

Confidence – the best stimulus package

New strategies for increased growth and employment

Agenda Austria



Think tank



Agenda
Austria

Summary

For many years, there was a steady stream of good news coming out of the Austrian economy: unemployment was the lowest in the EU for some time, and economic output was the fourth highest, after Luxembourg, Ireland and the Netherlands. Our country is a harmonious society, living standards are well above average and Vienna regularly wins the accolade of the world's most liveable city. The government is only too happy to showcase the country as a European success story, and people beyond its borders often asked what the secret of Austria's strong showing is.

But there has been a spanner in the works for the past few years and the economy has almost ground to a halt. Real growth was 0.3% in 2013 and 0.4% in 2014, and a slight increase to 0.6% was forecast at year-end 2015, putting Austria near the bottom of the European growth league table. Unemployment has been rising for a while, productivity gains have been very modest since the onset of the economic crisis, and the number of hours worked is declining. More people than ever before are in work, but many of them only have part-time jobs.

These figures are reflected in various country rankings, and as figure 1 shows, Austria is gradually losing ground. In 2008 the country took 14th place in the listings compiled by leading business school IMD (based in Lausanne, Switzerland) and by the World Economic Forum (WEF), but is now only a lower mid-table country, ranked 26th and 23rd respectively.

How competitive is Austria?

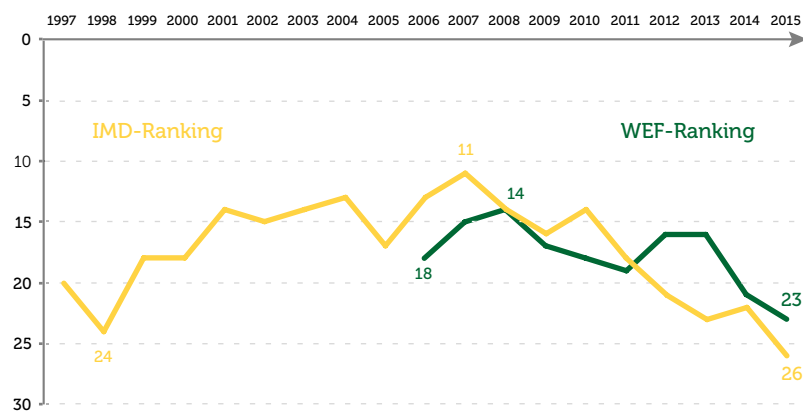


Figure 1
Source: IMD (2015) and WEF (2015).

This is mainly due to a reform backlog. Germany and other countries used the crisis as an opportunity to implement fundamental reforms, but Austria has either hushed up or denied the fact that it has problems, or used high spending to cover them up. Although these problems are complex, they are also hardly new. Non-wage labour costs are still too high, entrepreneurial spirit is stifled by red tape, the growth in investment is weak despite the unlimited supply of cheap money, and when it comes to innovation Austria is languishing in mid-table.

At present, an expanding economy is not a significant consideration for an increasing number of people, and there are calls from many quarters to renounce the obsession with growth. But forgoing growth would mean forsaking innovation and prosperity. Austria has virtually no choice but to grow if it is to safeguard the wealth of its population, protect people against rising unemployment and maintain a halfway financially sustainable welfare system. As a high-cost country, it is also condemned to aim for technologically sophisticated or high-quality growth.

But what level of growth does Austria require to keep unemployment at a constant level? Researchers have put forward one answer, in the shape of the employment threshold – the growth rate at which unemployment stops rising. As far as joblessness is concerned, Austria has been confronted with an interesting phenomenon since 2013: the number of vacancies has increased, but the number of jobseekers has risen more quickly, resulting in a higher unemployment rate. This is a clear indication that rising unemployment is the outcome of both economic and structural factors. Many people do not have the sorts of qualifications required on the labour market, either because their training is not up to scratch or because their jobs have been offshored.

Which brings us back to our original question: how quickly does the economy need to grow in order to keep the lid on unemployment? As calculations by Agenda Austria have shown, Austria's accession to the EU pushed the employment threshold down. Before accession, the country's economy needed to grow by about 3.8% in order to keep the unemployment rate constant, but since it joined the EU the required level has been 2.6%. This is mainly due to the trend towards labour market deregulation during the EU accession process, which in turn means the country can respond more effectively to fluctuations in growth. As a result, the employment threshold is lower.

However, in recent years the threshold has risen again – precisely in the aftermath of the economic and financial crisis. Between 2009 and 2015 average real growth of 3% was necessary, and the figure has been trending upwards in the past few years. This is primarily the result of a sharp increase in the number of labour market participants. If we assume that the number of participants will continue to rise in the next few years, growth of 3% can be seen as the minimum level required to keep unemployment at its current rate.

This could be a specific target for the Austrian government, which has been trying to spend its way out of the economic downturn and shore up the ailing economy with debt-financed spending programmes since the onset of the crisis. The outcome of this strategy: record debt, record unemployment and stagnation. In terms of economic growth, Austria is battling it out with the likes of France, Greece and Croatia for the wooden spoon. That's why this paper does not look for reasons to continue down this path. Instead we aim to identify new and promising ways to kick-start growth, taking our inspiration from the countries that are leading the way in terms of economic performance.