



**GROWTH, COMPETITIVENESS AND
SUSTAINABLE DEVELOPMENT**
THE LISBON STRATEGY: GUIDELINE TO
A PROSPEROUS FUTURE IN AUSTRIA

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STRUCTURING AUSTRIA SUCCESSFULLY AND SUSTAINABLY IN LINE WITH THE LISBON STRATEGY

With its 2000 member businesses, encompassing 500,000 employees, the Federation of Austrian Industry (recognised in Austria by the acronym IV, here shortened to Federation) represents the country's production sector, which generates more than a third of Austria's real net output. Throughout its existence, socio-political responsibility has been as central to the Federation's work as its focus on economic policy. A productive and future-oriented relationship between economics, society and politics is of profound interest to the Federation.

Austria displays a healthy set of preconditions that will help attainment of the central objectives that people strive for in a satisfactory life: a quality living environment, stable social relations, a high degree of internal and external security, top-rate employment, rising incomes, a robust social welfare system and a high standard of living. But considerable combined economic, social and political efforts are required in order to achieve and secure these goals. **In this respect, the European Union plays a dual function for our country: both motor and supporter of the continual reform and regeneration processes and measure of our success in comparison with other EU member states.**

IMPROVE AUSTRIA'S POSITION IN EUROPE

The strategy that the European Union presented at the **special Lisbon summit in 2000** began a process that should make Europe the most dynamic knowledge-based economic area in the world. The focus of attention is on two central objectives: the successful transition to a knowledge-based economy that will bring more growth through an appropriate combination of macroeconomic and structural policies, plus the modernisation of the European social model.

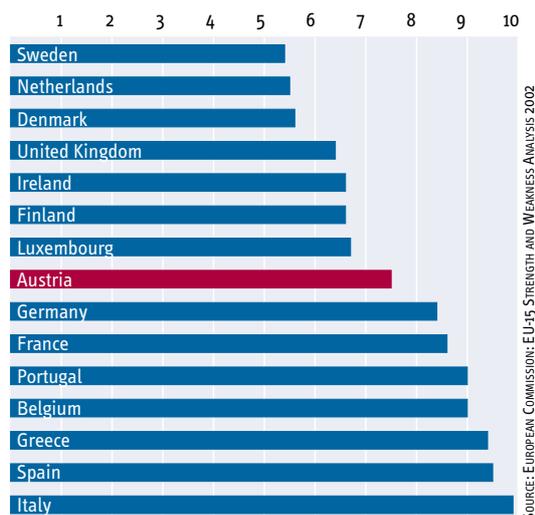
These challenges apply to Austria to a special degree. Within the framework of the Lisbon strategy strengths and weakness analysis, Austria – the fifth-richest country in the EU – ranked eighth. We might indeed enjoy a high per capita income and lead the field in the level of social welfare, but there are considerable deficits in other areas: heavy tax and state expenditure quotas, too few older members of the workforce still in employment, a low level of innovation and high energy and telecommunications prices. The result of these weaknesses, in an EU comparison, is below-average economic growth and a very small increase in total economic productivity. This is a negative trend that must be reversed.

AN INTEGRATIVE APPROACH FOR A NEW POLICY

Austria has the opportunity and strength to overcome these challenges. Above all it has people who have earned this opportunity and will put it into practice. There also needs to be a new understanding of political action and cooperation between all societal forces: business and politicians, entrepreneurs, employees, civil society organisations and interest groups. Austria's ambitious objectives demand cooperation between business leaders, politicians and representatives of civil society.

EU BENCHMARK: AUSTRIA ONLY RANKS EIGHTH

Average ranking according to 61 structural indicators



Guided by the EU's objectives, the new policy for Austria that the Federation of Austrian Industry presents here is not about 'tearing down' tried and tested institutions and systems in the sense of boundless neoliberal thinking, but about reforms geared to making the economy and society more dynamic and flexible as well as sustainably guaranteeing the fiscal and welfare systems and a first-rate environment.

We will not secure our future if neoliberal, fundamental-ecological and welfare-state schools of thought fight one another. We must seek an integrative approach. We need economic dynamism, but not at the expense of either social stability or the environment. The state must guarantee social protection, but in a sustainable, financially sound and cost-efficient way, and without endangering the international competitiveness of the economy and industry. We have an obligation to future generations to bequeath them an environment worth living in whereby cost-efficient instruments that are oriented to competition should be deployed.

GREATER REFORM ZEAL AND WILLINGNESS TO LEARN

In order to facilitate economic and social successes through clear, long-term objectives and concrete operational plans, future-oriented politics coupled with reform zeal is necessary, rather than a semblance of security created by protecting outmoded structures.

Austria must take the opportunity to learn from other countries in the EU. The Scandinavian countries are good role models in terms of the way they have mastered the challenges of structural change and sustainability in economic, social and ecological areas, and the above-average successes they have had with their economic growth policy and the creation of high-quality jobs.

AUSTRIA 2010: WHO MUST DO WHAT

New politics recognises more participants than just the traditional political parties. This paper is therefore aimed at a broad spectrum of addressees, not just governing politicians.

- **Business:** in the 21st century, companies are called upon to continue reconciling essential profits and appreciation with social responsibility. This means striving not only to attain economic excellence but also social and ecological sustainability.
- **Individuals:** coping with continual structural change requires independent people who think entrepreneurially: employers and employees, managers and civil servants who do not fear the future but who grasp the initiative when opportunities arise.
- **Politicians:** the state must modernise in order to reduce the burden on citizens, as well as businesses, and by securing our future through investments, optimise the development opportunities that are open to our country.

MODERNISE THE STATE: REDUCE PUBLIC EXPENDITURE, INCREASE EFFICIENCY OF PUBLIC ADMINISTRATION

THE FUTURE OF GOVERNMENT LIES IN DEVELOPING A CLOSE RELATIONSHIP WITH THE PEOPLE, SERVICE ORIENTATION AND AN EFFICIENT PARTNERSHIP BETWEEN THE CITIZENS, BUSINESS AND THE PUBLIC ADMINISTRATION. TIME IS UP FOR THE 'AUTHORITARIAN STATE' – THE FUTURE BELONGS TO THE 'PARTNER STATE'.

PARTNER STATE

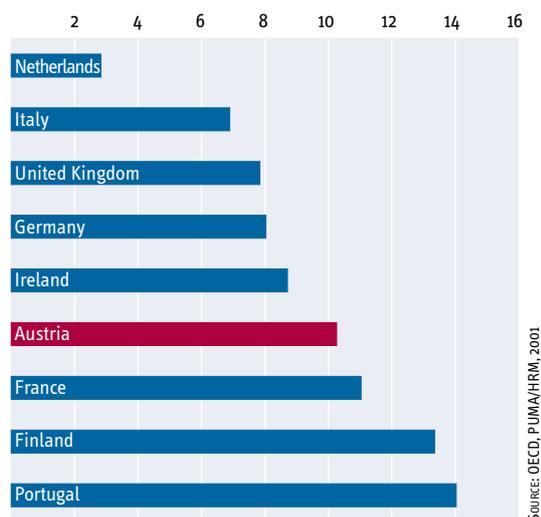
The international discussion about what an up-to-date understanding of the state should be like has been shaped over the years by many attributes. According to either a theoretical or political approach, the state should be 'lean', 'innovative', 'strong', 'negotiating' or 'mobilising'.

A broad consensus agrees that the first thing to emerge from a strictly hierarchical-ly organised relationship between the state and its subjects should be a partnership

between the state and the citizens. The state must be there for the citizen – and not the other way around. It follows, therefore, that the state must concentrate on its fundamental task as servant to the citizens and businesses – furthermore, par excellence. Economically successful states of the recent past display lean, efficient public administrations. Civil service expenditure in many EU states is much lower than the 10% of GDP that Austria spends.

PUBLIC ADMINISTRATION: DESPITE IMPROVEMENTS, EXPENDITURE IS STILL HIGH

Proportion of expenditure as percentage of GDP



REDUCE STATE EXPENDITURE TO THE EU AVERAGE

- Austria's state expenditure quota of 10.25% GDP (2001) is higher than the EU average.
- According to analysis of the hindrance to economic activity posed by bureaucratic red tape (2002), Austria takes a midfield position compared against other EU member states.
- In terms of the application of e-government, where we often imagine that we lead the field, eight EU member states beat Austria's performance.

This data indicates that the Austrian state continues to lay claim to too much of the public purse. Contrary to some people's fears, a reduction in state expenditure does

not equate at all to the 'break-up' of the traditional Austrian welfare system. A reduction is possible through concentration on essential tasks and through more efficient public administration.

FROM EXPENSIVE SUPPLIER TO EFFICIENT SERVICE PROVIDER

The Austrian state must develop from an over-regulated supplier to a service provider that allows everybody more personal freedom and responsibility. This does not mean passing on responsibilities and costs, but the wish to see greater numbers of citizens take more serious responsibility and direction for themselves.

The challenge lies in raising the efficiency of the public administration with fewer civil servants and a new task structure. Integration of private interests in 'guarantee-tasks' must go hand-in-hand with a retreat of the state in core areas. Administrative activities and contact with civil servants will become more efficient and more economical by means of e-government. The redistribution of tasks in the federal system and consideration of a new financial equalisation system will be significant.

WHAT AUSTRIA MUST DO

Business supports the transfer of management know-how to state agencies.

Individuals, like business, take greater responsibility – self-commitment and self-regulatory systems shall be extended and developed.

Politicians shall ensure that federal, regional and local government rearrange their tasks – the state concentrating on core tasks. The state must carry responsibility for the attainment of other important objectives in society, however, as far as possible, implementation should be left to private interests.

- An obligatory estimate of the resulting costs of legislation – following the German model – should determine total economic consequences in order to avoid implementation of badly-designed regulations.
- Cost accounting – along commercial lines – should be introduced to public administration, taking expertise from industry into account.
- Single e-government initiatives should be implemented as quickly as possible within the framework of one overarching concept.

THE ENTREPRENEURIAL CHALLENGE: COMPLETE MARKET OPENING, STIMULATE PRIVATE INITIATIVES, FACILITATE ACCESS TO FINANCE

ENTREPRENEURIAL THOUGHT AND ACTION: GRASPING OPPORTUNITIES WITHOUT LOSING SIGHT OF THE RISKS, WORKING IN AN ACHIEVEMENT-ORIENTED MANNER AND BELIEF IN PERSONAL CAPABILITY. THESE PRINCIPLES APPLY TO PUBLIC ADMINISTRATION, EVERYBODY'S CAREER AMBITION AND ALSO FOR EVERY VENTURE.

AUSTRIA IN COMPETITION

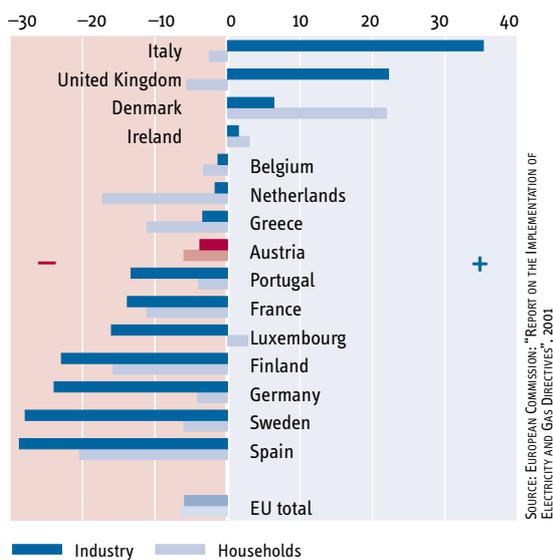
As an economic location, Austria is subject to global competition. Our performance among our competitors determines our economic future, the quality and quantity of our jobs and the size of our incomes. Businesses, workers and government cooperate with regard to location competition: entrepreneurial thought and action is required from everybody involved.

If Austria is to develop into an entrepreneurial society, various factors must be made more attractive. Austria is one of the most prosperous countries in the EU, but is nowhere near being one of the lowest growing economies. Our main weaknesses include over-priced public services, high energy and telecommunications prices and

insufficient investment in new technologies and biotechnology, too little integration of private initiative and private capital (e.g. the local water sector, infrastructure) and too little venture capital for businesses.

ENERGY LIBERALISATION: MINIMAL PROFIT FOR AUSTRIA

Change in electricity price in per cent (1996-2001)



PUBLIC-PRIVATE PARTNERSHIPS

Successful enterprise can only develop in a competitive environment: market liberalisation, shedding from public administration and the inclusion of private initiatives and capital should therefore be stepped up. The fear that many people hold about competition and private involvement in hitherto protected areas leading to a decline in

quality or even to the exclusion of some groups in society from public services is unfounded in Austria: public-private partnerships are not, for example, about the privatisation of infrastructure, rather the inclusion of the private sector in the building and running of infrastructure. The performance guidelines are still determined by government, which also carries the political responsibility.

PROBLEM AREAS THAT HINDER GROWTH

- There are many successful and environmentally-conscious businesses with a high energy consumption rate in Austria. Initial energy price reductions due to market liberalisation must not be swallowed up, in the name of competitiveness or job protection, by excessive transmission charges and additional ecological charges.
- Fixed-line telephone costs in Austria halfway down the table of Europe's best tariffs and are a burden to private and business consumers alike. Consequently, usage is suppressed and value-added development impeded.
- Venture capital and market capitalisation are not Austria's strong points. Adequate business financing, especially for young, rapid growth companies, is a key ingredient to building 'entrepreneurial Austria'.
- The serious omissions in the improvement of transport infrastructure during the 1990s must be corrected as quickly as possible through implementation of the projects outlined in the general infrastructure plan. Priority should be given to links with neighbouring EU enlargement candidates and the implementation of the Brenner tunnel project. Bringing this forward requires, on the one hand, a pronounced shortening of the administrative and licensing procedure, and on the other hand, approaching private initiatives and private capital within a public-private partnership framework.

WHAT AUSTRIA MUST DO

Business must:

- recognise public-private-partnerships as growth opportunities to become more involved in (e.g. building and running plant for the local water economy, public transport, rail and road infrastructure).
- small and medium-sized enterprises must increasingly consider participatory financing.

Individuals should criticise and scrutinise the value for money of public services and look for alternatives whenever unsatisfied.

Politicians must bring Austrian energy and telecoms prices down to the European average by liberalising the energy and telecommunications markets.

- Priority should be given to transport infrastructure projects with particular prioritisation of links with neighbouring EU enlargement candidates and the implementation of the Brenner tunnel project.
- The low-cost loan financing of businesses under the Basel II framework must be secured.
- As a business location, Austria needs a long-term concept capable of hedging the Austrian stock exchange whilst simultaneously integrating it within a larger European area.

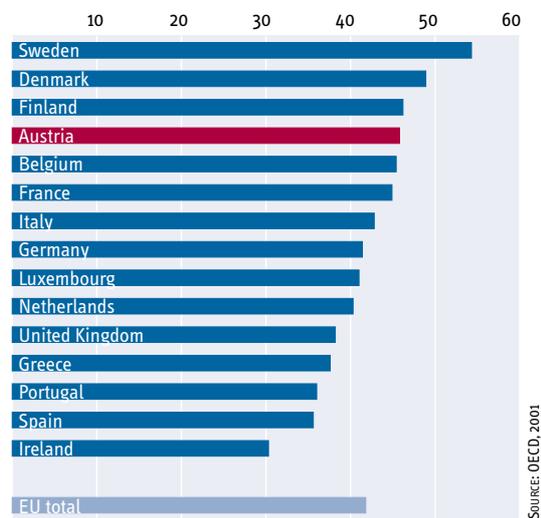
REDUCE TAX PRESSURE

AUSTRIA CAN ONLY BE A SUCCESSFUL TOP INTERNATIONAL BUSINESS LOCATION IF IT PASSES THE TAX TEST. A CONSUMER- AND BUSINESS-FRIENDLY TAXATION SYSTEM MUST GIVE CITIZENS AND BUSINESS ROOM TO MANOEUVRE WITH REGARD TO INVESTMENT. THAT IS THE BASIS FOR MAINTAINING EXISTING JOBS AND CREATING NEW ONES.

TAXATION DEVELOPMENTS ENDANGER COMPETITIVENESS

In 2001, at 45.8%, the total Austrian tax revenue as percentage of GDP has reached its highest point so far. It was only principally through measures on the revenue side that a balanced public budget could be achieved. This high taxation quota bleeds through into business taxation. On the surface, Austria's performance in terms of corporation tax does not look too bad, but on balance, it has lost its advantage over other EU states in the long-run on account of the 1994 taxation reforms (removal of trade and wealth tax). This is a consequence of the improvement of business taxation in other countries and the restoration to profitability of the domestic budget.

TAXATION QUOTA 2001: AUSTRIA RANKS FOURTH



The high quota of payroll taxes is a considerable disadvantage. After Sweden, Austria records the second-highest proportion in the EU – making up 2.7% of GDP.

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Combined with social security contributions, which directly influence labour costs in the same manner, Austria is way above the EU average in terms of total labour cost levies (Austrian Institute of Economic Research study 2002). Austria also lags behind other countries in terms of charges and consumer taxes.

REDUCE TAXATION QUOTA TO 40%

In the process of reducing the total taxation quota to 40% of GDP till 2010, Austria must considerably ease the tax burden on businesses and citizens. At the same time, the taxation structure must be fundamentally changed and adjusted to the levels set by significant competitors. This requires a reduction of payroll taxes, especially wage-related revenue such as residential building-subsidy contributions, employer contribution to the equalisation of burdens on the family and local taxes. This corresponds to EU analysis, which highlights the fundamental barrier to employment creation that the high tax burden on labour poses. Beyond this, the Austrian tax system must be simplified and modernised. Unusually high taxes must be avoided whilst investment in the future must be fiscally supported. The

reduction of the taxation quota must be interlinked with a sustainable restructuring of budget expenditure.

WHAT AUSTRIA MUST DO

On the path to a partnership society, **individuals** and **business** must develop a differentiating and balanced way of viewing what services they should demand from the state and which they can carry out and finance themselves.

Politicians tasks include:

- compensation for tax increases – generated by abolition of investment allowances – through a reduction of corporation tax to 31% and thereafter to below 30% (within the framework of total tax quota reduction).
- creation of modern group taxation which takes account of and does not interfere with necessary business structures.
- allowing goodwill amortization also in case of share deal, in order to take risk into account.
- making it easier to internationalise, above all, by considering the losses of foreign subsidiaries, following the Danish role-model.
- reduction of payroll taxes.
- introduction of equity capital strengthening Basel II accompanying measures.
- bringing excise duties down to the level of directly competitive countries.
- abolishing taxes peculiar to Austria (above all legal transaction charges)

QUALITY EDUCATION BRINGS GROWTH OPPORTUNITIES

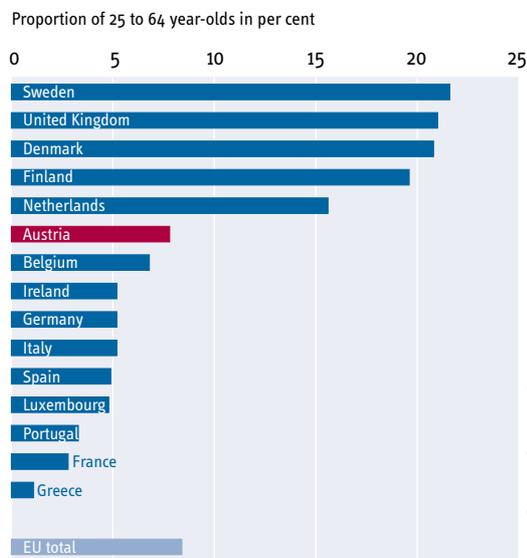
EDUCATION, TRAINING, CREATIVITY AND INNOVATION ARE KEYS TO CONSERVING PROSPERITY AND JOBS. EDUCATION IN PARTICULAR IS A MAIN PILLAR OF THE MARKET ECONOMY AND DEMOCRACY: EDUCATION MEANS EQUALITY OF OPPORTUNITY AND SOCIAL MOBILITY. WHICH IS INDISPENSABLE FOR HEALTHY DEMOCRACY AND A DYNAMIC ECONOMY. THERE IS A CLOSE RELATIONSHIP BETWEEN PERSONAL DEVELOPMENT AND THE ABILITY OF A SOCIETY TO COMPETE. EDUCATION IS THE GREATEST SOCIAL CHALLENGE. GROWTH OPPORTUNITIES FOR THE INDIVIDUAL AND SOCIETY ARE ALWAYS EDUCATION OPPORTUNITIES.

ELIMINATE WEAKNESSES, CULTIVATE STRENGTHS

Europe intends to become the most dynamic and competitive knowledge-based economic area in the world by 2010. Step-by-step, European countries are developing an education area in which structures will be approximated, diplomas recognised and barriers to mobility dismantled. But European integration does not mean that the same things can or must be offered everywhere. A consequence of this

division of labour in the knowledge-society is the development of new, cross-border networks and the necessity of greater scientist and researcher mobility.

PARTICIPATION IN LIFELONG-LEARNING: AUSTRIA NEEDS GREATER IMPETUS



In terms of public expenditure on education, Austria occupies third place in European comparison. However, in all aspects of the innovation scoreboard relating to human resources, Austria features well below the European average. The PISA study also shows scant return on investment in education projects.

NEW EDUCATION CHALLENGES

- The search for the best people, the best education establishments and the most efficient structures at the highest quality is underway.
- New information and communications technologies (ICTs) alter the content, type, scope and approach of education, as well as the role of teachers.
- Growing demands and changes in the world of work require everybody to participate in lifelong learning as a priority – as a way of life and conservation of individual ‘employability’.

Above all, education is not just economically significant, but culturally too. Education policy must take this into account. The mediation of education must be effective and cost-efficient and special efforts must be made to help people who are currently out of work qualify for participation in gainful employment.

WHAT AUSTRIA MUST DO

Business must raise the lifelong learning motivation of their employees, through relevant incentives and benefits, in the workplace and beyond.

Individuals must help by fitting their qualification profile to the demands of the labour market and in so-doing guarantee their employability.

Politicians must improve tax incentives for businesses to invest in human capital.

- rigorous evaluation and modernisation of the education system and an orientation towards future needs are required.
- this also means that the development of autonomous universities and further education colleges in the sense of a comprehensive higher education plan and strategy must be pushed.
- Education technologies must continue to be heavily promoted.
- Restructuring of finances away from primary education towards lifelong learning will be inevitable.

STIMULATE INNOVATION

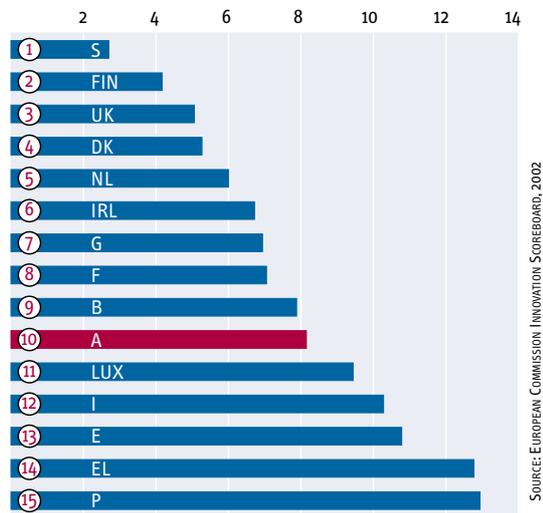
AUSTRIA CAN JOIN THE LEADERS IN RESEARCH, DEVELOPMENT AND INNOVATION AND BUILD ITS OWN FUTURE. INVESTMENT IN THESE AREAS CREATES THE PREREQUISITES FOR BUILDING TOMORROW'S SUCCESS – FOR BUSINESS, INDIVIDUALS AND SOCIETY.

UTILISE RESEARCH AND DEVELOPMENT AS A MOTOR OF INNOVATION

Investment in the future of education, research and development are the decisive investments for Austria's economic power and competitiveness. A future full of growth and prosperity rests above all on the innovativeness of Austria's businesses.

AUSTRIA IS BELOW THE EU INNOVATION PERFORMANCE AVERAGE

Innovation performance of EU member states weighted according to 17 indicators



The EU-innovation scoreboard uncovers noticeable weaknesses in the area of innovation – Austria currently ranks ten out of fifteen.

Research and development might represent fields that most citizens are unfamiliar with in their day-to-day lives, but research, development and innovation are the motor of our economic and social development.

Innovation drive requires creative people with open minds and a good education. Competition to find the best people is already underway.

Austria must quickly position itself as an attractive career location for key personnel and talent. Above all, this means using the opportunities arising from university reform, to be attractive to research intensive companies and to make the necessary public money available to promote research.

WHAT AUSTRIA MUST DO

Business must

- utilise R&D and new technology opportunities and increasingly cooperate with other companies, universities and research institutions.
- get more involved in the hunt for the best talents as an increase in the R&D quota is only possible if there are enough qualified and motivated scientists and technicians.

Individuals must learn to embrace innovation and mobility in their education and careers.

Politicians must interest young people, especially women, in natural science and technology careers and promote the cross-border mobility of research workers.

- Austria must also create a technology-oriented, long-term, stable environment for life science businesses.

- The R&D budgets of the relevant ministries should be raised, whereby the highest possible degree of leverage for R&D expenditure in the business sector should be aimed for.
- To an extent, research promotion must be generated independently of the budget within the framework of a national research foundation.
- Technology competence scattered throughout ministerial departments and regional authorities must be bundled.

IMPROVE THE LABOUR MARKET

ON THE WHOLE, THE NEW WORLD OF WORK OFFERS POSITIVE ADVANCES FOR BUSINESSES AND EMPLOYEES: INSTEAD OF HARD PHYSICAL LABOUR, EMPLOYMENT IS CHARACTERISED BY THE USE OF MODERN INFORMATION TECHNOLOGY, MORE CHALLENGING WORK AND MODERN, FLEXIBLE WORKING TIME MODELS.

USE WORKFORCE POTENTIAL MORE EFFECTIVELY

Austria boasts excellent employment growth: there are currently more than 3.1 million employees, 1.7 million men and 1.4 million women. In European comparison however, there are huge deficits: flexible working time provision is underused, there is a shortage of specialised workers and supplementary working costs are peaking. Stronger participation of qualified women in skilled jobs – not least a reflection of population development – is as necessary as extending employment duration. The huge changes in the world of work must be formulated using measures such as those sketched by the European Union for the member states.

MAKE WORKING TIME MORE FLEXIBLE, RAISE EMPLOYMENT RATES

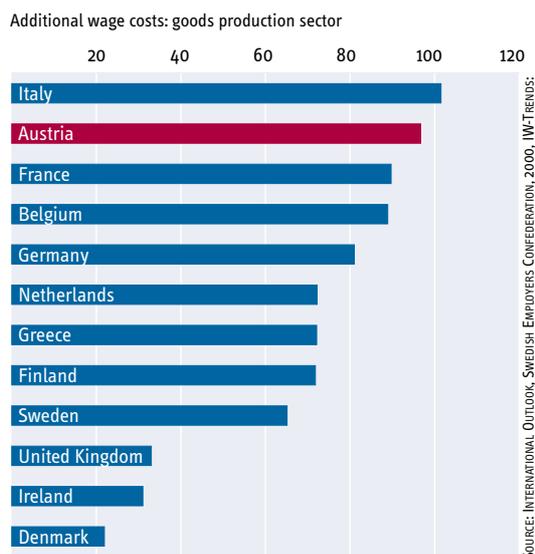
The needs of employers and employees can be accommodated with sensible models that promote working time flexibility. At present, far-reaching legal potential for rendering working time more flexible in the business sector has hardly been tapped because the majority of the models would require approval under the terms of Austria's 'social partnership'.

Shortages of specialised workers can be alleviated by continuing to ease restrictions on in-migration for specialised workers from third countries, especially workers from EU enlargement candidate countries.

Wage costs – an important determinant of business competitiveness – are largely decided by the size of additional wage costs. These additional costs are also relevant for

employees as high additional wage costs narrow the potential net salary they receive. Reduction of these costs is therefore imperative.

ADDITIONAL WAGE COSTS: AUSTRIA IN 2ND PLACE



STRONGER PARTICIPATION OF WOMEN

Stronger participation of qualified women in skilled jobs, especially in technical fields, is an important contribution to gender equality and an essential contribution to securing domestic specialised workforce potential.

Along with a handful of other countries, Austria employs the smallest proportion of older workers and consequently has one of the biggest gaps to close with relevant measures, especially in terms of information and qualification.

WHAT AUSTRIA MUST DO

Business, employees and works council representatives must develop and implement mutually beneficial, common strategies to optimise working time.

Business must use programmes to retain older people longer and increase participation of women in the workforce.

Individuals must take responsibility for their own career futures and fully exploit their individual opportunities.

Politicians must

- create frameworks for increasing working time flexibility at grassroots level.
- introduce further measures to facilitate immigration of specialised workers from third countries, especially EU enlargement candidate countries.
- further reduce additional working costs as well as increase social security efficiency.
- improve offers of child care facilities for women supporting the necessary compatibility of career and family.
- provide more efficient information and motivation programmes for women in preparation for qualified work, especially in technical fields.
- support the retention of older members of the workforce for a longer duration with reinforced information programmes on labour organisation and qualifications.

MODERNISE SOCIAL PROTECTION

POPULATION DYNAMICS AND MEDICAL PROGRESS INDICATE THAT AUSTRIA, LIKE MANY OTHER DEVELOPED ECONOMIES, WILL RUN INTO DIFFICULTIES FINANCING THEIR SOCIAL WELFARE SYSTEMS. IT IS IN THE INTEREST OF INDIVIDUAL CITIZENS AS WELL AS BUSINESS TO TAKE ACTION TOWARDS FINANCIALLY SUSTAINABLE WELFARE INSTITUTIONS AND TO GUARANTEE EQUITABLE SHARING OF THE FINANCIAL BURDEN BETWEEN OLDER AND YOUNGER GENERATIONS.

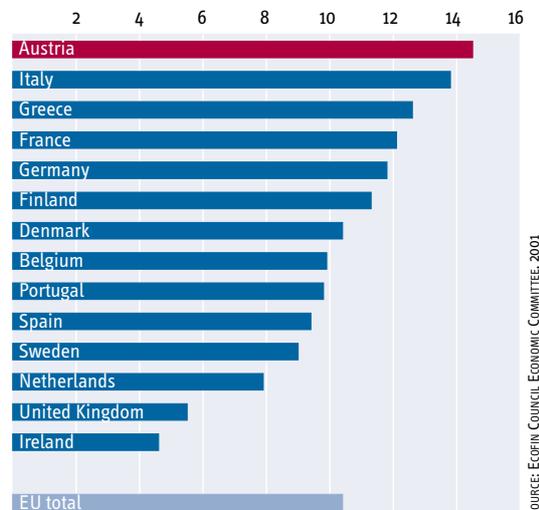
SECURE FINANCIAL SUSTAINABILITY OF THE WELFARE SYSTEM

Declining birth-rates and increasing life-expectancy have led to a dramatic increase in the proportion of older people in the population: fewer and fewer people in work are financing the pensions of even more older people on the basis of the pay-as-you-go scheme. Besides the pension system, this population development also poses new challenges in health care, whereby the rise in medical standards is already a decisive cost factor.

In international comparison, the Austrian welfare system still ranks at the top in terms of performance. However, the exceptionally small employment percentage within the aged population and the degree of room for improvement in the differentiation and accuracy of welfare expenditure and transfer is problematic. Particularly alarming is the size of public pension expenditure: Austria already spends 14% of GDP on state pension – the highest amount in the EU. According to official EU estimates, this proportion will continue to increase and will reach 18% by 2030 as long as sustainable structural reforms are not implemented. Without change, Austria will continue to bring up the rear in this important future question over the coming decades.

TOP OF THE PENSION EXPENDITURE LEAGUE

State pension top-ups for people over the age of 55 in per cent of GDP, 2000



SOURCE: ECOFIN COUNCIL ECONOMIC COMMITTEE, 2001

of GDP on state pension – the highest amount in the EU. According to official EU estimates, this proportion will continue to increase and will reach 18% by 2030 as long as sustainable structural reforms are not implemented. Without change, Austria will continue to bring up the rear in this important future question over the coming decades.

EXTEND OLD-AGE PROVISION, OPTIMISE THE HEALTH SYSTEM

A balanced relationship between the three pillars of the pension system – state guarantee, employer provision and private provision – must be achieved. The higher amount of personal provision in the old-age welfare system in this equation counteracts rising additional wage costs and is therefore suitable as a contributor to the competitiveness of the Austrian economy and the securing of jobs. Above all, priority must be given to the extended duration of the working life within the first pillar of the pension system

Demographic developments and advances in medical science confront the health system with greater costs. The main task is to cushion rising costs through more

efficient performance without making concessions in the quality of medical care. This goal is in the interest of both those insured by the system, and employers, which foots half the health insurance bill. In addition, basic reform must follow. The main focus lies in medically and economically optimising the allocation of responsibilities between in- and out-patient care, better integration of these areas, as well as capacity planning and regional distribution of healthcare establishments in line with demand.

WHAT AUSTRIA MUST DO

Employers must use the new system of severance pay and build the second pillar of old-age provision together with employees.

Individuals must positively use the old-age protection potential of the new system of severance pay and take greater individual responsibility for personal lifestyle.

Politicians must

- make sure that the second and third pillars of old-age protection become more attractive,
- create incentives for prevention,
- take measures to increase the duration of productive employment (by means of new pension formulas, preventative measures against premature invalidity, encourage qualification to support employability, promote the employment of women and take steps to reduce the duration of studies),
- raise the efficiency of health care services,
- optimise the distribution of responsibilities between in- and out-patient care in the health sector and
- rearrange decision-making and financing structures.

RECONCILE SUSTAINABLE DEVELOPMENT AND COMPETITIVENESS

MAINTENANCE OF ENVIRONMENTAL QUALITY AND RESPONSIBLE DEALINGS WITH NONRENEWABLE RESOURCES IN THE INTEREST OF FUTURE GENERATIONS IS AN INDISPENSABLE PART OF ALL ECONOMIC ACTIVITIES AND A TASK FOR ALL CITIZENS.

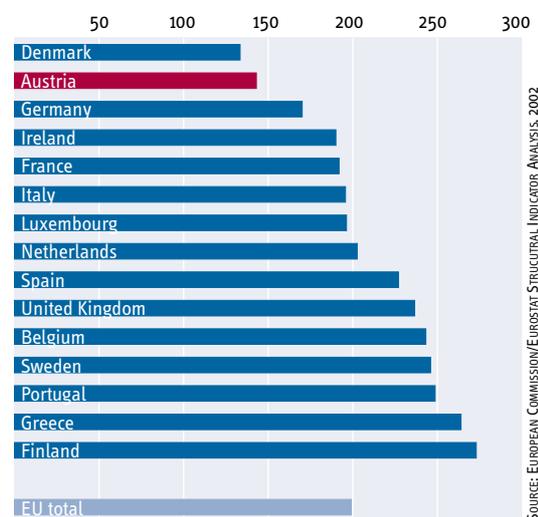
AUSTRIAN ENVIRONMENTAL STANDARDS ARE HIGH

Austria ranks among the EU countries with the highest environmental standards and is a leading light in terms of public and industrial expenditure on environmental protection. European benchmarks within the Lisbon strategy framework under-

line this: after Denmark, Austria has the lowest energy consumption measured against GDP in the EU and leads the field with regard to the volume of goods transported by rail. Austria is undisputed leader in the generation of renewable energy. However, transportation is a problem area that gives some cause for concern.

AUSTRIA IS EXTREMELEY ENERGY-EFFICIENT

Degree of domestic energy consumption in terms of GDP, 1999



GREATER ECO-EFFICIENCY AND REAL COSTS

In order that sustainability may be guaranteed, policy must not exhaust itself with 'old' environmental policy, isolated individual projects and bureaucratic regulations, rather, it must be dovetailed with economic and social demands.

Internalisation of external costs, if attained in harmony across Europe, should form the basis of a sustainable environmental policy. Environmental consumption must be reflected in market prices, thereby reflecting resource shortage.

A sustainable environmental policy must be built on the principle of eco-efficiency: goals should be attained at minimal expense. This is in everyone's interest, as citizens will pay for an inefficient environmental policy in the form of higher prices. In order to avoid disadvantageous distortion of normal trading conditions – translated as loss of growth and jobs – Austria must relinquish measures that overfulfil EU guidelines and refrain from tightening them further locally, eco-taxes being a good example.

WHAT AUSTRIA MUST DO

Business must anchor the sustainability principle in entrepreneurial thinking. The use of renewable resources must be maximised.

Individuals must accept sustainability as a guiding principle in life, for themselves and in the interest of further generations.

Politicians must

- make sure that new market-economy instruments are used intensively (e.g. tradable certificates, flexible Kyoto instruments),
- examine the environmental compatibility of existing incentives (particularly subsidies in agriculture)
- strengthen cooperative approaches and voluntary agreements (e.g. EMAS – Eco-Management and Audit Scheme),
- intensify involvement at EU level in order to achieve rapid agreement on the planned infrastructure charging directive and rail liberalisation.

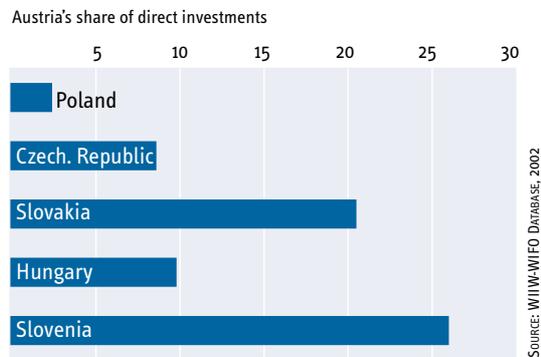
AUSTRIA IN AN ENLARGED EUROPE

ENLARGEMENT OF THE EU IS THE THIRD MAJOR PROJECT SINCE THE VIRTUAL COMPLETION OF THE SINGLE EUROPEAN MARKET PROGRAMME AND THE INTRODUCTION OF THE EURO. IT IS NOT ONLY SIGNIFICANT IN AN ECONOMIC SENSE, BUT IS ALSO AN HISTORIC PROJECT THAT ENGENDERS PEACE AND STABILITY: WE OUGHT TO WELCOME THIS UNIQUE OPPORTUNITY.

ENLARGEMENT IS A MATTER OF NATIONAL IMPORTANCE

For reasons of common history and in view of its geo-political position – sharing borders with four candidate countries – and extensive economic activity in central and eastern Europe, Austria has a keen interest in the development of a stable political and economic climate in the region. This stability can only be guaranteed by our neighbours becoming members of the EU.

ABOVE-AVERAGE AUSTRIAN INVESTMENT IN EU CANDIDATE COUNTRIES



Austria's accession to the EU and economic and monetary union demanded the same adjustments that enlargement entails, and can lead to short-term disadvantages for certain groups, or at least generate insecurity.

GRASP THE ECONOMIC OPPORTUNITIES OF ENLARGEMENT

Enlargement will lead to a strengthening of Austria's competitiveness as the candidate countries adopt and implement EU standards (welfare standards, competition law, environmental standards, etc.). Existing barriers to trade must be dismantled, the costs of border checks will disappear, cross-border cooperation in expanding economic areas such as Vienna/Bratislava/Brno or Graz/Ljubljana will improve. Austria will profit greatly from increased economic dynamism in the candidate countries.

A number of studies underline that the supposed 'flood' on the Austrian labour market will not occur. The agreed transitional period for the right of domicile of workers should be handled more flexibly. Faced with unfavourable demographic development, Austria will need additional foreign workers in order to make the most of growth potential.

Although businesses close to the border will experience increased competition, there will also be new opportunities in the neighbouring markets – which will be characterised by rising buying power – for businesses producing quality products and services.

GRASP THE SOCIO-ECONOMIC OPPORTUNITIES

Besides the economic opportunities that enlargement presents Austria, a host of positive political changes can also be expected. These prospects should be shaped

and the opportunities actively harnessed:

- enlargement extends the European zone of democracy and freedom to countries that were recently cut off by the Iron Curtain. The integration of the reforming states of central and eastern Europe will strengthen democratic culture in the candidate countries and across the whole of Europe. Enlargement also raises Europe's global security role.
- EU enlargement will usher in further solid economic growth for the candidate countries and member states alike. The prosperity gap will also narrow and step-by-step, living standards and welfare security will fall into line with EU levels.
- Austria shares historical and cultural heritage with many of the candidate countries. EU enlargement bridges the historical and cultural divide that grew in the Communist era. Diversity of culture, lifestyle and mentality is one of Europe's strengths. It is not a threat but an enrichment. The process of European integration offers a chance for new cultural, social and economic partnerships.

The enlargement of the European Union strengthens Europe's economic and social cohesion. A delay to enlargement hinders cooperation between the countries that share a common interest with us. Delay would weaken Austria and Europe.

PROACTIVE INVOLVEMENT IN SHAPING THE EU POLITICAL AGENDA

Austria has not yet utilised enough the opportunities to actively shape policy in Europe which it acquired through its accession to the EU. Austrian politicians have been too restrained and passive in the past, not supporting new ideas and initiatives brought forward by other member states – let alone tabling them in close cooperation and coordination with other countries. A consequence of this is the widespread feeling in parts of the population that Austria is at the mercy of heteronymous decisions taken in Brussels.

However, the skillful and constructive conduct of Luxembourg and Brussels for the greater European good exemplifies the ability of small EU member states to carry a heftier clout in Brussels than their geographical size belies. Common economic interests with the neighbouring candidate countries will give rise to the formation of political alliances in the central European region in the future, lending greater weight to Austrian interests in an enlarged Europe.

WHAT AUSTRIA MUST DO

Business must seek economic cooperation beyond the Austrian border and open up to the new markets.

Individuals must learn to recognise EU enlargement as an economic and political opportunity for themselves and Austria.

with regard to Austria's national interests, **politicians** must

- advocate EU enlargement in and around Austria, making it fit to grasp the economic and socio-political opportunities,
- draw up master plans for preparing Austria's border regions for enlargement,
- develop trans-border regional plans with neighbouring states among the candidate countries,
- ease the mobility of workers across borders step-by-step with regard to the shortage of specialised workers, ahead of expiry of the transitional period,
- improve the framework conditions for investments by Austrian businesses in central and eastern Europe (e.g. by means of modern taxation grouping and the continual development of financing and guarantee instruments),
- support moves that Austrian businesses in central and eastern Europe are making to internationalise beyond the candidate countries,
- develop Austria as a location for the siting of headquarters for businesses active in the central and eastern European region,
- push the rapid improvement of cross-border transport infrastructure to neighbouring states,
- better utilise the opportunities offered by enlargement to actively shape European politics and
- Intensify political cooperation in finding and pursuing parallelities of common interest within the EU together with other Central European Members, but especially with neighbouring candidate countries.

Access to the national Lisbon strategy reports 2003 of the industrial and employers federation of the EU-member states and the UNICE-report www.unice.org/lisbon

The Federation of Austrian Industry is a member to UNICE, the leading independent organisation representing european business. UNICE's members are 34 central industrial and employers federations from 27 european countries, speaking for more than 16 million companies, the vast majority of which are small and medium sized.

IMPRESSUM

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