

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