Revamping Policy Governance in Austria

The EU’s Impact 25 Years on

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1. Initial conditions
2. The internal market as productivity boost for Austria
3. Converging competitiveness
Critical issues concerning Austria’s EU membership

* Original obstacles
  • Political scope, given the Peace Treaty of 1955 and the Neutrality Law
  • Economic feasibility, given structural deficiencies in the Austrian economy

* Weaknesses of the Austrian economy  (Background: Grand coalition and social partnership)
  • Large sector of nationalised industries with limited exposure to competition
  • Low productivity in the heavily regulated services sector
  • Overbanked economy with meagre efforts to liberalise the financial markets
  • Higher inflation in Austria than in Germany

* Strengths of the Austrian economy
  • Functioning social partnership
  • Established hard currency policy and other prep-measures towards euro introduction (incipient fiscal consolidation)

* Membership pros
  • Rounding-off previous integration steps through Common Trade Policy
    – Free trade agreement EC – EFTA (1973)
    – 1994: European Economic Area (EEA) extending the internal market to EFTA countries
  • Expected improvements in economic and fiscal governance with gains in competitiveness

„Cost pressure model“ (already applied to justify the hard currency policy in the 1970s) overwhelmingly accepted as most beneficial route for the Austrian economy.
EU: Backlogs in fiscal and economic governance

* Early results in the EU’s fiscal governance

- **Principles** already well established around the mid-1990s (in view of euro)
- **Compliance** differed markedly from country to country:
  By 1995, neither Austria nor Finland (nor Sweden) fulfilled the deficit criterion, Austria (and Sweden) also not the debt criterion.

* EU was late in establishing effective economic governance

- **Original focus** on short-term fiscal and medium-term competitiveness targets
- **During first Austrian Presidency** (1998), Macroeconomic Dialogue (MED) with social partners was initiated (established at Cologne Summit in June 1999)
- **Euro-crisis** called for a long-run strategy, resulting in “Europe 2020”, European Semester, Macroeconomic Imbalance Procedure (MIP), accompanying Scoreboard

The COVID-19 crisis puts an end to the well-established fiscal stability
The Single Market perceived as productivity boost

* The evolving Single Market (SM)
  - The SM was declared “complete” in 1992, but implementation severely lagging.
  - Austrian Presidency in 1998 helped change the impact assessment of SM rules from originally ex post assessment (SLIM project) to ex ante assessment (resulting in the “Cologne Process”, with social partners participating)
  - “Better Regulation Serves Employment”

* Insufficient transposition of SM law
  - First Single Market Scoreboard, Nov. 1997:
    Austria scored highest transposition deficit among all EU15 countries.
  - Currently, progress is still deemed insufficient: Number of infringement cases pending consistently higher in Austria than in Finland and Sweden

Source: European Commission (2019)

OeNB, September 2020_HANDLER
Hesitant privatisation of state-owned enterprises (SOEs)

- Post-war success story turned into a rather clumsy and inefficient corner of an otherwise thriving production sector
- Privatization efforts often derailed due to ideological struggles among the social partners as well as between them and the government
- Eventual large-scale privatisation giving in to repeated admonitions from IMF, OECD, and EU Commission

Deferred liberalization of network industries

- By 1995, many liberalisation efforts were under way. However,
  - in competitive sectors (mobile telephony, air passenger transport, road freight, and especially retail distribution), Austria was less open in 1998 than Finland and Sweden;
  - also, in industries with non-competitive segments (such as telecommunications), Austria was visibly behind the other two accession countries

Rewriting the basic understanding of competition policy

- Competition policy was originally dominated by social partner institutions: They would bring cases to the Cartel Court, and they would also nominate layman judges to the Court
- Reforms 2002 (independent Competition Authority) and 2017 (increase in staff)

Converging competitiveness

Real effective exchange rate index
(1995 = 100)
A rise in the index means a loss of competitiveness.

Source: AMECO. Note: The real effective exchange rates are based on unit labour costs for the total economy and are calculated relative to EU15 countries. Double export weights are used, reflecting competition in the home markets of the various competitors as well as competition in export markets elsewhere.