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Promotion of Growth and Employment in Austria within the New European Policy Framework

With accession to the EU, Austria ceded some competences in economic policy to the EU level. Yet, a large part of policy areas crucial for long-term growth, e.g., education, innovation, labour market and social policy, remain predominantly in national responsibility. Meanwhile, the causes and consequences of the economic crisis 2008-2010 clearly manifested a need for closer economic co-ordination within the EU and between the euro area countries in particular. The "Europe 2020" strategy for growth and employment, adopted by the European Council on 17 June 2010, creates a new policy framework for the co-ordination of national economic goals, priorities for growth and monitoring instruments. The present article concludes that "Europe 2020" does not narrow the scope of action for an effective economic policy in Austria; it also outlines policy options for broadening the sources of growth on which the country has traditionally relied.

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The basic functioning of economic policy in the European Union is laid down in the "Treaty on European Union" (TEU) and in the "Treaty on the Functioning of the European Union" (TFEU). The Treaties define the responsibilities of the Union and the member countries in the different policy areas as follows (Art. 2 to 6 TFEU):

- Areas of exclusive responsibility of the Union are e.g., customs union, monetary policy, competition rules for the Internal Market.
- Areas of shared responsibility between the Union and its member countries are e.g., research and space navigation, environment, energy. The responsibilities of the Union are defined in further detail in the Treaties' special articles on particular policy areas (e.g., Art. 179 to 188 TFEU on research and technology policy).
- In the areas of responsibility of the member countries, the Union may take support, co-ordination and supplementary measures to the extent defined by the Treaties (e.g., general and vocational education, manufacturing industry) which, however, may not entail harmonisation of legal provisions across member countries.
- Member countries co-ordinate areas of their own responsibility according to the rules defined by the Union.

In its area of responsibility, the Union may adopt legal acts that are binding for member countries (e.g., Guidelines and Regulations). In areas of member countries' responsibility, the Union shall not issue binding legal acts, but act only by way of co-ordination procedures.

The first element of economic policy co-ordination in the context of the "Europe 2020" Strategy derives from the general provision of Art. 121 TFEU: "Member States shall regard their economic policies as a matter of common concern and shall co-ordinate them within the Council". For the euro area countries, additional measures may be adopted according to Art. 136 TFEU, for the co-ordination and surveillance of fiscal discipline and with regard to the broad guidelines of economic policy. This allows for closer co-ordination within the euro area than for the EU at large.

The EU policy framework

Based on these Treaty provisions and on the experience with the EU Employment Strategy, the new "open method of co-ordination" (OMC) was developed with the introduction of the Lisbon Agenda. It allows for the fact that the achievement of common goals such as those of the Lisbon Agenda requires action by member countries in areas where the EU has no direct responsibility. Key elements of the OMC are the definition of common goals, the elaboration of guidelines for policy action to reach these goals, the development of indicators and benchmarks to assess progress in implementation across member countries, the promotion of best practice and peer pressure in the (European) Council, whereby reports on progress should encourage government leaders to take appropriate measures. Specifically for the "Europe 2020" Strategy, the OMC consists of priorities, targets, integrated guidelines and seven EU flagship initiatives. The three priorities of the Strategy are:

- smart growth – education, knowledge and innovation,
- sustainable growth – a resource-efficient, greener and more competitive economy,
- inclusive growth – high employment and economic, social and territorial cohesion.

The five major targets of the Strategy are to represent these three priorities:

- The employment rate of men and women aged 20 to 64 years shall rise to 75 percent.
- Private and public expenditure on research and development shall amount to at least 3 percent of GDP.
- Greenhouse gas emissions shall be reduced by 20 percent from their 1990 level, the share of renewable energy shall rise to 20 percent of total energy consumption, and energy efficiency shall be increased by 20 percent.
- The share of early school leavers¹ shall be reduced below 10 percent, and at least 40 percent of all 30 to 34 year olds shall have tertiary education completed.
- The number of people subject to poverty risk shall be lowered by at least 20 million.

The Stability and Growth Pact (SGP) is the second major element of co-ordination in Economic and Monetary Union (Art. 126 TFEU). The Treaties oblige member countries to avoid excessive government deficits and define the process of surveillance by the Commission and the Council for the budgetary situation and public debt. The reference values for public deficits and debt are part of primary EU legislation and, unlike the provisions in the area of the OMC, legally binding. Member countries report on developments relevant for the SGP in their Stability and Convergence Programmes (SCP).

Both elements of co-ordination, i.e., the "OMC part" of "Europe 2020" and the SGP, are to be implemented via a new steering and reporting system. In a first step, the EU drafts, on the basis of the "Europe 2020" Strategy, the "Integrated Guidelines" which include the former Broad Economic Policy Guidelines and the Employment Policy Guidelines. They set the stage for economic policy at the national level that shall be mapped out in the National Reform Programmes (NRP). The hitherto 24 guidelines of the Lisbon Strategy have been reduced to 10. The five major targets of the "Europe 2020" Strategy are taken up in the Guidelines; they are supplemented by guidelines on "public finances", "imbalances", "Internal Market and small and medium-sized enterprises" as well as "better education of the working population".

The specific guidelines are:

- ensuring the quality and the sustainability of public finances,
- addressing macroeconomic imbalances,
- reducing imbalances in the euro area,

¹ 18 to 24 year olds having at most level I of secondary education completed and not enrolled in further education or vocational training.

- optimising support for research, development and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy,
- improving resource efficiency and reducing greenhouse gases,
- improving the business and consumer environment and modernising the industrial base in order to ensure the full functioning of the internal market,
- increasing labour market participation and reducing structural unemployment,
- developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning,
- improving the performance of education and training systems at all levels and increasing participation in tertiary education,
- promoting social inclusion and combating poverty.

In a second step, the five major EU targets are translated into national targets, with a respective adjustment path taking into account the current situation. Member countries define their national priorities for growth and draft their annual NRPs accordingly. National targets and the identification of bottlenecks to growth are two key innovations vis-à-vis the Lisbon Process.

In spring 2010, the European Commission put forward proposals for reinforced co-ordination of economic policies on the basis of the existing Treaties (*European Commission*, 2010A, 2010B). The core element of the new co-ordination cycle is the "European Semester" that was introduced in early 2011. The aim is to integrate more closely the two processes of economic policy co-ordination: the submission as well as assessment of the SCPs and of the NRPs will henceforth take place simultaneously. In this way, the policy measures proposed in the NRP ought to be aligned with the fiscal framework conditions.

The purpose of the European Semester in the first half of a calendar year is to give more weight to ex-ante co-ordination, i.e., to ensure that national plans are in line with EU goals even before parliamentary adoption of the national budgets. The first element of this co-ordination cycle, i.e., the procedure governed by the Stability and Growth Pact, remains unchanged, but rules will become stricter. The second element, i.e., the surveillance of structural reform pursuant Art. 121 and 148. TFEU is the proper procedure under the "Europe 2020" Strategy, largely corresponding to the practice of the former Lisbon Agenda. On the basis of the National Reform Programmes received, the Commission and the Council assess progress in removing bottlenecks to growth at the national level and towards achieving the major targets. A further assessment is on the congruence between the national economic policy and the Integrated Guidelines. If progress is deemed insufficient or policy incompatible with the guidelines, the Commission submits to the Council proposals for country-specific recommendations or issues directly a warning to the country concerned. On the basis of the country surveillance, an overall assessment of progress towards the EU goals will be carried out. The EU performance will be compared with that of trading partners and, in the event of insufficient progress, the causes will be analysed.

In the light of recent experience, these two processes will be supplemented by a new procedure for the surveillance of macroeconomic imbalances. Like the SGP, this procedure shall consist of a preventive and a corrective arm, based on Art. 121 and 136 TFEU. The preventive arm envisages an annual evaluation of existing macroeconomic imbalances and their implicit risks. This evaluation is based on a set of external and domestic indicators (e.g., current account, net foreign asset position, real-effective exchange rate, unit labour cost, price indices, real house prices, public and private debt) and will be supplemented by qualitative expertise. In case of perceived risks, an "alarm mechanism" will be triggered, giving rise to an in-depth country analysis. If the latter confirms the identified risks, country-specific recommendations will be issued and their implementation monitored in the corrective arm, together with the SCP and NRP. It is foreseen that countries concerned report regularly on the correction of economic imbalances. In the extreme case, a country will

be rated as being in an "excessive imbalance position", leading to a warning by the Commission.

The surveillance cycle starts in January with the submission of the Annual Growth Survey (AGS) by the Commission which identifies the economic challenges for the entire EU and the euro area. At the end of February, the Council issues the strategic parameters for the SCPs and the NRPs. Member countries submit both programmes in April. In early July, the Council will issue its country-specific recommendations. In the second half of the year, member countries complete their budgetary process. In the AGS of the subsequent year, the Commission will assess to what extent the member countries have complied with the strategic parameters.

From a theoretical and empirical perspective, the "Europe 2020" Strategy is essentially a policy approach for innovation-based sustained growth. Thus, economic growth is considered as being determined by

- supply-side factors,
- a pace of demand matching output growth and stimulating the latter, and
- stability of institutions and expectations.

The supply side of the growth process is conventionally modelled by a production function where potential output is determined by

- the quantity and quality of capital and labour input,
- the productivity generated by these two factors.

Productivity in turn is influenced by technical progress, education, research and development, infrastructure etc. The importance of these elements varies with an economy's level of development (Aghion – Howitt, 2006). In a country like Austria which is at a transition point from an imitation-based towards an innovation-driven growth regime (Aiginger – Falk – Reinstaller, 2009), policy ought to focus increasingly on factors like competition, education, research and development, in order to take the economy to the frontrunners in technological advance. The supply-side factors need to be accompanied by a sufficiently strong momentum of aggregate demand. Only if the latter keeps up with and stimulates output growth will economic expansion be sustained and balanced. All these elements play a prominent role in the "Europe 2020" Strategy.

Before presenting policy options for future growth, it is necessary to discuss the status quo of the economic policy stance and strengths and weaknesses of the Austrian economy. The stance of Austria's economic policy since accession to the EU in 1995 may be labelled as "(export) competitiveness-oriented". For a small open economy like Austria with a high share of foreign trade in GDP, success on international markets is of high importance. Key directions of policy action were the strengthening of price competitiveness (in keeping with wage developments in Germany), support for research and development, and a moderate tax burden for companies by international standards.

Unlike for most other EU member countries, Austria's price competitiveness, as measured by the real-effective exchange rate, increased since the country's accession to the EU (Figure 1). Only in Germany, the real-effective exchange rate declined even more over the same period. The reason was that the increase in real wages lagged behind the advance in labour productivity: from 1995 to 2009, real wages per capita edged up by only 0.4 percent per year, whereas productivity increased by 1.1 percent p.a. Thus, real unit labour cost declined by an annual 0.7 percent.

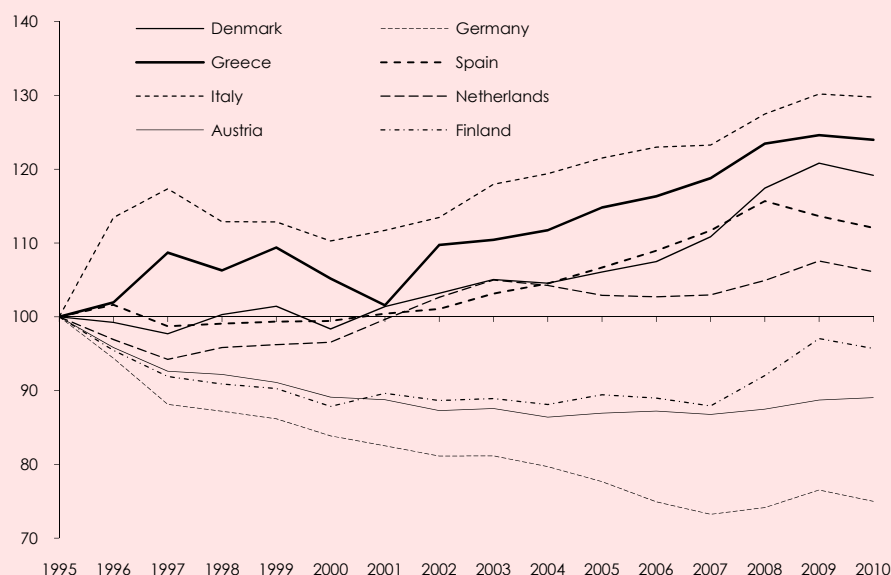
Austria's economic policy was particularly successful with regard to catching up in R&D expenditure since 1995: against the background of Austria's structural paradox, i.e., above-average growth of traditional sectors of low research-intensity (Peneder, 1999), and the accession to the world's largest single market with its implicit heightening in competitive pressure on domestic and foreign markets, the R&D/GDP ratio moved up by 1.2 percentage points between 1995 and 2009, more than in any other EU member country (Bundesministerium für Wissenschaft und Forschung – Bun-

Present course of Austria's economic policy

desministerium für Verkehr, Innovation und Technologie – Bundesministerium für Wirtschaft, Familie und Jugend, 2010; Figure 2).

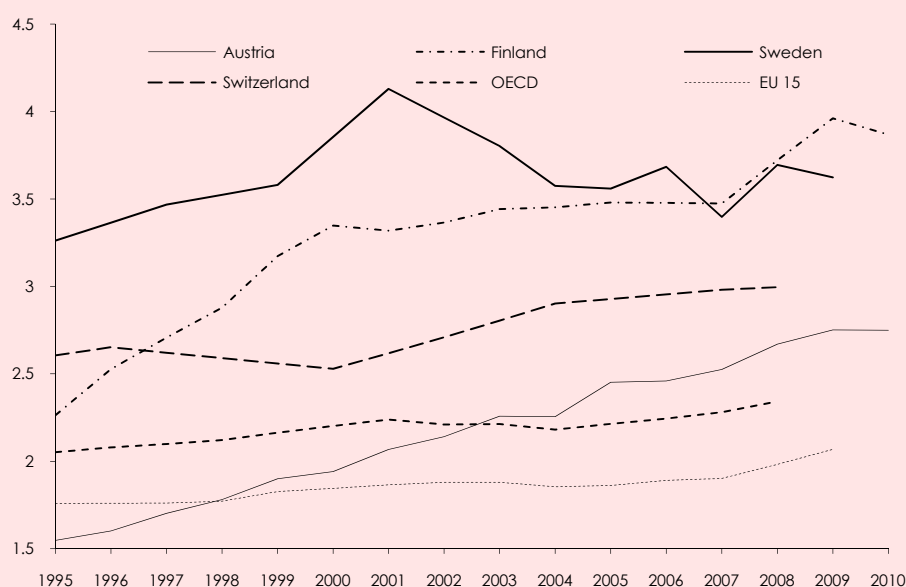
Figure 1: Real-effective exchange rate, based on unit labour cost for the whole economy

Relative performance vis-à-vis EU 15, double export weights, 1995 = 100



Source: Eurostat, Ameco, November 2010.

Figure 2: Expenditure on research and development as a percentage of GDP

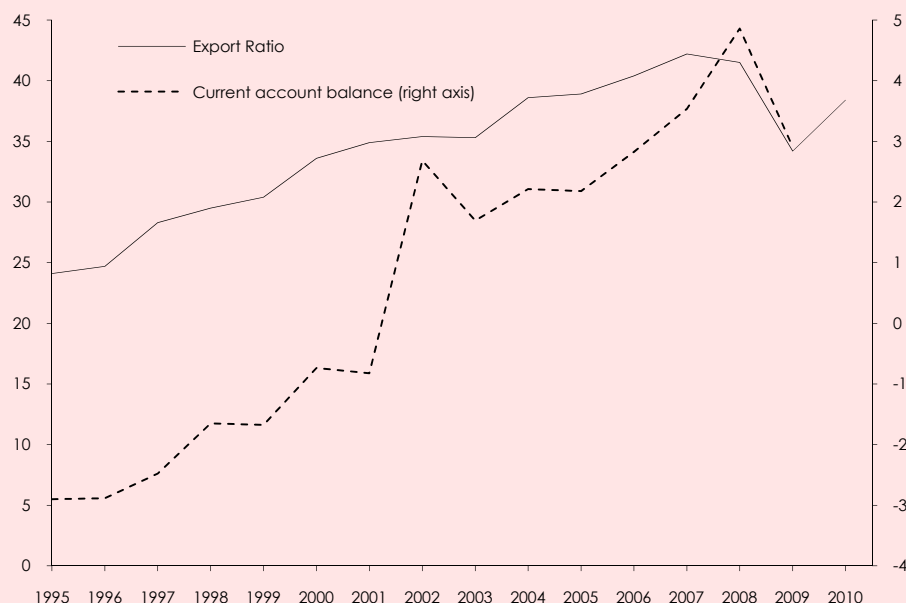


Source: OECD, Main Science and Technology Indicators.

The success of this competitiveness-oriented economic policy is reflected by the trend in Austria's foreign trade. Merchandise exports gained 5.4 percent in volume on annual average between 1995 and 2009, with the export/GDP ratio rising from less than 25 percent (1995) to over 40 percent (2007). From a deficit of nearly 3 percent of GDP in 1995, the current account balance swung to a surplus of over 3 percent of GDP in 2007. With the collapse of world trade during the global financial

market and economic crisis, exports receded though in 2008 and 2009 (Figure 3). With regard to the other policy goals of the "magic quadrangle", i.e., GDP growth, unemployment and inflation, the Austrian economy performed relatively better than the EU average.

Figure 3: Austria's current account balance and exports as a percentage of GDP



Source: Statistics Austria, WIFO calculation.

Further strengths of the Austrian economy are:

- The high share of small and medium-sized companies reporting innovation activities apparently mirrors the frequently cited flexibility of the Austrian corporate sector (Peneder, 1999).
- Institutional and social stability is generally regarded as persistent in Austria; the average number of working days lost due to strikes remains very low by international standards.
- The Alps and cities of cultural heritage are special advantages for Austria's tourism sector which are difficult to copy. In an international comparison, tourism accounts for an above-average share of total employment in Austria (Smeral, 2006).
- Since the liberalisation in Eastern Europe, Austria has moved from a peripheral towards a central geographical location in Europe, thereby removing a disadvantage that had lasted for decades.

As confirmed by the empirical literature on economic growth (e.g., Rodrik, 2005), efforts to reinforce the growth dynamics are most effective if they address the key challenges facing policy. These are in the areas most relevant for growth and employment, according to WIFO analysis (Aiginger – Tichy – Walterskirchen, 2006, Aiginger – Falk – Reinstaller, 2009) and experts' assessment of priorities:

- strengthening the human capital base for innovation,
- boosting research and development,
- reinforcing competition,
- addressing climate change,
- administrative reform,
- increasing aggregate demand,
- giving attention to labour market, employment and social security.

Options for economic policy

The quality of the education and training system is a key requirement for growth and competitiveness of an economy, setting the stage for innovation. Education and training are also prerequisites for labour force participation and the most effective tool for poverty reduction. Between 1990 and 2004, demand for highly-qualified personnel (upper secondary education completed and above) rose by 50 percent, whereas demand for workers of intermediate qualification level (vocational education, apprenticeship) increased by only 3 percent and demand for low-qualified labour (compulsory education completed) fell by 26 percent (*Peneder et al., 2006*). More recent data suggest that this trend continued up to the economic crisis of 2009. Thus, broadening the human capital base and boosting achievements of the top-qualified play a key role for growth and innovation in Austria and, more generally, for the most advanced economies.

Three major weaknesses of human capital formation and innovation in Austria are the low degree of participation in higher (tertiary) education, the small number of graduates from natural science and technical studies (especially female engineer graduates), and a heavy concentration of vocational education, especially of females, on a small number of traditional professions. The hitherto high share of intermediate, job-oriented qualifications which supported Austria's technological catching-up is now increasingly put into question in the face of technological advance and the implicit higher qualification requirements (*Janger, 2009*).

Research and development are key drivers for growth, raising an economy's potential output in the long-term. While the increase in the overall R&D ratio (in quantitative terms) is a welcome feature of Austria's economic development, the "quality" of spending on R&D leaves scope for further growth-enhancing action. Perceived weaknesses in this regard are the concentration of corporate R&D spending on a relatively small number of companies, the low focus of public support of research on the major problems of society, the insufficient budgetary allocations to academic research, and the low rate of creation and growth of new and innovative companies. These deficiencies are to some extent inter-related, since stronger incentives to academic research will accelerate structural change, and higher rates of creation and growth of new and innovative companies will broaden the base of R&D investment (*Janger et al., 2010*).

In a market economy, competition ensures the efficient allocation of scarce resources, by providing incentives for an effective organisation of the production of goods and services as well as for the implementation of product and process innovations. Heightened competition may lead not only to greater efficiency, but also to greater innovation efforts. It thus promotes growth and employment, whereby for the impact of innovation an indirect channel is assumed: competition forces companies to innovate, and firms' innovations in turn generate economic growth (*Böheim et al., 2006*).

Policy action for higher growth may target the creation of innovative companies or the competitive conditions in certain sectors (energy generation, liberal professions like pharmacists and solicitors, banks and insurance companies, crafts and small-scale manufacturing, real estate and residential building administrations, public transport). Like in all EU member countries, the degree of competition is markedly lower in the Austrian service sector than in manufacturing (*Janger – Schmidt-Dengler, 2010*). The production of tradeable goods, like in many areas of manufacturing, is exposed to international competition². For many service categories, international or inter-regional trade is limited, either by regulation or by the local-bound nature of certain services.

At the beginning of the Kyoto process in the 1990s, Austria exhibited relatively low levels of greenhouse gas emissions and of energy intensity. Since that time, however, material inputs, emissions and energy consumption declined less than the EU average. At present, no decoupling of material inputs from GDP growth is visible, while import dependency for mineral and fossil commodities keeps rising. Although total

Strengthening the human capital base for innovation

Boosting research and development

Reinforcing competition

Addressing climate change

² This does not exclude, however, low competitive pressure in some parts of manufacturing, nor arrangements like illegal cartels, price deals etc.

greenhouse gas emissions receded over the period 2006-2008 for the first time, they were still 26 percent above the Kyoto targets for 2012. As regards energy intensity, Austria still holds rank 4 among the EU member countries; yet, the trend over the last few years was unfavourable, mainly because the capital stock consuming energy was markedly enhanced (number of households and motor cars, average living space) and technical progress, i.e., improvement of energy efficiency, was too slow as compared with growth of energy services.

Reforms of the retirement system, the healthcare scheme and of public administration are not a priori growth-enhancing. Still, they may underpin a growth strategy, if the scope for efficiency gains is used and the resources released are re-allocated towards growth-enhancing spending items. Lower interest payments may benefit the same purpose, if the general government deficit and public debt are reduced.

According to a recent WIFO study (*Pitlik – Budimir – Gruber, 2010*) on potential budgetary savings in public administration, healthcare and retirement insurance, between € 1.9 and 2.9 billion can be saved each year, if job vacancies are only partly filled and privileges for certain groups in the retirement system are abolished. Exploitation of the long-term savings potential (estimated at up to € 10.7 billion p.a.) requires comprehensive institutional reform with longer lead times. In the long run, savings of between € 0.7 and 2.5 billion may be achieved in general public administration and € 2 to 2.8 billion in the healthcare system, e.g., in the operation of hospitals.

Growth and employment are determined not only from the supply side of an economy. An increase in potential output via improvement in the supply conditions explained above must be accompanied and stimulated by a corresponding expansion of overall demand.

In order to raise aggregate demand, Austria's economic policy has the option of strengthening domestic demand forces or put greater emphasis on exports towards the dynamic emerging market economies. The orientation towards exports and competitiveness has so far been associated with persistently sluggish domestic demand. Both private consumption and corporate investment remained subdued and contributed little to GDP growth (*Ederer – Marterbauer – Scheiblecker, 2008*). Reasons are wage increases lagging behind productivity gains, uncertain prospects for firms' sales and earnings, and a relatively high tax burden on labour.

In spite of the strong competitiveness of Austrian exports, foreign trade is still heavily concentrated on Europe. While sales markets have shifted during the last decade from Western Europe towards the new EU member countries in East-central Europe, Germany remains by far the most important foreign market, with a share of 30 percent of total exports. The dynamic emerging markets claim a comparatively small share of Austrian exports. Such low degree of regional diversification ("mini globalisation", *Breuss, 2010*) may become a major weakness in the future, if economic power and dynamics on a global scale continues to shift towards the emerging markets.

Raising the employment ratio is one of the five key targets of the "Europe 2020" Strategy. This will ensure a sufficient amount of labour supply as well as the financial viability of social welfare schemes, social inclusion and the reduction of poverty. Austria's employment ratio, measured as a share of the population aged 20 to 24, is high in an EU comparison. However, women, older workers and migrants are significantly under-represented in the labour market. A further challenge is the increase in the hitherto low qualification of migrants (*Huber – Nowotny – Bock-Schappelwein, 2010*).

Employment opportunities for these groups will be supported by education and training measures, a generally favourable employment situation, and a low tax and contribution burden on labour. Specific measures include reforms to the pension system, the extension of child care and old-age care facilities, greater flexibility in parental leave arrangements (*Famira-Mühlberger et al., 2010*) and a well-designed migration and integration policy (*Huber, 2010*).

A common finding of the studies on Austria's economic weaknesses is the under-utilisation of the domestic growth potential, both from the supply and the demand

Administrative reform

Increasing aggregate demand

Giving attention to labour market, employment and social security

side. Resources for more dynamic growth rest on a rather narrow base: a highly competitive climate is confined to only part of the economy, research is concentrated on a small number of firms, the human capital pool for innovation is limited, the employment rate is high only for men in the age group 25 to 54, and missed opportunities for budgetary savings weigh on the financing of forward-looking public investment. On the demand side, growth is largely driven by exports, and less by private investment and consumption. One option resulting from the analysis is therefore the broadening of the sources of growth, moving from the competitiveness-oriented course followed so far towards a more comprehensive approach that mobilises the full potential of research, education, competition and employment. This option can be reconciled with the need for fiscal consolidation, if reforms to the pension and the healthcare system, to public administration and the tax structure create the necessary budgetary room for manoeuvre.

The impact of the new EU policy framework for the Austrian economy is assessed here on the assumption that economic policy in Austria will address the challenges described above. Table 1 presents the EU rules which derive from the open method of co-ordination, the "Europe 2020" Strategy or the EU Treaties and examines whether these rules offer explicit support for some of the policy options described above.

EU framework for the further course of economic policy

Table 1: EU requirements and policy options for higher growth in Austria

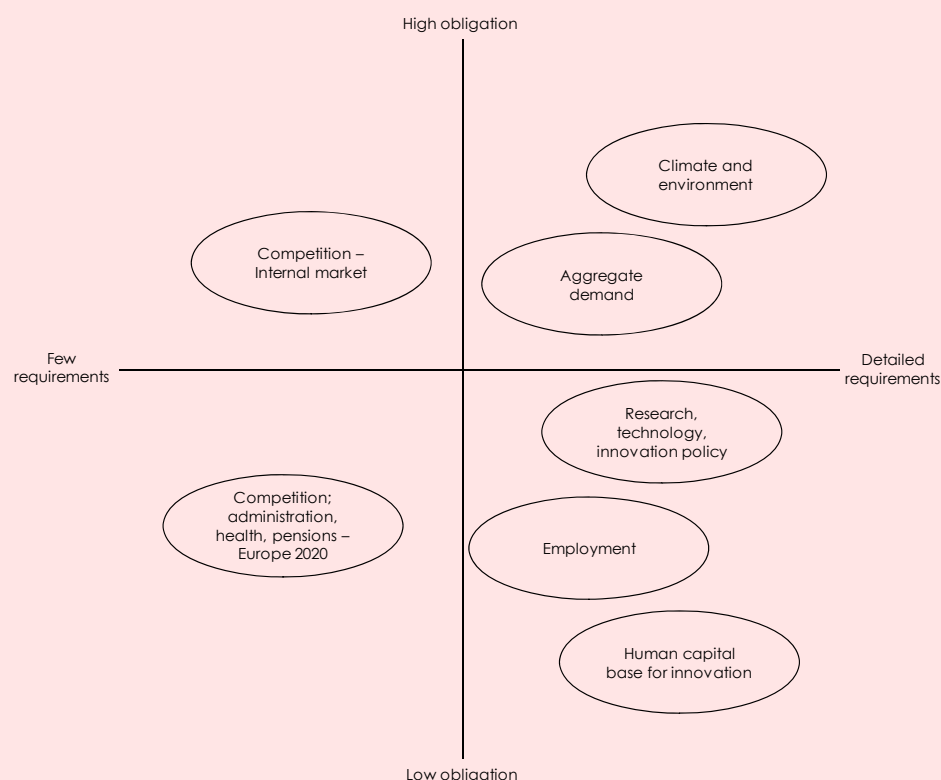
Policy area	Europe 2020	Treaties	Options for Austria
Human capital base for innovation	EU target: higher ratio of persons with higher education completed, lower ratio of persons without compulsory education completed Guidelines 4, 8, 9 Flagship initiative Youth on the Move	EU may supplement policy of the member countries (support to mobility, recognition of qualifications), but must not harmonise regulations	Higher ratio of persons with higher education completed, improvement of vocational training, higher number of graduates from science and technical studies
Research and development	EU target: increase in R&D/GDP ratio Guideline 4 Flagship initiative Innovation Union, Digital Agenda, industrial policy	Independent Union activities alongside member countries' policies (Framework Programmes, Research Council etc.)	Broadening the base for R&D, mission-oriented R&D promotion, support for excellence of academic research, encouraging business start-ups
Competition	Guideline 6	Internal Market regulation, customs union, competition policy	Stronger competition in service sector
Climate and environment	Guideline 5 Flagship initiative Resource-efficient Europe	EU targets for lower greenhouse gas emissions, boosting the share of renewable energy sources and energy efficiency	Reduction of greenhouse gas emissions etc. via "green growth", environmental innovations
Administration, health, retirement benefits	Guidelines 1, 6	No provisions	Raising quality of public finances, reform of health and pension system, updating public administration
Aggregate demand	Guidelines 1, 2, 3 European Semester	Single monetary policy, Stability and Growth Pact	Positive spill-overs of co-ordinated macro policy, strengthening of domestic demand
Employment	EU target: raising the employment ratio Guidelines 7, 8, 9, 10	No provisions	Increase in female and older workers' labour force participation, integration of migrants

Source: WIFO.

The EU co-ordination process in the context of "Europe 2020" lends support in all areas to a reform of revealed economic weaknesses and to a policy of broadening the sources of growth, with advice being specific to different degree. Thus, recommendations and guidelines are rather specific with regard to human capital formation for innovation and research, the labour market and environmental targets, but rather general for matters of competition, administrative reform, and pension and healthcare reform. Austria would nevertheless be largely free in designing its own economic policy, notably in the way of implementation and the choice of policy instruments. Yet, the definition of policy goals is significantly influenced by the EU. Most EU guidelines derive from the open method of co-ordination which defines broad policy orientations without interfering too much in national responsibilities. The most binding rules are the ones based on the Treaties in the areas of environmental protection and competition. Action in favour of heightened competition will result only from Treaty obligations, whereas the "Europe 2020" Strategy is less relevant for

Austria's weaknesses in this area. Efforts in favour of environmental targets are thus no option in a growth strategy, but must be necessary conditions in any strategy for higher growth. Figure 4 shows the degree of obligation and the intensity of regulation for the different policy areas.

Figure 4: Requirements and obligation of "Europe 2020" for selected policy areas in Austria



Source: WIFO.

Since there is virtually no disagreement on the importance of reforms between the options for Austria's growth policy and the "Europe 2020" Strategy, no conflict between policy strategies envisaged is to be expected. One option is the continuation of the rather narrow export-competitiveness-oriented course that is still successful in an EU comparison. However, as many indicators suggest, the growth potential of such a strategy is limited as some major supporting elements hit a ceiling (high R&D intensity, limited absorption capacity of additional R&D spending due to scarce human resources, already high employment rate of 25 to 54 year old males, tight competitive conditions in export-oriented manufacturing sector etc.), and since several components may prove unsuccessful due to adverse developments in some areas (e.g., the quality of the education and vocational training system is related to the performance of innovative small and medium-sized enterprises, such that a deterioration of quality of the education system would jeopardise the hitherto positive performance). The course of economic policy pursued so far has emphasised existing strengths and structures, which was an effective strategy for coping with the challenges of EU accession of 1995 and of globalisation. Options for broadening structural change were not retained to the same extent, partly because such reforms tend to produce the desired results only over a longer period of time.

The continuation of the competitiveness-oriented course will on the one hand find the support of the EU (see the target of a higher R&D ratio), but on the other be at variance with recommendations for an adjustment of the policy stance in the context of multi-lateral surveillance and the "Europe 2020" process. The references, already made in the implementation reports of the Lisbon Strategy, to weaknesses of competition in services, deficiencies in human capital formation and the low effec-

tive retirement age will likely be supplemented by references to macroeconomic imbalances. For most policy areas, with the exception of environmental issues, no more than a warning should be expected. However, the experience with the Lisbon process and studies on the reform impact of the Open Method of Co-ordination (OMC) suggest a different course of events:

The EU guidelines are not legally binding. Thus, any impact of the OMC on national policy depends on the political will at the national level to implement the measures necessary to achieve the targets. As an evaluation (*Eureval – Ramboll Management*, 2008, *European Commission*, 2010C) of the current guidelines and studies on the reform impact of the OMC (*Heidenreich – Zeitlin*, 2009, *Hemerijck – Visser*, 2001) show, the reform incentives from the OMC result from the framing of policy issues in a consensual way on the part of the actors involved in the co-ordination process (Ministries, Social Partners etc.). The impact of multi-lateral surveillance or of the Integrated Guidelines largely consists in the strengthening of the forces pushing for reform at the national level: in this way, the OMC can even be more conducive to reform than the elaboration of reform proposals without the association of the countries concerned (as done by the OECD and the IMF in their country analysis). By including the national authorities and stakeholders into the formulation of appropriate measures, the OMC can actually trigger such reforms or change their quality.

In case the national authorities take no action or take measures conflicting with the guidelines, the pressure for reform would increase and the viability of governance in Austria would be cast into doubt. Such pressure for reform would, however, be exerted largely by forces and movements at the national level, since it is on them that the OMC relies. The "Europe 2020" Strategy should be seen as consensus-building process on the basis of undisputed factual and analytical evidence: in case the revealed performance in a certain area of policy does not improve in response to measures taken to this end, this would clearly show the need for a change in the policy approach.

Even within the new EU policy framework, member countries retain ample scope for an autonomous economic policy and have to make use of it. The guidance provided by the EU and the "Europe 2020" process for Austria's economic policy is of limited significance for several reasons:

- The "Europe 2020" process recommends reforms largely in those areas where deficiencies have been recognised by the Austrian authorities and which in any case a growth-oriented strategy at the national level should address.
- On major economic policy settings like the Internal Market, monetary policy and fiscal rules, Austria as a small open economy had little influence even before EU accession, in the sense of an own line of policy that would have been in conflict with that pursued in other western European countries, notably in Germany. Indeed, in this regard EU membership even implied a gain in influence by participation in policy decisions.
- In areas where "Europe 2020" recommendations are neglected, discussion will nevertheless take place in the context of the Open Method of Co-ordination, supporting a common perception of existing problems. Changes in policy over the medium and longer term will be set in motion not as a result of enforcement from the EU, but of the national reform momentum being backed from the EU side.
- These arguments do not hold for environmental policy to rein in climate change. Here, a small country like Austria may be tempted to benefit as free-rider from efforts undertaken in other countries, without taking measures itself. However, in case of inaction, Austria would risk Treaty violation proceedings at the European Court of Justice. Also from the national perspective, free-riding would not be a forward-looking policy option since addressing the issue of climate change offers ample opportunities for investment and growth.
- Finally, Austria may draw benefits from the "Europe 2020" process as an opportunity to learn from other countries' experience.

Conclusions

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Promotion of Growth and Employment in Austria within the New European Policy Framework – Summary

With its accession to the European Union Austria ceded economic policy authority to the EU level. However, a large part of those policy fields which are important for a growth strategy, such as education, innovation, labour market and social policies, largely remain in the responsibility of national states. The economic crisis of 2008-2010 revealed the need for an enhanced economic coordination within the EU, especially among euro area countries. The EU's growth and employment strategy "Europe 2020" has in part been formulated in response to these requirements. It establishes a new framework for the coordination of national objectives, growth priorities and monitoring instruments. Within this framework, a key role is played by the national objectives in five economic policy domains (employment, R&D, education, poverty, the environment), the stability and growth pact, the coordination process under the "European semester" providing guidelines for national economic policies, the drafting of national reform programmes and their evaluation as well as a new process for the surveillance of macroeconomic imbalances.

Against the background of a description of the prevailing course of Austrian economic policy since 1995 ("strict competitiveness course") the article identifies the room for manoeuvre of national economic policy discussing the potential points of action: measures of education and innovation as well as employment and environmental policies would expand the sources of growth and help to tap into Austria's hitherto unused growth potential. These potential points of action are subject to the guidelines of the new European coordination process. However, the latter leave scope for discretion and would largely support the reforms to boost growth and employment, which are reasonable from an Austrian perspective. This applies to all fields except for environmental policies: due to contractual obligations to lower greenhouse gas emissions the EU's framework of environmental objectives is binding, although its implementation, too, is left to the discretion of Austrian policy makers.

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