

# WIFO White Paper: Towards Higher Employment via Economic Growth Based on Innovation and Qualification

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*The pace of economic growth currently projected for Austria will not be strong enough for a reduction of unemployment. Higher growth is and remains the key leverage to raise employment and reduce the number of unemployed. However, for a high-income country oriented towards the European top group and being among the richest in the world a strategy must be designed whereby stronger growth is achieved on the basis of innovation and qualification. Technical progress and higher quality rather than production of larger quantities supported by low wages is the guiding principle. This requires a whole set of measures within a well-designed and consistent reform strategy supported by broad-based social consensus and optimism and underpinned by a long-term financial perspective. In its White Paper "Towards Higher Employment via Economic Growth Based on Innovation and Qualification", WIFO presents such a strategy.*

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The White Paper is built upon eleven strategic elements, with the focal points being a re-design of the Austrian innovation strategy from a technology taker to a technology supplier and a radical reform of the education and training system. The strategic elements are translated into eight target-oriented "packages" of measures. The overall strategy is to be implemented in three stages, starting with a kick-off period from 2007 to 2009. As from 2015, growth is supposed to be entirely based upon technical progress and quality improvement.

## Origin and purpose of the White Paper

1. In March 2005, WIFO submitted a proposal for a White Paper, in which it would develop a consistent strategy for growth and employment for the Austrian economy, inspired by the experience of the best-performing countries in Europe. Taking up the idea, the social partners commissioned the elaboration of the White Paper to WIFO, which was sponsored by *Oesterreichische Nationalbank* and other public and private institutions. The White Paper is the result of in-depth research, taking on board also contributions from domestic and foreign experts such as from the OECD and the EU as well as from the commissioning institutions. Beyond the intensive consultation and referee process that has taken place, the White Paper nevertheless expresses the opinion of WIFO and its research staff and not that of the institutions that have commissioned it.

Examples of successful economic policy have shown that unemployment is brought to a sustained decline only in countries where first, economic growth is strong and second, policy follows a consistent long-term strategy, also involving stakeholders and expert knowledge. This goes in particular for European countries with a high initial level of per-capita income and a high-quality social safety net.

## **Framework conditions render consensus building more difficult**

2. By international standards, Austria's economic policy has been successful on many accounts. A major feature has been the high degree of internal consensus which, however, has nowadays become more difficult to find, for several reasons.

On markets shielded from foreign competition it is generally easier to find domestic consensus. Work relations and business cycle conditions were relatively similar across sectors, facilitating a smooth conduct of incomes policy and wage negotiations. The Austrian education system supplied the necessary human capital of high level, but broadly constant over time. The population was largely homogeneous, and in times of full employment such as in the seventies the labour force could be increased by immigrants having the qualifications required. Substantial parts of the utilities infrastructure and the large-scale manufacturing industry were nationalised. Technology could be imported via the subsidiaries of multinational companies. Labour contracts usually extended over an individual's active lifetime. Fiscal, monetary and exchange rate as well as incomes policy could be shaped as considered best from the domestic perspective. Labour costs were about as high or even higher in neighbouring countries, with which the largest parts of goods and services were traded.

Closer external trade linkages of the economy, membership in the European Union, the integration of eastern and south-eastern neighbours into a pan-European economy, the consequences of globalisation and the implications of new technologies have profoundly changed the framework of reference for Austria. Work and family relations have diversified, corporate structures become more mobile, and work processes require new qualifications. Immigration is increasingly determined by non-market factors like wars, search for asylum or family integration, but also by rising income differentials, and is heavily concentrated on populations of low qualification. Austria, with one of the highest income levels in Europe and the world, pays wages that are significantly higher than those of eastern and south-eastern neighbouring countries. In such circumstances the traditional mechanisms are no longer working well, the newly emerging problems calling for new solutions.

The implementation and fine-tuning of the strategy laid out here by WIFO is up to Parliament, the Federal government and other policy actors. It is true that policy has to respond to a broader array of goals than boosting growth and employment, even if the latter represent key determinants of overall welfare. The strategy suggested here intends to prepare the ground for consensus on how to move forward. The White Paper is to serve as a guide for

economic policy in general and for the institutions that have initiated its elaboration in particular. Since it presents different options and indeed more lines of action and measures than can actually be adopted, selection and the setting of priorities are essential prerequisites. In any case it would be important that the overriding goal and the strategy lines be widely accepted and implemented in a concerted way. Experience shows measures to produce poor results if the forces behind pull in different directions.

### **The strategy: growth as a leverage for higher employment**

3. The medium-term path of economic growth in Austria, projected at an annual 2.1 percent for the next five years, will not allow unemployment to decline. At best, unemployment may become entrenched at the present, relatively high level.

There is no single measure, not even a combination of a few measures, to reduce unemployment markedly and in a lasting way. Nor can a determined, but short-term policy initiative be recommended, since each measure takes time to become effective and forces pulling in opposite direction will emerge after it has been phased out (e.g. the need for budgetary consolidation). Only a long-term strategy relying on mutually reinforcing elements from many areas of economic policy and supported by broad social consensus has a chance to raise growth and employment on a sustained basis.

4. The key instrument for raising employment is higher economic growth. The latter can be accelerated through

- future-oriented investment, i.e. higher and better-targeted expenditure on research, education and training, infrastructure (strategy elements 1 to 3 of the White Paper),
- structural reform, i.e. a higher degree of competition, flexibility, quality of the public sector (strategy elements 4 to 6),
- emphasis on Austria-specific strengths in technology and services as well as in energy and environmental policy (strategy elements 7 and 8),
- mobilisation of labour reserves from today's informal work arrangements, removal of gender inequalities and from turning the welfare system into a productive force (strategy elements 9 to 11).

Reforms along the lines of these eleven strategy elements should be made internally consistent and balanced from a social point of view. Only then will people be able to recognise the opportunities inherent in such policy, and only then will the different groups affected be ready to give up existing rights and sacrifice vested interests, in view of higher and more sustainable incomes and a sufficient number of jobs to be expected in the future.

It is easier to increase employment than to reduce unemployment. The reasons are that discouraged workers will resume job search as soon as employment prospects turn more fa-

avourable, higher growth in an open economy will attract foreign labour, that young people will tend to shorten their study and training periods and old ones defer their retirement. The White Paper estimates the growth threshold beyond which employment starts to rise at 2 percent, and that for unemployment to fall at 2.5 percent. Both thresholds vary with the cycle and policy measures may shift them somewhat; however, both are stylised facts supported by firm evidence and a plausible background.

5. Pursuing a national growth strategy is feasible. Its impact would be greater if growth would strengthen simultaneously across Europe. In this regard it would be important to co-ordinate policy measures for growth and employment at the EU level, to overcome sluggish medium-term growth in Europe, for the eastern and southern neighbouring countries to remain on a swift and smooth path of development, for Austria to take advantage of the opportunities offered by such "neighbourhood globalisation", and that growth remain strong in China and India.

### **The context: policy in Europe to foster economic growth**

6. The EU economy, growing at a medium-term pace of only 2 percent, can draw only limited benefit from global expansion exceeding 4 percent p.a. With initial difficulties related to the introduction of a common currency and the creation of new institutions having been overcome, the current cyclical high, together with measures of consolidation, should lead to a decline in government deficits to an extent that would give new leeway for a pro-active growth-supporting policy stance. This includes stabilising measures in the next business cycle downturn to sustain expectations of private agents and enhance the general acceptance of the European socio-economic model and of the European institutions. Europe-wide investment, reaching from transport infrastructure to new technologies, should be enhanced, European research institutions of excellence be created and existing ones enlarged. The quality of national public finances and also that of the EU budget must be improved, by focussing more on research and education, by giving lower priority to surface-related agricultural support and higher priority to environmental and climate protection. The transfer of certain political responsibilities to the EU and its guiding role should lead to stronger emphasis being given by national authorities to other economic policy areas rather than to a retreat or restraint in economic policy matters. Differences in per-capita income between the EU Member States are becoming bigger with enlargement, calling for different national policy responses. Thus, economic performance and, as a consequence, the "optimal" stance of economic policy differs considerably between the European North and the South. This suggests the adequacy of region-specific strategies within a country, but also common action by neighbouring countries in support of growth and employment (in addition to stronger co-ordination of macro-economic policies at the EU level).

## The White Paper recommends: a strategy in three stages

7. The White Paper recommends for Austria a three-stage strategy. During the **kick-off stage**, from 2007 to 2008, a two-pronged approach is required. The hardening of unemployment needs to be arrested, notably by bringing more people both at the beginning and towards the end of the working life cycle into gainful employment. Likewise, a low-wage sector can and should be admitted and maintained for a limited period of time, partly in order to transfer work opportunities from the household and the informal sector to the regular economy. While transitional labour markets may make a positive contribution, they should at the same time be linked with offers for further training and the perspective of full-time jobs later on. In parallel, future-oriented investment must be reinforced in order to raise the growth potential. The re-positioning of Austria as a supplier of top quality and high-technology goods and modern services needs to be prepared. Should the cyclical conditions remain favourable, the necessary financial resources ought to be mobilised from a re-allocation of government expenditure, the reform of public administration, savings and cuts in subsidies. Only part of the cyclical revenue "dividend" should be used for the growth strategy, the other part for a reduction of public debt. In case of a cyclical slowdown, the target date for a balanced budget may be postponed, if thereby an improvement in growth perspectives may be achieved.

During the **reform stage** (2009 to 2015), the positioning of Austria within the top quality segment for the production of goods and services must be achieved. The integration of immigrants and their further education must be reinforced. Austria must be attractive for qualified labour, the low-wage sector should be geared towards reduction via the upgrading of qualifications. A quantitative increase in labour supply will not yet be necessary, but should be prepared in time. Full employment may be achieved towards the end of the period at the earliest.

In the **high-tech-stage**, as from around 2015, the rate of labour force participation (and immigration of qualified labour) should be increased by additional measures. Technical progress and the upgrading of qualifications will be the major sources of growth in that period. Austria must be positioned in the upper segment of intermediate technology and in the high-technology area, as well as in the supply of knowledge-based services and problem solutions. Only with such perspective being kept in mind already in the two earlier stages will wrong decisions be avoided.

## The White Paper designs: eleven strategy lines for growth and employment

8. The White Paper outlines eleven strategy lines for higher growth and employment. Each of them consists of a large number of single measures. Innovation, education and training as well as the improvement of infrastructure will raise the medium-term growth path, in the short run via demand effects, in the long run through supply side effects and technical progress.

The balanced introduction of greater market flexibility and a new open-mindedness towards competition, coupled with stronger incentives provided through public spending and revenues (the "quality of public finances"), will remove impediments to growth. By reinforcing traditional strengths (in technology and services) and adopting innovative energy and environmental policies, growth will be enhanced and new export opportunities created. The gender strategy, the conversion of informal work into regular jobs and a social system supporting the opportunities offered by the new challenges will boost supply, quality and demand on the labour market.

**9. The innovation strategy (strategy line 1)** provides for an important re-adjustment. The existing innovation system was adequate for Austria's catching-up process and its role as innovation "taker", with the emphasis on imitation and gradual improvement, and with only a few large companies investing substantial funds in research, often within the framework of an overall corporate strategy. Today's position of a high-income country calls for Austria taking a technology frontier position and becoming a technology "setter". Innovation has to dig deeper, embarking on projects of higher risk and targeting niches of the high-tech sector. At the same time, research must play a larger role in companies, notably with small and medium-sized enterprises, start-up firms and services. Companies, universities and government must jointly reinforce their research efforts, improve efficiency and strengthen synergies.

**10. The education and training system (strategy line 2)** has traditionally been designed for work in stable activities, largely geared towards the domestic market and the catching-up process. Employment used to be full-time, often within the same company over the entire active life, with job profiles broadly stable over time and earnings rising steeply with the length of service in the same company.

Social selection should be reduced in the education system and educational careers be made more interchangeable horizontally and vertically. Special support measures should be offered to overcome individual weaknesses and to achieve excellence with regard to personal strengths. Vocational education should concentrate on modern job profiles and keep open the doors towards higher education. Lifelong learning should become standard practice, and efforts at integration and qualification of immigrants should be strengthened (e.g. possibility to catch up on formal educational achievements, participation in further education activities). Austria must become attractive for well-qualified immigrants, and foreign students should be offered good opportunities for study and work.

**11. Gaps in the physical infrastructure (strategy line 3)** should be closed, notably as regards transportation networks between Austria and the new EU Member States. Of ever increasing importance for growth and employment is also the "immaterial" infrastructure (bottleneck management, logistics). The latter, planning services, network optimisation and problem solving play a key role for demand and offer export opportunities towards countries with high and unsatisfied needs for infrastructure. Needs for replacement and repair can and should also be used for improvements in quality.

**12. Competition (strategy line 4)** promotes innovation, problem solutions and the quality of goods and services. Stronger competition-"mindedness" is conducive to the creation of enterprises and supports the expansion of small firms. Lower administrative cost, one-stop solutions, special research subsidies for small and medium-sized enterprises (SME) and modern competition authorities will lead to stronger job creation in SME. Against the background of international competition for attracting and hosting corporate investment, firms deciding on where to locate or enlarge their headquarters or research departments should find in Austria ample education and training facilities on the secondary, tertiary and university level. The formation of industrial clusters and competence centres should be intensified.

**13. Flexibility (strategy line 5)** enables firms to respond quickly to new opportunities and challenges and fosters competitiveness. Employees should be refunded the cost of flexibility, through more options likewise, higher earnings or opportunities for further training. Flexibility may enhance job security, while further training raises the probability for a jobholder of keeping his job or finding a new one.

**14.** The contribution of taxes and government expenditure towards higher growth and employment is summarised under "**quality of the public sector**" (strategy line 6). The public sector can use its spending as a tool to support growth and shape taxes and other revenues such as to promote employment and reduce negative external effects. The budgetary room for manoeuvre necessary for growth incentives, but also for the financing of the welfare system, the provisions for the ageing society and for rising health expenditure must be created through re-allocation of current expenditure, efficiency gains and administrative reform. Modern management standards, medium-term budgetary planning and an improved division of tasks between government levels should generate the savings necessary for the funding of higher future-oriented outlays within a given budgetary framework.

**15.** Austria's outstanding competence in certain **technologies and economic sectors (strategy line 7)** may support growth and employment. In tourism, the growth potential inherent in urban and cultural travel, winter sports and event-oriented short-term holidays should be exploited. "Creative industries" offer considerable opportunities either on their own or in combination with tourism. Co-operation, clusters, counselling and training as well as stronger promotion of research by broadening the concept of innovation may foster the expansion of knowledge-based services. Medical technology, tunnel construction, telematics, environmentally and demographically responsible construction are examples of technologies where Austria enjoys a comparative advantage, besides the areas of environmental technology, new sources of energy and hydropower. This advantage should be used for the solution of domestic problems and for the export of know-how, thereby strengthening growth and employment.

**16.** Innovation in the areas of **environmental and energy policy (strategy line 8)** may guarantee, with the instruments recommended, the security of energy supply, lead to higher energy efficiency, a reduction of the share of fossile energy sources and of greenhouse gas emis-

sions, and may create new job opportunities. Austria's strong profile as regards environmental technology, renewable energy sources and environmentally-responsible construction may benefit exports and is in line with Austria's ambition of being a leader in terms of energy efficiency, new energy sources and environmental standards.

**17. The transformation of traditional private household jobs into market jobs (strategy line 9)** will broaden supply and make it more transparent. Economies of scale may thereby be exploited (services can be offered for more than one client), qualifications specified and improved. Services, if carried out outside or in addition to the own family and officially declared, can be made subject to social protection (health and accident insurance, independent entitlement to retirement benefits).

**18. The creation of equal opportunities (strategy line 10)** is not only a claim from the social point of view. Using the female labour potential increases labour supply, economic efficiency and overall economic welfare. Wage discrimination as well as traditional differences in labour force participation and education are not only unjust, but also undermine growth, employment and competitiveness.

**19. The social welfare system (strategy line 11)** guards against risks, while also influencing health, education and motivation of the population. More security leads to higher consumption, more stable investment and greater export capacity. To this end, a system that has been designed for a closed economy with permanent jobs and stable family relation with a single (male) breadwinner and relatively short retirement periods, has to be adjusted to new circumstances. This seems to be somewhat more difficult to achieve in the continental European model than in the Scandinavian model, since it privileges insiders and ties many benefits to regular employment. Since the European socio-economic model seeks to combine efficiency with social safety and environmental goals, it can be turned into a productive force raising the quality of labour, capital and new technologies.

### **The White Paper explains: growth based on innovation and quality**

**20.** The White Paper outlines a strategy for higher employment through stronger economic growth, aiming for innovation- and quality-based growth. A possible alternative, namely to divide a given number of total working hours for the whole economy by a larger number of persons, is not being recommended. A uniform cut in the statutory working hours via law or social partner agreement would be a defensive strategy likely to exacerbate distributional conflicts. A cut in working hours, accompanied by (partial) cuts in monthly wages would face the resistance of groups which want to see their currently low incomes rising. Besides, a reduction in working hours would, notably in a situation of excess labour supply, lead to gains in productivity rather than employment. Eventually, in the third stage, with the emergence of labour shortages, working hours would have to be increased again. However, refraining from a general and uniform cut in working hours does not exclude a recourse to well-designed,



temporary and voluntary forms of reduction in individual working time or its redistribution (sabbaticals, detachment for training purposes, paternity leave, shorter working hours for men who have so far regularly exceeded the normal working time etc).

In line with Austria's position as a rich country, the growth strategy is based upon innovation and qualification. It does not rest on a low wage level, but outlines an innovation- and quality-oriented strategy. Already now, one-third of economic growth is accounted for by technical progress, and a further one-third by the higher quality of inputs. These factors will gain in importance and the suggested strategy gives them special emphasis.

### **The White Paper proposes: target-oriented implementation "packages"**

**21.** The eleven strategy lines must be accepted by all economic policy actors and translated into consumption and investment decisions. They have consequences for decisions on labour input, for education and training, and not only for those economically active, but also for those not yet or not any more in the labour force.

For the implementation of the strategies, the White Paper proposes eight "packages". Each package has a clearly-defined goal that is easy to communicate and for the achievement of which measures from several or all strategy elements have to be taken. In this respect, compromises will have to be found, as far as timing and financial resources are concerned. Acquired rights will be given up more easily, if incentives and opportunities of future benefits are being offered in return. A combination of measures towards achieving an identifiable positive goal stand a better chance of being accepted than single measures which benefit one group possibly at the expense of another. The responsibility for each package goes beyond one single ministry or institution. If no key competence exists or a larger number of institutions are concerned, one person or institution should be put in charge with the implementation of the package.

**22.** The **employment package** is intended to create jobs within short time and insert unemployed people into the labour market, while accepting the development of a low-wage sector for a transitory period. This can be achieved through cuts in social security contribution for low-wage earners, tax deductions for the cost of private services or premia for long-term unemployed when taking up a job. Front-loaded implementation of infrastructure projects (closing of existing gaps) should be planned in anticipation of possible slumps in business activity. The employment package is part of the measures specifically designed for the kick-off stage, along with the stepping-up of forward-looking investment in order to consolidate the economic performance in the medium term.

**23.** The **demand stimulus package** supposed to counter the weakness of domestic demand in the medium term. It contains a number of benefits for recipients of low incomes and cuts in subsidies for private saving and housing for earners of higher incomes. Specific forms of investment which carry an additional social benefit (positive external effects) will be subsidised

through a targeted investment premium: energy conservation, environmental protection, investment in child care facilities, software, broadband technology, telecom infrastructure, teleworking jobs.

**24.** The package for a **productivity campaign** shall take Austria onto a path of higher growth and speed up the move from the catching-up strategy to the front position. Measures from the innovation strategy, the transformation of the education system, technology incentives and such deriving from public procurement are clustered here.

**25.** The **competition package** is designed to enhance flexibility and competition. The potential of small and medium-sized enterprises shall be mobilised to a higher degree. Establishing a company will become easier, less bureaucratic and cheaper. The government takes over (for one year) the social security contributions for the first full-time employee in a newly-founded company. The technological profile of companies shall be sharpened and growth be speeded up. Security and flexibility may become mutually supportive. Transitional labour markets will facilitate switching from education to employment, from full to part-time employment and vice versa; jobs must be secure and the transition phase be limited in time (maximum duration of traineeships for university graduates or limited number per company). The maximum daily working time is to be increased, but not the normal working hours beyond which overtime payments are due.

**26.** The **qualification campaign** draws together the short- and medium-term reforms of the education and training system. It exploits synergies with the innovation strategy, using and changing the immaterial infrastructure. Co-operation between universities and the corporate sector will be enhanced, with the state providing subsidies for academic research sponsored by third parties. Technologies and high-value-added services will be developed, building upon traditional Austrian strengths, and exported.

**27.** The **integration package** gears immigration towards higher-qualified labour and jobs, in a forward-looking way. It reinforces integration of immigrants into the formal education system, but also into further education and training and into the political decision process overall. Deficiencies in qualifications of immigrants of the first and second generation are to be avoided or reduced.

**28.** The **energy and environment package** makes environmental policy a horizontal concern cutting across the whole range of policy instruments. It uses the tax system and other market instruments for a reduction of emissions. Environmental technology, the increase in energy efficiency and the introduction of alternative fuels and energy sources are given greater emphasis in technology policy, benchmarking and public procurement. Austria's favourable position as regards environmental technology and the use of alternative energy sources will be put to the benefit of production, employment and exports.

**29.** The **services and exports package** designs strategies for successful and promising services. It brings together measures for rural areas, for knowledge-based services and for top-

quality tourism. Exports are to be strengthened, notably towards defined special target countries and at the interface where goods and services exports can be combined.

### **The White Paper sets itself limits: reform of taxes and government tasks calling for fundamental discussion and analysis**

**30.** The White Paper is based upon comprehensive analysis of different areas of the Austrian economy, drawing on the experience made by countries facing similar challenges. Underlying the summary presented here are 22 partial studies, with a total volume close to 2.000 pages. The results of the partial studies are supplemented by results from earlier studies by WIFO and other research institutions. Not all proposals are new, many of them have been advanced by the WIFO research staff in their function as policy advisors; many have also come to be conventional wisdom in the sense of often been proposed, accepted in principle, but never or only in part been implemented. The research findings of the partial studies have been amended and corrected by internal and external referees, many of them based abroad.

Nevertheless, not all possible areas of economic policy have been fully explored. By intention, the White Paper abstains from submitting a detailed proposal for a comprehensive reform of tax structures and an in-depth analysis of government responsibilities. The next "big tax reform" should be designed on the basis of a thorough analysis of the current tax and contribution system, the relations between the Federal state, the *Länder* and the municipalities, and of changing views on the role and responsibilities of government. In this regard, the White Paper only refers to current trends and suggests priorities that have emerged:

- the exoneration of labour from taxes, notably in the low-wage segment,
- the necessity to have external effects increasingly reflected in taxation,
- to strengthen incentives for taking up employment,
- to maintain a contribution from the wealthier population towards financing the social welfare system,
- to keep marginal tax rates as low as possible, where they jeopardise decisions in favour of investment and employment.

The fine-tuning of a reform along the lines of these five principles calls for more detailed analysis and information about cyclical conditions as well the priorities and scope for action on the part of policymakers.

## The White Paper requires: financial stability, sustainability, consensus

31. The White Paper outlines the strategy lines from the perspective of creating new jobs and lowering unemployment. These are not the only current economic priorities, let alone the only social ones. The White Paper demonstrates the extent of the need for change caused by the new trends in technology, the global division of labour and the diversification of individual needs and preferences. It starts from the hypothesis that these changes must by no means always have negative consequences, but that the reaction to them must be carefully planned and accompanied by economic policy action. The White Paper indicates a potential contribution by Austria towards changing the European policy framework, suggesting the use of Austria's influence on European policy. If augmented by a neighbourhood policy, the latter may become somewhat stronger.

32. The White Paper outlines a growth strategy on the basis of innovation and qualification. It proposes strategy lines and recommends their implementation in the form of task-oriented packages. Its purpose is not to invent everything new or to elaborate on all proposals in detail. It nevertheless tries to go beyond the present state in the strategy and the implementation of economic policy, by suggesting more and more profound measures than is presently the case. Special innovative approaches have been laid out in greater detail, others should be understood as options which, in the event, would have to be elaborated in detail. Most measures will become fully effective only through the implementation of the overall strategy or the respective package.

33. Model calculations clearly show that strengthening the pace of growth is not an easy task. On average, spending an additional € 1 billion may boost growth in the *short term* by 0.5 percentage points after five years<sup>1</sup> or by 0.1 percentage point per year. Employment is projected to increase by 14.000 until 2010 assuming higher spending on research and cuts in social security contributions, or by 2.000 to 6.000 in the case of tax cuts. The *long-term* growth effect is estimated at 0.2 percentage points per year for measures in the area of research and education. As for employment, the *long-term* effects amount to less than +10.000 for most measures, but to +17.000 for research spending and +19.000 for measures relating to education.

The model calculations also show that part of the growth effect will manifest itself in a decline of unemployment, another part in an increase in labour supply (higher participation rate). Importantly, one should guard against the notion that for a marked decline in the unemployment rate one would just have to take one or the other measure. The calculations should, however, be taken as rather showing the lower end of the possible range, since they do not take into account qualitative and more sophisticated factors such as an increase in Austria's

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<sup>1</sup> Deviation after five years from the baseline scenario, i.e. without implementation of the strategy.

attractiveness for investors or the creation of a social system conducive to private sector confidence, flexibility and security.

**34.** The financial implications have been estimated for a number of major proposals. Among the suggestions made for saving expenditure are restrictions in subsidies for private saving and homebuilding, cuts in the single-earner tax allowance, administrative reform and streamlining the budgetary process. On the revenue side, a reform of the real estate, the gift and inheritance tax may provide additional budgetary leeway. Many measures (e.g. with regard to the innovation strategies) potentially raise the efficiency of expenditure without implying additional cost.

Overall, the proposals exceed by a wide margin the financial means currently available, considering in particular that from its geographical situation (in the centre of Europe and at the East-West divide) it would not be advisable for Austria to have higher tax and contribution ratios than its competitors with a similarly high per-capita income level and, moreover, to keep these ratios on a slightly falling trend. Options for financing the additional expenditure or the proposed cuts of taxes and social contributions are

- a postponement of the next tax cuts,
- a comprehensive, cost-saving administrative reform,
- re-allocating priorities within the budget,
- additional privatisations (including and in particular on the *Länder* and community level),
- mobilising private funds for research and social concerns.

The current favourable business situation, together with the expectation that Europe can return to stronger medium-term growth, should also yield additional revenues the larger part of which should, however, be used for debt reduction. Eventually, part of the measures – but only part – will be self-financing through stronger growth. Also from that perspective it will be important to reach a political and social consensus on the sustained implementation of the strategy up to the point where the growth effects and its fiscal "dividend" materialises. Such consensus will also reduce economic uncertainty during the implementation period.

**35.** Creating employment and lowering unemployment by means of an economic policy strategy is not an easy task. Other goals besides economic ones will compete for scarce government resources. Many measures will have little effect if other countries do not strive for higher growth as well. Even more difficult is to reduce the unemployment rate, since jobs newly created will be filled by persons currently out of the labour force (migrants, young people, discouraged jobseekers). Every single measure in isolation will prove less than effective if it is not supplemented by others, or if it is not generally understood and accepted. Confidence, certainty and optimism are at least as important as financial measures and competition. For this reason, the White Paper does not cite any rate of growth or any rate of unemployment which are certain to be achieved. It appears likely, however, that higher employ-

ment and higher incomes can be achieved, if the strategy proposed here is implemented over a longer period and on the basis of consensus.

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# WIFO White Paper: Towards Higher Employment via Economic Growth Based on Innovation and Qualification

## Summary

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Study conducted by the Austrian Institute of Economic Research, commissioned by *Wirtschaftskammer Österreich* (Federal Economic Chamber), *Bundesarbeitskammer* (Federal Chamber of Labour), *Österreichischer Gewerkschaftsbund* (Trade Union Federation) and *Landwirtschaftskammer Österreich* (Chamber of Agriculture)

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