only achieved in countries and sectors that had a state monopoly at the outset. On the other hand, when a number of regional or local monopolies existed, market concentration increased as larger companies bought up their smaller competitors."

The role of state-owned enterprises (SOE) in Austria goes back to Nazi times and the post-World War II attempts to stabilise and recoup the devastated and abandoned parts of industry. What in the immediate post-war period turned out to be a success-story, over time became a rather clumsy and inefficient corner of an otherwise internationalising and thriving production sector. Solutions to this problem were elaborated but implementation often failed due to ideological struggles among the social partners and their hassle with the government. Many incentives in favour of large-scale privatisation came from the repeated interventions by the IMF and OECD consultation missions and from the European Commission in course of evaluating the application for EU membership.

Table 4

Prices for telephone calls via fixed networks

	1997	2003	Change
	EUR		%
Austria	4.36	1.23	–71.7
Finland	1.05	1.11	+5.7
Sweden	1.10	0.60	–45.5
EU-15 average	2.74	1.39	–49.3

Source: Handler et al. (2004).

Note: Prices are for 10 minutes local calls plus 10 minutes within-country long distance calls.

Based on the number of employees in SOEs as a share in total employment, Austria cannot be considered a special case. According to OECD (2017), the 2015 share amounted in Austria to 1.9%, in Sweden to 2.7%, and in Finland to 3.1%. Just Norway was an outlier with 9.5%, which is due to the large oil exploring and extracting sector. More generally, Høj et al. (2007) found that in some countries (including Austria and Norway) there was considerable scope for further privatisation, though frequently not without friction. "In some cases, privatisation may be hindered by the need for parliamentarian consent (Norway), constitutional restrictions (Finland and Austria), or the legal requirement to maintain controlling stakes (France)." Other barriers to timely realising privatisation programmes may have been unfavourable stock market conditions and public ownership at lower levels of government, e.g. in the electricity sector (Austria, Finland, Germany, Norway) and the telecommunications sector (Finland).

8 Converging competitiveness

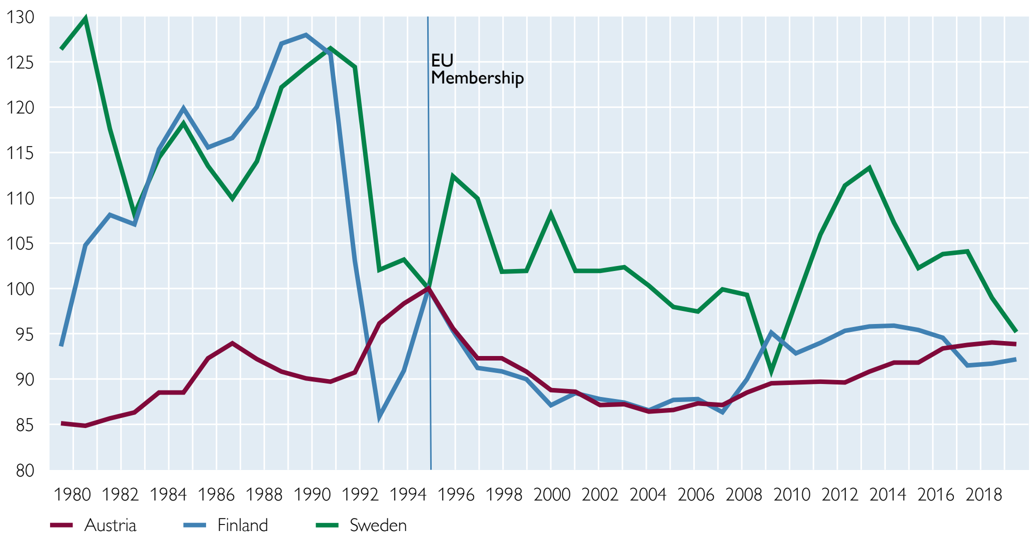
International competitiveness, a prime issue of economic policy already in normal

[4] *See Article 14 TFEU and Protocol No. 26 annexed to the TFEU.*

Chart 5

Real effective exchange rates

Index 1995 = 100



Source: AMECO.

Note: The real effective exchange rates are based on unit labour costs for the total economy and are calculated relative to EU-15 countries. Double export weights are used, reflecting competition in the home markets of the various competitors as well as competition in export markets elsewhere. A rise in the index means a loss of competitiveness.

times, emanated in Austria even more into the foreground when membership in the EU and the euro area had become a reality. Using as indicator the real effective exchange rates (REERs), deflated by relative unit labour costs, chart 5 provides a view of the developments in the three accession countries. For Austria, the REER increased during the 1980s indicating a relative loss of competitiveness. This was partly due to an appreciation of the Austrian schilling vis-à-vis the US dollar and the Deutsche Mark, but also the result of increasing relative prices. During the political, economic and financial turbulences of the late 1980s and early 1990s, the REER first declined but resumed the upward trend until 1995. During the first decade of EU membership, Austrian competitiveness improved, to turn around again after the financial crisis, though not falling back to 1995 levels.

The history is a bit different for the other two accession countries. Even more pronounced than Austria in the early 1980s, Finland followed a "hard currency" policy with a rising path of the REER. Due to the liberalisation of interest rates and capital movements in 1986, Finland experienced an overheating of the economy. This came abruptly to an end when the Soviet Union was dissolved in 1991 and the Finnish export industry fell into crisis (Ahtiala and Junttila, 2016). A Finish markka devaluation terminated the peg to the ECU basket of currencies. In the wake of the ECU currency crisis of September 1992, the markka became a floating currency which it remained until being replaced by the euro in 1999. Since the mid-1990s, the Finnish REER developed more or less parallel to the Austrian index.

In the late 1980s, Sweden had also experienced an economic boom with rising inflation rates. In the course of the currency turmoil in 1992, the Swedish krona left the peg to the ECU

currencies, and has since been under a regime of managed floating. Although EU membership as a rule entails entering the euro area, Sweden has not (yet) taken that step as public opinion indicates a possible negative outcome of an inevitable referendum. Since 1995, the Swedish REER index has fluctuated around a slightly falling trend, also interrupted by the crisis in the global financial system.

Chart 5 is indicative for the divergent preconditions of the three accession countries before joining the EU and for the overall impact of EU membership on them. Austria had comparatively favourable starting conditions in macroeconomic terms but was about to gain most in terms of market regulation and institutions. While monetary policy was perfectly on track for the introduction of the euro, fiscal policy was struggling to fulfil the Maastricht criteria. Many more adjustments were required to match the dynamic progress in the completion of the internal market and to make economic governance competitive. Austria was lagging behind Finland and Sweden in terms of transposing internal market directives, adequately staffing its independent competition authority, eliminating the deficit in public procurement rules, and introducing market elements in the network industries.

However, when measured in terms of competitive advances, Austria has fared quite well. In 2019, all three accession countries had somewhat lower REER levels than in 1995 which means that, over time, competitiveness relative to the EU-15 average has slightly improved and has also converged. This result is corroborated by the Global Competitiveness Index of the World Economic Forum. In the last two decades, all three countries have consistently been among the world best 25 countries. In most years, Austria has trailed the others of the group, the overall top position has interchangeably been held by Finland or Sweden.

Competitiveness has been discussed here as an issue of individual Member States, but it is also relevant for the position of the EU as a political entity in the context of global politics and economic relations. An important ingredient to competitiveness is the system of policy governance at EU and national levels, the focus of the current paper. In the Austrian case, the upgrading of public governance to the continuously ameliorating EU standards is by far not a finished task. It is, above all, subject to changing political priorities, as the euro crisis showed, and as we currently experience with the COVID-19 crisis.

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