

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-