

**AUSTRIA'S ROAD TO FULL
EMPLOYMENT**

EWALD WALTERSKIRCHEN

AUSTRIA'S ROAD TO FULL EMPLOYMENT

EWALD WALTERSKIRCHEN

WIFO Working Papers No. 89
January 1997

AUSTRIA'S ROAD TO FULL EMPLOYMENT

EWALD WALTERSKIRCHEN
RUDOLF MEIDNER LECTURE 1996¹⁾

1. Introduction

It is a great pleasure for me to be giving this lecture in honour of Rudolf Meidner. I have been spending most of my working life at the The Austrian Institute of Economic Research in Vienna²⁾. Before the war, the liberals von Hayek, Mises, Haberler and Machlup were the leading economists at this institute, but they emigrated and the so-called Austrian School did not influence after-war economic policies in Austria.

I was brought up in the Keynesian tradition. Josef Steindl, Kurt Rothschild and Hans Seidel were the leading professors at that time in Austria, they laid the foundations of what has been called "Austro-Keynesianism".

As a young student I once asked them: "What have actually been the greatest achievements in economics?" They said without hesitation: "Today we know how to fight economic crisis and unemployment." And about the same *Myrdal* (1960) wrote that one decisive step of the welfare state has been achieved, i.e. a state of full employment, and he continued by

¹⁾ This Working Paper is based on the Meidner Lecture 1996, given at the Arbetslivsinstitutet in Stockholm, on 11 November, 1996

Meidner Lecture 1994: Günther Schmid, Germany

Meidner Lecture 1995: Richard Layard, Great Britain

Meidner Lecture 1996: Ewald Walterskirchen, Austria.

²⁾ I have always been highly interested in the Swedish model, and I made also a contribution to make it better known in Austria by compiling a study on Swedish labour market policy five years ago (*Walterskirchen, 1992*).

saying that people in the Western nations would never permit a reappearance of high unemployment³).

But times have changed, and von Hayek, one of the founders of our institute (and author of "Roads to Serfdom"), came back in the early 1980s as a professor to Austria. His message was: Austria would need an unemployment rate of 10 percent to have the economy run smoothly.

³) At a conference of the *Kreisky Commission* (1994), K. W. Rothschild reminded us of this statement by G. Myrdal.

2. Some Causes of Unemployment in Europe

Much has been said about the causes of unemployment (e.g. *Bean*, 1994), also by *Layard* (1996) and *Schmid* (1994) here in recent years. I will make only a few remarks.

2.1 Economic slowdown and change in economic goals

It is evident that the slowdown of economic growth has been a major factor for the rise in unemployment, but besides this three important changes should be taken into account:

- Globalisation strategies, the answer of entrepreneurs to the strength of trade unions, have changed entrepreneurs' attitudes. It has become normal to sack older people long before they reach their retirement age. A few decades ago this would have been regarded as completely immoral.
- Rising living standards (and also double-income families) have changed search attitudes of the unemployed. They can afford to search longer for a well-paid job and they do so.
- There was a shift from a "production economy" to an "information economy" with a tremendous rise of the financial sector. The transfer of accumulated information (communication, wealth) gained much importance vis-à-vis the production of goods, the "information society" became a catch-phrase.

Closely connected with the economic slowdown was a change in economic policy priorities: from economic growth and full employment to price stability and budget consolidation.

Mr. Schlesinger, former President of the Deutsche Bundesbank, has put down the new ideology most clearly by saying: Recession and unemployment are passing by, but inflation must be tackled. What a pity that unemployment has not been passing by.

Neoclassical theory is repressing all these social and political conflicts. However, there can be no doubt that the victory of Keynesianism was the reaction to mass unemployment in the thirties, and monetarism was the reaction to the inflationary shocks of the seventies.

Economic theory is built on the economic interests of a society:

Neoclassical theory is reflecting the interests of entrepreneurs, centred on profit maximisation. Keynesian theory underlines the interests of workers, concentrating on full employment. And monetarism is built on the interests of asset holders, the "third class", who have gained much importance with the increase in wealth (*Walterskirchen, 1994*).

From this point of view, neoclassical synthesis – the synthesis of neoclassical theory and Keynesianism – may be seen as combining the interests of entrepreneurs and workers, leaving asset owners aside. "New classical macroeconomics" – a synthesis of neoclassical theory and monetarism – on the other hand, may be interpreted as combining the interests of entrepreneurs and asset holders, leaving workers aside. I think we shall only have a balanced and peaceful development if the interests of large groups of the society are not denied.

2.2 The answers of the academic profession

For the second time this century, the European economies have found from experience that the free play of market forces does not lead necessarily to full employment. However, the main answer of the academic profession has been for the second time that unemployment is just a problem of inflexible labour markets (*OECD, 1994*). The academic and OECD advice is to cut real wages, social security contributions and unemployment benefits.

This, however, cannot be a satisfactory answer (*Freeman, 1995 Buechtemann, 1996*): Labour market and wage flexibility has grown enormously in Europe during the last decade, so has unemployment.

Unemployment is primarily a problem of the economy, not of the labour market. The best proof of this is Sweden's experience with unemployment rocketing from 2 percent to 8 percent during the years of economic stagnation. However, if the European economy as a whole is not running satisfactorily, defensive reactions on the labour market are inevitable.

3. The road to full employment in Austria

Austria is one of the few OECD-countries with an unemployment rate below five per cent. Survey data show an unemployment rate of 4 percent this year, but they seem to underestimate somewhat. According to official data from labour market services the unemployment rate is about 6½ percent, but as much as one quarter of this is due to seasonal unemployment. The "true" rate of unemployment in Austria lies somewhere between 5 percent and 6 percent (*Biffi, 1997*).

During the last two years, however, there has been a marked deterioration in the labour market: After entering the European Union, Austria's food industries and some service industries came under pressure from international competition and reduced their staff substantially. Since 1995 Austria lost about 40.000 jobs, and official unemployment rates rose by about one percentage point (*Marterbauer, 1997*).

3.1 Austro-Keynesianism

However, Austria is still among the EU countries which have managed to keep unemployment relatively low (Figure 1). What are the main reasons for this?

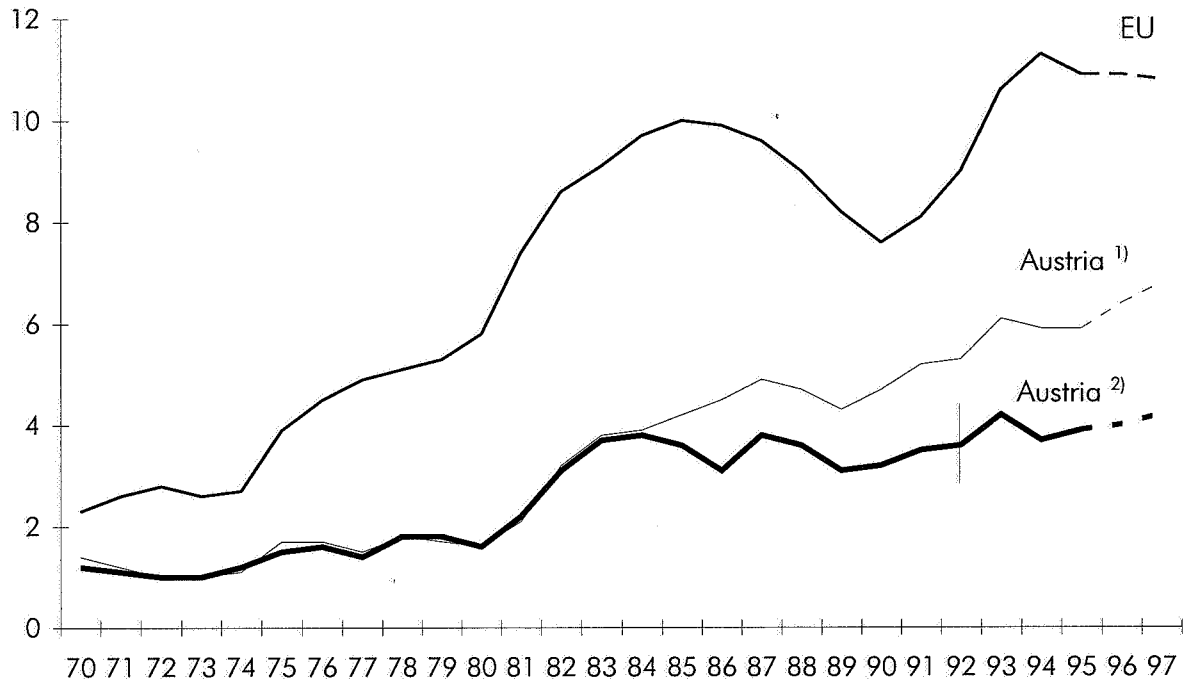
Bruno Kreisky has always stressed that unemployment must be prevented from the very beginning. Repeatedly he said that one unemployed causes him more headache than an additional public debt of a million schilling (*Kreisky Commission, 1989*).

In this political climate an unconventional strategy was designed to stimulate growth and employment without risking inflation. This "Austro-Keynesian" strategy was based on three principles:

- expansionary fiscal policy to boost growth and employment
- hard currency policy to fight inflation
- incomes policy to check the wage-price spiral and prevent deficits in the current account.

Figure 1: Unemployment rates

% of total labor force



1) Labor exchange statistics.- 2) Survey data.

It has been criticised that industrial and technology policy is missing in this concept⁴).

Austria's tremendous catching-up process until the 1990s – measured in terms of GDP per head – was certainly assisted by this Austro-Keynesian strategy (Table 1).

3.2 Fiscal policy

Fiscal policy, the first cornerstone, was part of the government's commitment to growth and full employment. Business could count on an expansionary policy stance promoting investment and exports until the 1990s.

Anti-cyclical fiscal policy (mainly investment in infrastructure and incentives for investment) was regarded as an adequate instrument to fight recession and unemployment – even in 1993.

Nevertheless, in the Kreisky era budget deficits in Austria were lower than on EU-average – due to an advantageous economic development in Austria (Figure 2).

In the past, three types of measures played a dominant role in limiting unemployment: subsidies, early retirement and public employment.

3.2.1 Subsidies

Subsidies to nationalised and other industries were predominant in the seventies and early eighties, combined with labour hoarding in nationalised industry (*Walterskirchen*, 1991).

In the late eighties, however, there was a change in the concept of fiscal policy. A rapidly increasing public debt and large interest payments for the public debt gave budget consolidation priority. Moreover, it had to be recognised that subsidies often impeded structural change or only postponed a plant close-down.

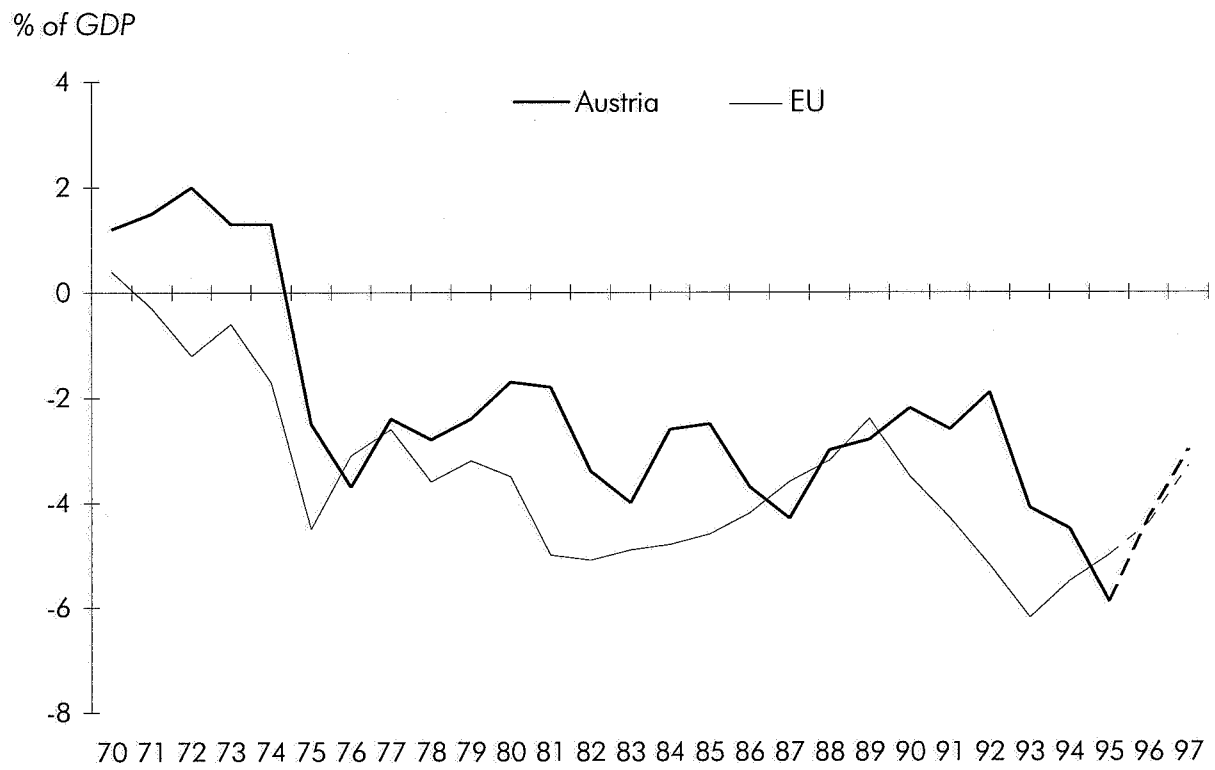
⁴) Some people are joking that Austrians are not planning for the future, but looking hopefully and confidently to the past. This also underlines that the Austrian economist Joseph Schumpeter had no influence on economic policy in Austria at all.

*Table 1: GDP per capita
At current prices and current purchasing power parities*

	EU	Sweden	Austria
		EU = 100	
1970	100	125	99
1980	100	114	110
1990	100	110	108
1995	100	100	112

Source: OECD, National Accounts Statistics

Figure 2: General government financial balances
Austria and the EU



3.2.2 *Early retirement*

The main political reaction to increasing labour market problems in the eighties and early nineties was early retirement (Table 2). The easing of conditions for receiving disability pensions and "special allowances" (Sonderunterstützungen) for certain groups of older workers were the main instruments to prevent unemployment.

In particular, in decaying firms employers and trade unions made such arrangements – until it became too expensive for public households.

I think such a strategy should not be rejected from the very beginning in a period of a general surplus of labour supply, particularly if such measures are concentrated on workers threatened by unemployment. The older people concerned were quite happy with this solution after 40 years of hard work.

The problem was rather that this attitude soon spread out from manufacturing to the whole economy, in particular to the public sector. At present, the effective pension entry age is 57 years on average, for Vienna's civil servants it is only 52 years.

Evidently, it is hardly possible to finance such measures given a life expectancy of almost 80 years. Therefore, the recent budget consolidation package restricted the eligibility for early retirement. Special early retirement schemes (Sonderunterstützungen) were abandoned.

Also the pensionable age is lower in Austria than in most other countries: Women may retire with 55-60, men with 60-65 (after they have worked for 35 years). Therefore, the participation rates of older workers are lower than in all other EU-countries: Only 62 percent of men between 55-60 years and 9 percent of men between 60 and 65 are still in the labour market.

3.2.3 *Public employment*

Rising public employment was an essential factor in improving the employment situation in Austria (Table 3). In the last decade total employment increased by more than 200.000 (+7 percent), the public sector (incl. education and health services) contributed two thirds

Table 2: Participation rates of older people in Austria

	1975	1985	1995	1975	1985	1995
	Males			Females		
55 - 59	97.6	70.1	62.5	47.1	29.6	23.2
60 - 64	37.5	17.7	10.5	12.9	7.5	5.7
65 and over	7.4	3.1	1.9	2.5	1.2	0.8

Source: WIFO-Arbeitsmarktvorschau

Table 3: Public and private employment in Austria

	Changes between 1987 and 1996
	Persons
Total dependent employment	+ 210,000
Public sector	+ 140,000
Private sector	+ 70,000
Foreign workers ¹⁾	+ 155,000
Austrian employees	+ 55,000
Public sector ¹⁾	+ 140,000
Private sector	- 85,000

¹⁾ Under the assumption that additional foreign workers were employed in the private sector only.

Source: Social insurance data, own calculations.

to this increase. But the share of public employment is still substantially lower than in Sweden.

The employment increase in the private sector (construction, tourism etc.) was fully met by additional foreign workers, jobs for Austrians in the private sector substantially declined (by about 85.000).

The recent budget consolidation package to reach the Maastricht criteria included a reduction in the number of civil servants in public administration, and medium-term budget consolidation plans point to the same direction. In particular, labour market problems for university graduates are foreseeable.

3.3 Hard currency policy

The second cornerstone of Austro-Keynesianism is hard currency policy. The Austria Schilling has been pegged to the Deutsch-Mark, that means that Austria does not use the exchange-rate instrument for employment purposes, and that Austrian monetary policy is essentially made in Frankfurt. Therefore, the EMU will not bring much change for Austria in this respect (Table 4).

Hard-currency policy was adopted in Austria as a tool against inflation, to keep import prices down. It was fully accepted by the trade unions: They claimed that inflation would hurt the poor in particular. Their argument was that the poor have to spend a very large share of their income on basic living.

After 1992 the fixed DM-Schilling exchange rate led to a substantial loss in Austria's international competitive position. It will take years to compensate for this (Figures 3 and 4).

3.4 Social partnership and incomes policy

The third and most important cornerstone of Austro-Keynesianism is the corporatist model of incomes policy. Based on social partnership, incomes policy has been the essential factor to make hard currency policy feasible and keep unemployment low.

Table 4: Flexibility of working time in the European Union

	Shift	Night	Saturday	Sunday
	Share of dependent employment			
United Kingdom	34	31	67	45
Spain	33	21	50	23
Italy	22	16	64	20
France	22	19	53	25
Belgium	29	18	42	25
Netherlands	20	18	42	26
Denmark	13	17	39	29
Germany	19	14	42	15
Austria	17	8	20	12

Source: Walther (1996)

Figure 3: Labor costs in Austria, Sweden and Italy

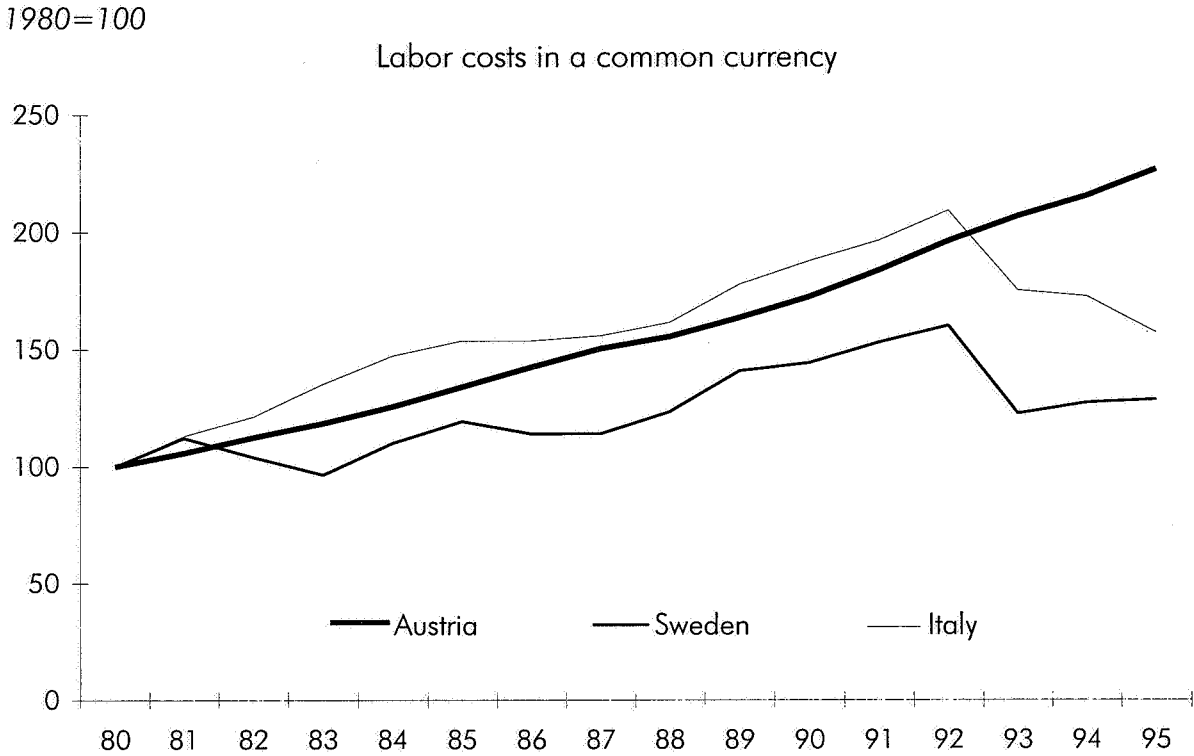
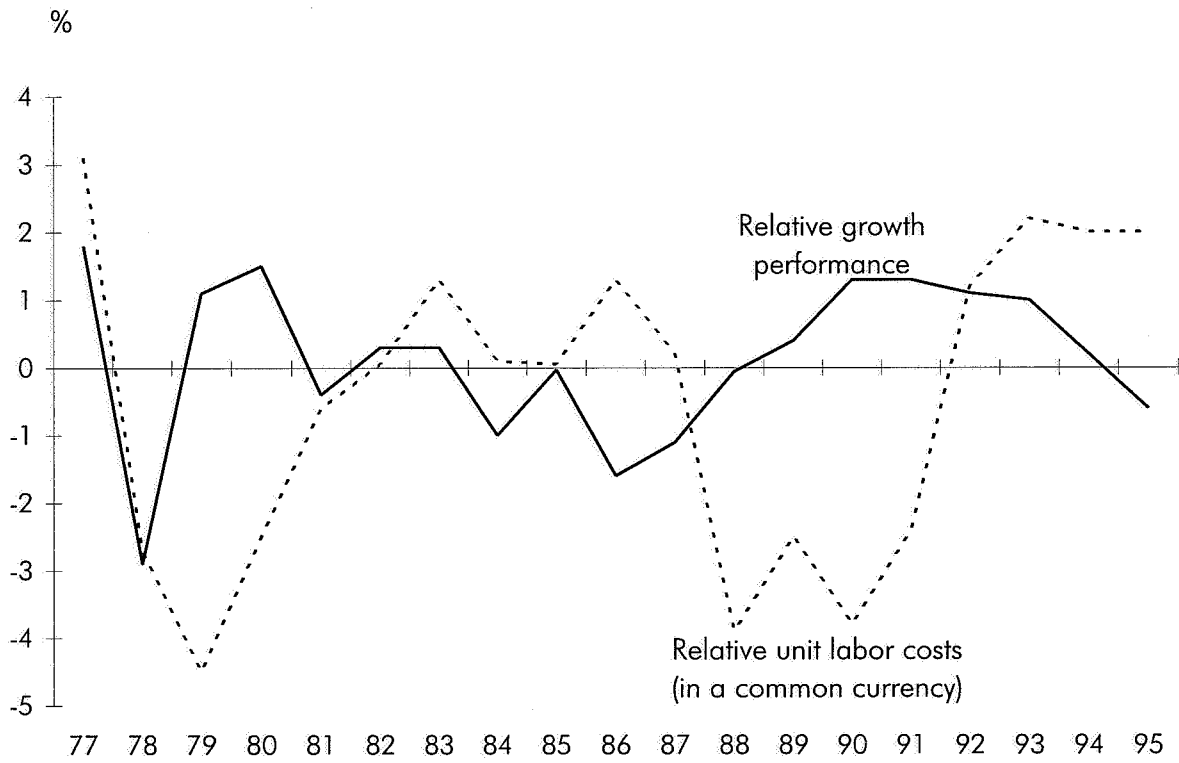


Figure 4: Relative unit labor costs and relative growth performance
Austria vis-à-vis the EU



It is widely accepted that Austria's corporatist arrangements have been able to cope better with exogenous shocks. Social partnership and centralised wage bargaining made the Austrian model work (Walterskirchen, 1991).

Just like other consensus countries Austria managed better to keep unemployment low⁵). Wages display a greater response to unemployment, and the effect of import prices on wages tends to be smaller. And, of course, economic activities are not blocked by strikes.

High unemployment in laissez-faire economies and incomes policies in consensus countries can be seen as alternatives to control inflation. In a laissez-faire economy the threat of unemployment keeps wages and prices under control. In an economy based on the cooperation of social partners labour market institutions can voluntarily play this role. Austria is a prototype of consensus policy.

Social partners in Austria have been involved in virtually every major policy decision since the 1950s, largely independent from the outcome of the elections and the kind of government. In 1995 for the first time, the coalition government adopted a budget consolidation package without asking for the consent of the social partners. But for the second large consolidation package government again invited the social partners to make their proposals.

This sort of "dual government" works since the responsible representatives of the social partners are usually members of parliament or have an important influence in one of the two big parties. At the present time, a coalition government is in power again, with the two big parties representing about two thirds of the voters.

For a long time, social partners were praised for their wise incomes policy, for the high flexibility of wages with regard to shocks. In recent years, however, social partners in Austria has often been criticised for their defensive actions: They were too long opposing to an extension of opening hours in retail trade. The Chamber of Commerce is still defending the strict trading regulations (Gewerbeordnung), that is regulations to shelter trades from

⁵) Also Sweden had low unemployment rates as long as it relied on consensus policy.

competition and impede market entry⁶⁾. Trade unions were too long defensive against working time flexibility, part-time work, and so on.

There is a long list of problems that could not be solved: In particular, long discussions of social partners about more flexible working times have not come to an end: Trade unions insist on collective agreements on the branch level, the employer side on working time agreements on the plant level. No compromise seems to be possible. Industrialists are increasingly annoyed about this situation. Austria has the most restrictive regulations of working time in Europe, and the share of part-time, weekend, and shift work is lower than in any other European country (Table 5).

On the other hand, incomes policy is still working quite well. The existence of collective agreements at the branch level is not really questioned.

In Austria, wages negotiations are carried out at the branch level. But there are only 13 branches, not about 100 as in Sweden. There is no firm wage leadership, but the blue- and white-collar workers in the metal and engineering industry start with the negotiations and have great influence on the wage round. In the eighties a main reason for moderate wage claims of trade unions was simply that the nationalised steel industry was deep in the red, and the union of metal workers tried not to worsen the situation. The other unions are following quite closely the path of the strong union of metal workers.

⁶⁾ There goes the saying that in Austria protection from competition had always priority to the protection of competition.

Table 5 : Economic growth in currency areas

	Real GDP		
	1982/87	1987/92	1992/97
	Year-to-year percentage changes		
Hard currency countries	+ 2.0	+ 3.3	+ 1.6
Germany	+ 2.1	+ 4.1	+ 1.4
France	+ 1.7	+ 2.5	+ 1.5
Netherlands	+ 2.4	+ 3.1	+ 2.3
Belgium/Luxembourg	+ 1.5	+ 3.2	+ 1.3
Denmark	+ 3.0	+ 0.9	+ 2.7
Austria	+ 1.7	+ 3.4	+ 1.4
Weak currency countries	+ 3.0	+ 1.8	+ 2.1
United Kingdom	+ 3.8	+ 1.0	+ 2.8
Italy	+ 2.5	+ 2.1	+ 1.6
Finland	+ 3.1	- 0.1	+ 2.6
Sweden	+ 2.6	+ 0.7	+ 1.7
Spain	+ 3.0	+ 3.3	+ 1.7
Portugal	+ 2.2	+ 3.8	+ 1.5
Greece	+ 1.5	+ 2.3	+ 1.4
Ireland	+ 2.3	+ 4.9	+ 6.6

4. Differences between policies in Sweden and Austria

It is surprising how different the strategies of two open economies with similar goals can be. For a long time, full employment had top priority in Sweden as well as in Austria, but the measures adopted to reach this goal were totally different.

The Rehn-Meidner model started with the question how to combine full employment with price stability (Meidner – Hedborg, 1984). The answer was: by relatively restrictive fiscal policy, solidaric wage policy and active labour market policy.

The political outcome in Austria to reach the same goal of full employment was: an expansionary stance of fiscal policy, increasing wage differentials and early retirement.

Moreover, economic development in Sweden and Austria was strongly influenced by exchange rate developments: In Sweden, devaluations raised the profits of export firms, hence subsidies to manufacturing industries could be reduced. In Austria, hard currency policy set export firms under pressure, which was reduced by subsidies for a long time.

There is also a big difference in the strategies regarding relative wages. Austrian trade unions are trying to keep existing wage structures more or less unchanged (they call this "solidaric" wage policy). Their claims are even somewhat more cautious in weaker (low-wage) industries to secure employment there. Moreover, in "monopolistic" firms there have been substantial wage increases on the plant level thus widening effective wage differentials⁷⁾.

With entering the European Union, economic policies in Sweden and Austria are likely to converge. But unlike Sweden, Austria will probably join the EMU from the very beginning with all risks and chances, but there seems to be no alternative for a country that is so closely tied to Germany.

The difference in unemployment rates between Austria and Sweden has one outstanding reason (Marterbauer et al., 1992): An economic shock – as it was experienced in Sweden

⁷⁾ The average hourly wage of a worker in the oil industry is more than three times as high as in the clothing industry.

in the early 1990s – could be prevented in Austria. This may be explained partly also by the fact that consensus policies and collective wage agreements are still functioning in Austria. There is still a high commitment of government to full employment, as social partners are articulating production interests against financial interests. Real wage flexibility with regard to unemployment is high, thus preventing large economic fluctuations and a rocketing of unemployment in recessions.

5. Options for the future

5.1 Strategies on the European level

When we come to measures against unemployment on the European level, we should recognise that we are living in a "hostile" world in the sense that the countries around do not care very much about unemployment. If EU-countries would be blamed for high unemployment as they are now for high budget deficits and inflation rates, the situation would be different. But things are unlikely to change in the near future.

Sweden, Austria and Denmark are pushing for EU-employment policy and a EU-employment union. But at present the chances are not very good with Germany opposing to it.

Why should the EU become involved in employment policy? Allan Larsson has put this most clearly at a conference of the Kreisky Commission (1994): The goal of European employment policy is not to take over from governments the responsibility for combating unemployment, but rather

- to make the action of member states more effective (e.g. regarding infrastructure),
- to stimulate a change from passive to active labour market policies and
- to prevent measures which are at zero-sum options, i.e. social, fiscal and monetary dumping (tax reduction race, devaluations etc.)

On the European level, four strategies appear to be the most appealing:

5.1.1 *Job-generating infrastructure investment*

Almost ten years ago, in the report of the *Kreisky Commission* on Employment Issues in Europe (1989) – which I compiled together with Clas-Erik Odhner – we concentrated on infrastructure programmes (incl. education and environment). Today, we find them again in

Mr. Delors' White Book on Employment (1993), but governments have been very reluctant because of fears of higher budget deficits⁸⁾.

5.1.2 *Keeping interest rates as low as possible*

The US-economist Rudiger Dornbusch once said: The single most responsible party for the rise in unemployment in Europe is the Deutsche Bundesbank (*Kreisky Commission, 1989*). And Italian business leader Carlo Benedetti argued that antiinflationary policy has become a religion in Europe. Even at times when unemployment policy is most dangerous, policy makers see only one problem: inflation.

The Federal Reserve Board has demonstrated in the first half of the nineties that is possible to stimulate economic growth without causing inflationary pressures. This US-type of monetary policy would be a great help for Europe, in particular for interest payments on public debt. This would also give governments more room for manoeuvre in implementing infrastructure programmes.

5.1.3 *Stabilisation of exchange rates in Europe*

The exchange rate turbulences in 1992-93 have shocked the European economies and increased the uncertainty for investors. A stabilisation of exchange rates (through EMU and EMS II) would be an important factor to stabilise expectations. The trouble is that the good idea of a single currency is being used as a vehicle to balance out all the budgets at the same time by cutting down the welfare state.

5.1.4 *Stop the tax race*

There should be EU-wide minimum rates for taxes to stop the tax race, the new form of beggar-my-neighbour policies. Austria is supporting the European Commission with the endeavour to introduce such lower limits on taxes.

⁸⁾ Germany is also explicitly against such programmes because it is net-payer in the EU.

5.2 National strategies

It will be difficult for Austria to keep the relatively good employment record because some important instruments to fight unemployment are not available any more: neither subsidies (due to EU-competition law) nor earlier retirement nor large increases in public employment. Therefore, Austria's old road to full employment seems to be blocked. Moreover, Austrian government had to learn by experience, that it cannot influence the decisions of multinational firms to cut employment in Austria and relocate plants to Eastern Europe (e.g. in the Continental-Semperit conflict).

With Austria joining the EMU, it will be even more difficult to have the automatic stabilisers (i.e. the loss in taxes etc.) work in a stagnation period. In the past, this counter-cyclical fiscal policy has prevented unemployment from rising sharply in recessions, in future such a strategy will be hampered by the EU-stability agreement which implies that a deficit of 3 percent of BIP must not be exceeded (without a fine) even in a year of stagnation.

In Austria, presently we would need a GDP growth rate of about 2 percent to keep employment constant, and a growth rate of almost 2½ percent to prevent unemployment from rising. In medium-term projections a growth rate of about 2 percent is expected. Under these circumstances the outlook for the labour market is rather gloomy unless we find new strategies to tackle unemployment.

5.2.1 *Stimulation of investment*

High investment is a precondition for a dynamic economy (*Guger – Walterskirchen, 1988*). Investment can be stimulated mainly by innovation policy and infrastructure investment (e.g. telecommunication networks, railroads, environmental protection etc.). Infrastructure investment may be financed largely by user fees, there need not be a conflict with budget consolidation. Of course, infrastructure is not only improving the quality of life, but also the attractiveness of a country for international investors.

In Austria, there is some extra money available for innovation and technology policy: The receipts from privatisation are partly spent on technology policy.

5.2.2 *Wage policy to maintain competitiveness*

In Austria, labour costs in a common currency increased much faster in the first half of the 1990s than in the EU. The appreciation of the schilling could not be compensated by lower nominal wage increases, as it usually happened in the past.

Higher productivity increases than in other countries could partly offset the effects of the appreciation, but this implied high job losses in manufacturing.

In the EMU, wage policy will come under even greater pressure to maintain international competitiveness, as wage policy will have to replace the exchange-rate instrument. This pressure on wage policy in addition to the pressure on fiscal policy will cause hard times for trade unions in the EMU. But Austria has been used to this for two decades.

5.2.3 *Specific reductions of working time*

At times of general surplus of labour, the possibilities of working time reductions ("work sharing") must be reconsidered.

In the last decade, one of the goals of trade unions in Austria was a general working week of 35-hours with full wage compensation. Increasing competition through globalisation and the opening up of Eastern Europe made it impossible to achieve this goal.

But there are some forms of reducing labour supply which are feasible

- a sabbatical for retraining (as in Denmark) or
- a defensive reduction of working-time at the enterprise level to stop planned layoffs (the Volkswagen-model) or
- cutting the incentives to work overtime (which stem from decades of general labour shortage)

5.2.4 *Part-time work*

Part-time work and other irregular new forms of work are important at the borderlines between work and family, work and education as well as work and retirement.

Part-time employment is very low in Austria (below 10 percent), and also participation rates of women in Austria are lower than in most other EU countries. In recent years, particularly the Netherlands experienced a tremendous boom in part-time work and at the same time a reduction in unemployment rates.

For a long time, prominent female trade union leaders in Austria rejected part-time work since it does not offer career prospects to women that are equal to those of men. This disregards the fact that for many parents the only alternative to part-time work is not to work at all.

The desire of parents for shorter working hours in a certain period life should be better used in Austria, in particular in the public service. Here, the share of public employment is extremely low. There is much room for expansion - if we compare it e.g. with Sweden.

5.2.5 *Active labour market policy*

Active labour market policy in Austria is using essentially the same instruments as in Sweden, but at a very small size⁹⁾. Only about ¼ percent of GDP is spent for active labour market policies.

The trade unions concluded in a recent paper to government that active labour market policies must supplement full employment-oriented economic policies and increase their effects (ÖGB, 1996). Nevertheless until 1999 the budget for active labour market policies has been frozen at ATS 5,7 billion. The labour market service is now aiming for a shift of ATS 1 billion from the passive to the active side by finding jobs for persons receiving unemployment assistance.

⁹⁾ Active labour market policies in Austria were really imported from Sweden: Mr. Lenert, a former chief of the Austrian labour market administration, introduced them in Austria in the 1960s and 1970s. For that reason he learned Swedish and was able to read all the papers written here.

5.2.6 *Service pools*

Private households have high demand for personal services: care of children and older people, cleaning, gardening, etc. Many of these services are not satisfiable at all or only on the black market.

One way of using this large potential for employment is the following: A non-profit organisation is employing long-term unemployed and leasing them to private households (usually on an hourly basis).

6. Conclusions

When the Kreisky Commission was set up in 1986, we all had the impression that mass unemployment would not be a passing phenomenon. Almost ten years later, unemployment is still a key economic and social concern. And the main conclusions of the *Kreisky Commission's Programme for Full Employment (1989)* are still valid:

- 1) We need governments seriously concerned about unemployment and acting against it, particularly in recessions. Bruno Kreisky never ceased to point out that political radicalisation, rising crime and sustained poverty are linked to unemployment.

Unemployment results in a depreciation of skills and hence in lower employment chances. Long-term unemployment is, therefore, the bill that governments have to pay for having neglected unemployment for a too long time.

- 2) Unemployment is a problem of the economy, not just a problem of the labour market. We need a highly competitive European economy. This is mainly a matter of quality (technology, design and skill), not so much a matter of costs. The path for prosperity lies not in providing low-wage, low-skill jobs but in upgrading Europe's labour.

Austria's Federal Chancellor Mr. Vranitzky wrote in a recent conference report of the *Kreisky Commission (1994)*: "It is my conviction that we need more creativity than currency devaluation and wage cutting to create employment. We must support R&D activities, simplify legal procedures to establish business, push for a better education of our people, improve infrastructure, increase marketing activities on export markets, etc.¹⁰⁾"

¹⁰⁾ In Austria, it is much talked about the importance of retraining and life-long learning for the employed, but no money could be raised so far to start a larger initiative.

7. End

Coming to the end of my lecture I would like to say that I am really happy for this opportunity to talk to you about unemployment issues which kept me occupied most of my working life.

In the life of a scientist, there are three stages, the physicist Victor Weisskopf was saying: At the first stage, he is writing original scientific articles. At the second stage, he is writing articles together with younger scientists, and at the third stage, he is invited to lectures and formal addresses. I see, with this lecture for Rudolf Meidner I have reached the third stage.

I feel obliged to apologise for having used so many ideas from Rudolf Meidner, Gösta Rehn and other Swedish economists in my lecture. But I don't want to apologise too much, since I remember a story that a young man in the thirties held a lecture on Hamlet in a psychoanalytical circle in Vienna and he apologised again and again for having quoted so much Shakespeare until Sigmund Freud interrupted him and said: "Don't worry about that. You really can be sure, these quotations were far the best in your lecture".

Literature

- Bean, C., "European Unemployment: A Survey", *Journal of Economic Literature*, 1994, (32), p. 573-619.
- Biffi, G., "Arbeitslosenquoten", *WIFO-Monatsberichte*, 1997, 70(1), (forthcoming).
- Buechtemann, C., *Das amerikanische Beschäftigungswunder als Vorbild? 1. Internationale Wirtschaftstagung der SPD in Bonn, August 28, 1996.*
- Freeman, R., "The limits of wage flexibility to cure unemployment", *Review of Economic Policy*, Oxford, 1995, 11(1), p. 63-72.
- Guger, A., Walterskirchen, E., "Fiscal and Monetary Policy in the Keynes-Kalecki Tradition", in *Barriers to Full Employment*, Kregel, J. A., Matzner, E. and Roncaglia, A. (eds.), MacMillan Press, Basingstoke, 1988.
- Kommission der Europäischen Gemeinschaften, "Wachstum, Wettbewerbsfähigkeit, Beschäftigung.", *Weißbuch, Bulletin der Europäischen Gemeinschaften*, Brussels, June 1993, (6).
- Kreisky Commission, *A Programme for Full Employment in the 1990s*, Pergamon Press, Oxford, 1989.
- Kreisky Commission, *How to create jobs? Conference Report*, Passagen-Verlag, Vienna, 1994.
- Layard, R., *The Road Back to Full Employment*, The 1996 Rudolf Meidner Lecture.
- Marterbauer, M., Schweighofer, H., Walterskirchen, E., "Von der Deregulierung zur Banken- und Wirtschaftskrise in Schweden", *Wirtschaft und Gesellschaft*, 1992, 18(4).
- Marterbauer, M., *Prognose für 1997 und 1998: Konjunkturerholung bei hohem Leistungsbilanzdefizit*, *WIFO-Monatsberichte*, 1997, 70(1).
- Meidner, R., Hedborg, A., *Modell Schweden. Erfahrungen einer Wohlfahrtsgesellschaft*, Frankfurt, 1984.
- Myrdal, G., *Beyond the Welfare State*, Duckworth, London, 1960.
- OECD, *Jobs Study*, Paris, 1994.
- Österreichischer Gewerkschaftsbund (ÖGB), *Offensive für mehr Wachstum und Beschäftigung, Vorschläge des ÖGB zur Bekämpfung der Arbeitslosigkeit*, February 19, 1996.
- Schmid, G., *Is Full Employment still Possible? Transitional labour markets as a new strategy of labour market policy*, Lecture in honour of Rudolf Meidner, September 8, 1994, Stockholm.
- Walterskirchen, E., *Unemployment and labour market flexibility: Austria*, ILO, Geneva, 1991.
- Walterskirchen, E. (Koordinator), *Arbeitsmarktpolitik in Schweden*, WIFO, Vienna, 1992.
- Walterskirchen, E., "15 Jahre monetaristische Wirtschaftspolitik", in *Was ist relevante Ökonomie heute?*, *Festschrift für Kurt W. Rothschild*, Matzner, E., Nowotny, E. (eds.), Metropolis Verlag, Marburg, 1994.
- Walther, H., *Chronologische Arbeitszeitflexibilisierung – Ein Weg zur Bekämpfung von Arbeitslosigkeit?* *Wirtschaftspolitische Blätter*, 1996, (2).

© Österreichisches Institut für Wirtschaftsforschung 1997.

Medieninhaber (Verleger), Hersteller: Österreichisches Institut für Wirtschaftsforschung • Wien 3, Arsenal,
Objekt 20 • A-1103 Wien, Postfach 91 • Tel. (43 1) 798 26 01-0 • Fax (43 1) 798 93 86 • Verlags- und
Herstellungsort: Wien

Die Working Papers geben nicht notwendigerweise die Meinung des WIFO wieder.

Verkaufspreis: S 100,-.