

AUSTRIAN SOCIAL PARTNERS' ADVISORY COUNCIL FOR ECONOMIC AND SOCIAL AFFAIRS

EMPLOYMENT POLICY

The studies produced by the Austrian Social Partners' Advisory Council for Economic and Social Affairs contain opinions and recommendations for economic policy which have been agreed upon by the four major Austrian social partners (the Federal Economic Chamber, the Federal Chamber of Labour, the Austrian Federation of Trade Unions and the Standing Committee of the Presidents of the Austrian Chambers of Agriculture).

The following text represents a translation of the introduction and recommendations from the Advisory Council's enclosed study „Employment Policy“ (Beschäftigungspolitik). The translation was provided by Martha Schodl.

CHAPTER I: INTRODUCTION AND RECOMMENDATIONS

1. Introduction – The Economic Environment

1.1. Introductory Remarks

In the last decade the labour market has become one of the central problems of the economic and social policy. Due to rationalization measures and relocation of production facilities the number of jobs in industry has greatly decreased and despite massive early retirements the unemployment rate has doubled since the beginning of the eighties.

The labour market has come under pressure from various sides:

- Since the seventies the long-term economic growth has decreased by about fifty percent. Therefore the labour demand of the enterprises has declined considerably. Yet, in contrast to the slogan of: „jobless growth“ employment has not at all decoupled from economic growth.
- The international division of labour and the technological development forced industry to take rationalization measures. With increasing integration this trend spread also to other sectors (e.g. banks). The international division of labour has three aspects in particular: globalization, EU-integration and opening of the Eastern countries.

A third, though less central labour market factor, is the steady increase in labour supply. In the last decade more women sought employment and additional foreign workers, also a consequence of the opening of the Eastern countries, were integrated into the labour market. According to present estimates the labour supply will continue to increase over the next twenty years

(by more than 270.000 according to the estimates of the Austrian Institute of Economic Research, see chapter II.6), even if a restrictive immigration policy is adopted.

In Austria the labour market situation became critical in 1995 and 1996: 16,000 jobs were lost in these two years, the number of the registered unemployed increased to the same extent. In these years employment problems spread from the industrial sector to those service sectors that lost their hitherto sheltered position due to the European integration and must now prevail against international competition.

The increasing problems of the labour market motivated the Advisory Council for Economic and Social Affairs to this employment study. The Advisory Council concentrated in its work on labour market and qualification aspects, as the economic side of this problem was dealt with in the Advisory Council's study „Wirtschaftsstandort Österreich“ („Austria's Competitive Position as an Industrial Location“) two years ago. The Austrian Social Partners' agreement „Maßnahmen für eine beschäftigungspolitische Offensive“ („Measures for an Employment Policy Initiative“ of the employment summit of the Parity Commission of February 1996) is enclosed in the annex.

This paper is thus to complement the study on Austria's competitiveness. It must be stressed that employment and unemployment are not merely problems of the labour market but much more of economic development and thus also of economic policy. Labour market and educational policy initiatives are necessary but not sufficient to increase employment.

The study of the Advisory Council is divided into six chapters: This introduction and the recommendations or conclusions are followed by a chapter on the development of the labour market, paying specific attention to the individual sectors. The third chapter deals with qualification of the labour force concentrating on further vocational training and continuing the Advisory Council's study „Qualification 2000“. The fourth chapter is devoted to the subject of working time and employment and refers to two studies of the Advisory Council on „Arbeitszeitentwicklung“ („Working Time“) and „Öffnungszeiten“ („Shop Hours“). The fifth chapter goes into those areas, services in particular, for which the Advisory Council expects a high future employment potential. The sixth chapter finally discusses the active labour market policy.

1.2. Economic Growth and Labour Market Development

Austria succeeded in restraining the last recession ('92/'93) and keeping the unemployment rate low compared to other European countries last but not least due to letting the automatic stabilizers take effect i.e. accepting short-term effects of recession-led tax losses on the budget deficit. Such a policy prevents the development of a non-cyclical unemployment that would then consolidate and be difficult to reduce even in times of economic upswing.

Nevertheless employment has become of major political concern in Austria as throughout the rest of Europe. Unemployment increases during each cyclical downswing and hardly decreases during an economic recovery, thus indi-

cating a structural problem. For years the increase of production has lagged far behind the high productivity growth in industry. A further decrease in employment in industry must be expected for the future as well. The sectors of business-related, social and personal services, above all, could make up for the decreasing employment in industry. Particularly the share of business-related services is relatively low in Austria, indicating a considerable potential for expansion.

Given the present average working time, an economic growth of approximately 2% is necessary to maintain the level of employment. But as the labour supply has a medium-term growth rate of about 0,5%, the economy would have to grow by approximately 2.5% in order to keep the unemployment rate constant. This would be in line with the more optimistic medium-term growth prospects. Therefore economic growth alone will not be enough to significantly reduce unemployment. It will also be necessary to increase the employment intensity of growth e.g. by expanding labour-intensive services.

While the number of jobs continues to depend on the economic dynamism, unemployment has partly decoupled from the employment trend. Experience has shown that in Austria the labour supply varies considerably in the cyclical course: In times of recession a decreasing labour supply reduces the increase of unemployment; during economic recovery, however, unemployment decreases only slowly, as additional labour force, in particular foreigners and women from the hidden labour force reserve, enter the labour market.

At the beginning of the nineties the rapid increase in the foreign labour supply, partly due to the opening of the Eastern countries, demonstrated which problems can be caused by a sudden increase in supply: above all dismissal of the older domestic labour force and increasing unemployment of foreigners already living in Austria. The future employment policy for foreign workers is to aim at precluding negative effects on the unemployment situation (controlled access).

Finally the regional differences in the unemployment rates are very high. Ailing, old industrial areas and rural regions are particularly disadvantaged. Economic integration results in aggravation of regional disparities and thus increases the importance of regional development policy.

1.3. High Dynamism of the Austrian Labour Market

The dynamism of the Austrian labour market is greater than generally assumed. Even with unchanged overall employment more than 100,000 jobs are lost through reduction of labour force in diminishing enterprises and through closures, while at the same time 100,000 new jobs are created. Two thirds of this restructuring process take place within the individual branches of industry.

Not only is intercompany mobility relatively high in Austria, but also the change between employment and unemployment is frequent – even if the seasonal movement is ignored. The increase in unemployment is partly due to a rising number of job-seeking unemployed.

1.4. Shadow Economy

The shadow economy (illegal non-registration with the social insurance system, illicit employment, work on the side, business without receipt) represents an unfair competition both for enterprises and employed persons. Small and medium-sized enterprises particularly suffer from competition with the shadow economy more strongly than from global competition.

Capital mobility has considerably increased the possibilities of tax evasion. The attempt to compensate tax loss by taxation of the relatively immobile factor of labour increased the burden on labour compared to other production factors. The present tax and fiscal charges burden incites both, provider and demander of such services, to escape into the shadow economy. Stricter controls alone will not solve this problem. However, when easing the burden on the labour factor, the question of financing the social system must also be taken into account,.

It is typical of illicit employment that the demand for transfer payments and insurance benefits (social affairs, infrastructure) remains constant or even increases, while the financial basis weakens due to the expansion of the shadow economy and the pressure for tax increases gets stronger. High unemployment figures, therefore, often do not indicate a scarcity of work, but misallocations by the tax and fiscal charges system: Financing the welfare state by imposing taxes on economic performance and thus on legal employment makes it attractive to evade taxation to an extent as access to the welfare system is still guaranteed. Opportunity for tax evasion is offered particularly in the field of personal services.

1.5. Deregulation and Privatization

The integration of sheltered sectors into international competition should result in price reductions for buyers, both consumers and enterprises, but it also means a painful adjustment of the employment level to the conditions of international competition.

The forthcoming liberalization of the energy and telecom market (removal of the line monopoly as of 1.1.1998) may produce short-term drops in employment, for which in case transitional assistance should be foreseen. Foreign examples in the telecom and media branch show, however, that competition and additional suppliers can create new jobs in the longer run.

When privatizing and restructuring key industries of the Austrian economy, commercial criteria as well as the safeguarding of strategic owner function in Austria must be taken into account to prevent an emigration of headquarter functions and competence centres important for Austria as an industrial location (see study of Advisory Council „Industriepolitik III“ – Industrial Policy III, 1991)

1.6. Globalization

According to the prevailing economic view, international economic integration results in an overall increase in welfare. New markets and fields of economic cooperation offer prospects for expansion. But the welfare returns from globalization are not equally distributed among economic groups and countries.

The biggest conflict between global economic and national political interests is felt on the labour market. Due to their global thinking, international companies more and more liberate themselves from their national roots and no longer base their actions on national and social requirements. Internationally active companies are guided in their decision for a location – apart from infrastructure and educational standards – by unit labour costs and environmental requirements of the individual countries.

On the labour market, globalization and technological development result in a dualization: Unskilled labour suffers particularly from this globalization process, these jobs are partly lost and the income level decreases comparatively. Skilled labour, however, is generally better off: engineering-intensive branches support export success and the demand for qualified services rises.

Overall, the increased competitive pressure enforces rationalizations and relocation of production facilities which result in job losses. The return to the protectionism of the past, however, does not constitute an alternative, as this would be counterproductive for export-oriented national economies. To oppose these trends and the asymmetries in foreign trade relations, negotiations on „fair trade“ and „market access“ including the introduction of environmental and social standards must be advanced. In addition, the application of the instruments of the EU foreign trade policy (antidumping, protective measures) is indispensable.

Politics today are more than ever asked to alleviate the problems of adjustment to international economic integration and take labour market measures in favour of the losers of the modernization process. The EU law on competition, present budgetary restraints as well as practical experience restrict the approach of solving this problem through state subsidies to transitional protection and support measures provided for in the WTO.

In the future, the structural change on the labour market will rather be accelerated through globalization and technological change. The affected employees in the diminishing industrial branches cannot automatically change to jobs in the expanding economic fields, as these require different skills and are located in different regions. Increased efforts for further vocational training both for employed and unemployed as well as an expansion of the service sector will be necessary to adequately cope with the rapid structural change.

1.7. Opening of the Eastern Countries

The subject of the opening of the Eastern countries has been discussed by the Advisory Council in the study „Ostöffnung“ („Opening of the Eastern

Countries“) and in the „Positionspapier zu ausgesuchten Themen rund um die Regierungskonferenz 1996“ („Position Paper on Selected Topics Relating to the 1996 Intergovernmental Conference“) (chapter Opening of the Eastern countries).

The public generally regards the effects of the opening of Eastern Europe too negatively: The relocation of individual production facilities to Eastern Europe is generally in the foreground, while the increase of the Austrian exports to Eastern Europe does not receive proper attention. Since the opening of Eastern Europe the balance of trade with Eastern Europe has increased by over 10 billion Austrian Schilling. Due to that fact, employment in Austria has increased, even if mainly labour-intensive production has been relocated. Pressure on prices, however, hardened non-measurable structural labour market problems. In addition, Austria's geographical position causes a drain on purchasing power which in turn negatively affects employment particularly in the areas close to the national border. The overall effect of the opening of Eastern Europe on Austria's employment situation can therefore not be exactly quantified.

In the case of accession of the Eastern neighbouring countries to the EU, Austria would face the additional problem of free immigration from Eastern Europe. A completely free labour market (commuter and passenger traffic) would above all affect those regions close to the border with Eastern Europe which already have a high unemployment rate today. Similar applies to the sector of cross-border services. The social partners, therefore, stress the necessity of only gradually implementing the free movement of labour with relatively long transitional periods and relevant safeguard clauses in case of accession by Central and Eastern European countries. Under the present conditions the free access to the Austrian labour and services market for citizens of Central and Eastern European countries thus seems difficult to be realized in the foreseeable future.

1.8. EU-Membership

EU membership has increased Austria's attractiveness as an industrial location – as expected by the Social Partners in their study on Austria's competitive position. The improvement of Austria's quality as a location is already reflected in the increasing net exports and in the investment plans of multinational concerns; but its full effects will only be felt in the longer run.

In the starting phase the effects on the labour market, however, were mainly negative. Rationalization waves swept particularly through those branches that were suddenly fully incorporated into the integration process, i.e. the food industry and some service sectors (in particular trade, transportation). Rationalization investments are also planned for the energy, telecom and financial services sectors. If necessary, industry specific transitional support measures, similar to those in the food industry („AUFLEB“), might then be advisable also for these sectors.

Finally, the high direct and indirect costs of the EU-accession have considerably increased the pressure on budgetary consolidation. But the contributions should be regarded as an investment guaranteeing the Austrian economy a more favourable development on a long-term basis.

1.9. European Economic and Monetary Union

Austria attaches high priority to the creation of the European Economic and Monetary Union (EMU) as planned. Then investors would no longer be disconcerted by exchange rate fluctuations in Europe and Austria would be protected against further devaluations of important European trading partners, as they have a negative effect on the employment situation in Austria. Yet, employment effects and social compatibility must also be taken into account, when introducing budget consolidation measures, necessary on a Europe-wide basis not least in connection with the implementation of the EMU. In line with overall economic considerations and social cohesion it must therefore be found a balanced proportion between monetary and real objectives (growth, employment) when realizing the EMU.

For Austria it is particularly important that Italy, but also Sweden and Finland, join the EMU as soon as possible to spare Austria's industry and tourism further devaluation. The potential for political interpretation of the fiscal convergence criteria of public debt and budget deficit should be utilized without however questioning the convergence criteria as such. To prevent an economic, social and political alienation between participants and nonparticipants in the EMU, measures are to be taken supporting those not participating in the EMU in their stabilization process and offering them the prospects of an entry as soon as possible.

The Advisory Council furthermore stresses the importance of fully exhausting the room of action given for employment policy within the EMU. Today the European economy also suffers from a lack of coordination of economic and tax policy. The individual countries try to improve their competitiveness through devaluations („beggar-my-neighbour“ - policy), wage and social welfare decreases or tax reductions. Efforts for a greater tax harmonization will be required within the EU to stop the tax competition. The EMU offers the chance of winning back on a European level the room of action for economic policy that has been lost on a national level.

1.10. Monetary Policy

Europe is facing an increasing differential between real interest rates and economic growth. To facilitate investment activity and budget consolidation, interest rates in Europe should be kept as low as possible in the long run. In the nineties the U.S. Federal Reserve System succeeded in accelerating the economic dynamism through a pragmatic monetary policy without causing inflationary tensions. In Europe monetary policy followed a restrictive course for years, as can be seen from the inverse yield curve till 1994. On an interna-

tional political level, struggle against unemployment and budget deficits also means struggle against constantly high real interest rates. The European Central Bank should be urged to pursue a balanced monetary policy. Apart from the stability objective, monetary policy must also take into account the employment objective. To coordinate these objectives, a mechanism between the social partners as autonomous participants in the collective bargaining process and the independent European Central Bank should be created.

1.11. Income Policy

Unit labour costs together with exchange rates are of decisive importance for the competitiveness within Europe. The deterioration of competitiveness caused by devaluations of important trading partners can be compensated above all by ensuring that productivity grows faster and labour costs increase less than in the devaluating countries. The national income and wage policy must, therefore, take into account international competitiveness. Growing international interdependence and the removal of instruments of exchange rate policy within the EMU increase the importance of wage policy that lies within the autonomy of the participants in the collective bargaining process. It can be expected that Austria will continue to be able to take advantage of the policy of consensus between the social partners and the experiences as a hard currency country.

The development of labour costs deserve particular attention in connection with real wage flexibility. Though there were short-term adjustment problems due to external effects (exchange rate shifts) in the first half of the nineties, the flexibility with which real wages react to shocks is relatively high in Austria. Flexible wage and income policy has in the past represented an important support in preventing unemployment in Austria. In the Economic and Monetary Union, wage formation will be of even greater importance in securing a high level of employment.

In view of the great income disparities between Austria and the new industrial locations of Southeast Asia and Eastern Europe, an adjustment to the considerably lower level is neither possible nor desirable. A highly developed national economy that has reached European wage level, cannot retreat but must increase its productivity level by constant innovation in order to be able to maintain the high standard of living.

1.12. Taxes and Fiscal Charges on Labour

The increasing fiscal burden on the production factor of labour initiates substitution effects and thus limits the growth potential of labour intensive branches. In Austria, the production factor of labour has to carry a heavy tax burden even after the 1994 tax reform (e.g. introduction of municipal taxes) and social security contributions are significantly higher than the OECD average. Regarding the tax load ratio, Austria lies in the upper middle field while

the taxes on consumption are on international level and direct taxes are considerably lower.

Possibilities of reducing the fiscal burden on the factor of labour may be found e.g. in the sector of the „Kommunalabgabe“ (municipal tax), „Familienlastenausgleich“ (system of financing transfers to families) and Wohnbauförderungsbeitrag (fiscal charges for subsidizing the construction of housing). These charges could be replaced by other forms of taxation, but comprehensive changes of the tax and fiscal burden on the factor of labour require an all-European solution.

2. Recommendations

2.1. Skills

2.1.1. Skills as a Locational Factor

For highly developed industrial countries, the skills of the employees represent a decisive competitive element. The Austrian educational system must therefore react swiftly and flexibly to economic and technical changes. In its „Jobs Study“ the OECD points out that poor flexibility of the educational system can contribute to increasing unemployment.

Education and vocational training are of great importance for the attractiveness as an industrial location and for the prospects in the labour market. An increase in the level of ability does not only strengthen the employment opportunities of the individual but also increases the competitiveness of the economy as a whole as well as the flexibility in the labour market.

2.1.2. Further Vocational Training

This study concentrates on further vocational training which increases its importance in a rapidly changing working world. Further vocational training starts after the initial education and should be possible any time as lifelong learning and vocational training. It should be interlinked with work in various stages, taking into account the access of groups not yet incorporated into further vocational training and making participation feasible for companies.

The numerous forms of further vocational training include vocational training for adults, in-company training, upgrading qualification training for employees e.g. master qualifications in trade on a supervisory level, as well as training for unemployed.

In general, Austria has quite a good starting position, because at least in urban centers it provides a well-developed system of vocational training. In certain fields, however, the development of a demand-oriented vocational training system taking into account regional requirements is inadequate.

In cooperation with the regional authorities, the facilities offering vocational training must see that further training is offered universally and can ac-