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**Guest Keynote Address to the Conference
of AGN International***

Europe Meeting

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*AGN International is a worldwide association of separate and independent accounting and consulting firms serving business organisations throughout the world.

**Dear delegates to the AGN International/ Europe Meeting,
Ladies and gentlemen,**

There are two reasons why I feel especially grateful, and honoured, for the opportunity to address your conference this morning: **First**, it is because of the close professional links I have with your association, **and second**, because of our shared interest in guiding the business world, and society as a whole, on the path to a brighter future.

The bright future I speak of is not a vision that everyone shares, or that everyone wants to strive for.

There are many who want to relax and enjoy the *status quo*, and who feel that we have achieved enough. The problem they overlook is that the *status quo* is not stationary; any country which stops moving forward will be swept backwards by the tide of events.

Another obstacle we have to overcome is that there are powerful vested interests, which see **progress** as a risk and a threat to their current, entrenched positions, not as an opportunity and an incentive for society as a whole.

For these reasons, I would like to share with you some of my main thoughts on developments and trends in Austria, but also in Europe and, indeed, the world.

A Changing Global Balance

The most important trend in the world today is the shifting balance of power, be it political, economic or military. The First and Second Worlds, by which we mean roughly Europe and North America, no longer enjoy the dominance they have experienced for the past five-hundred years. The relative importance of the Third World is growing, especially that of the BRIC countries.

This is only a matter of concern when we restrict our understanding of human history to the past two hundred years, or so. From the perspective of the recorded history of mankind, this can be seen as part of the normal ebb-and-flow of civilisations. China is not emerging, as is sometimes claimed; it is re-emerging from a self-inflicted and lengthy obscurity.

The same can be said of India and other great and ancient oriental civilisations, as well as others in Latin America.

This change is being driven by many factors. Foremost among them is the change in attitudes. The re-emergence of China was signalled when, following centuries of isolation and an inward-looking preoccupation, the country became more outward-looking in the early 1970s.

The catalyst for change was dynamic population growth. An enlightened Chinese government realised that to cater for a growing population, and to provide it with a modern standard-of living, China had no alternative but to participate in the global economy.

There is no doubt but that progress and change always hurts someone, and China has not been spared the pain that is associated with rapid industrialisation. Policy mistakes have been made and many abuses have been tolerated – nevertheless, the alternative of failing to face up to the need for change might have been much worse.

These changes make close international cooperation more urgent and pressing. We must find a way where all the occupants of this planet enjoy a high standard of living, and not just the privileged few. However, the resources of our World are limited, so that their international allocation must be governed by international agreement. The West has accepted the new reality, so that today, the G7, or G8, has been expanded to the G20.

A Lesson for Europe

The 20 to 30 years following the Second World War witnessed a period of exceptional creativity and adaptability in Europe. Not only did we succeed in rebuilding a destroyed continent, not forgetting the generous assistance from the United States, but we also created new political institutions for a united Europe.

The European Union, and the Eurozone, bear testimony to the fact that innovation and creativity in Europe are not yet dead. Unfortunately, we have not discarded completely the blinkered mentality of the Nation State. Neither have we taken to heart the view that the good of one nation is inextricably linked with the good of all. Progress on integration seems to have come to a halt.

At one level we see this in the ongoing debate over whether or not Turkey should be allowed to join the European Union. I regard this argument as futile, and it only serves to underline the fact that we have still not grasped the notion of a “united Europe”: many focus on the word “Europe”; I feel the important word is “united”. Geographic boundaries are irrelevant and represent nothing more than arbitrary lines on a map. With time they become engrained, but this makes them no less arbitrary.

At another level, we witness the ongoing chaos with the sovereign debt problem, which is mainly a problem in Europe, but is unlikely to remain confined to this region. Our public representatives are struggling to reconcile the big picture – or the need to tackle the problem at source – with domestic political opinion – a refusal to allow “our taxes” be used to bail out impecunious Greeks, and others.

The media also miss the point. Financial markets are powerful, but mainly in forcing us to rationalise pricing anomalies, in particular at present, the price of risk. But markets cannot force a nation to abandon its currency any more than they can force a country to abandon its national flag, or its language. As such, market turmoil poses no real risk to the euro as a currency.

And the markets also seem to miss the point. The real threat to the solvency of a country is not just its sovereign debt in relation to GDP. It is also necessary to factor in the indebtedness of households as well as the corporate sector.

The main threat of the present sovereign debt crisis is twofold: the holders of the debt are facing the risk of substantial financial loss, and the issuers of the debt face long-term exclusion from the capital markets of the world.

The former is mainly the banks in the developed world, mainly in Germany, France, the UK, the Netherlands, and many more. They underestimated the risks associated with sovereign debt in Europe just as surely as did American banks the sovereign debt of Latin America in the 1970s and early 1980s.

The nervousness of EU governments today reflects their pessimism with regard to the solvency of their own banking systems. The dramatic efforts to “bail out” Greece are little more than a latter-day Greek Tragedy.

Ultimately, the Eurozone will have to introduce “Eurobonds”, by which I mean a new form of sovereign debt of the Eurozone, and not the financial securities we know so well for so long. They are assured of a warm reception, if only because they will offer major creditor countries, such as China, with large stockpiles of foreign-exchange reserves, an opportunity to diversify out of the dollar.

The Need for Basel III

Another lesson we have learned from the international financial crisis, which broke in the middle of 2007, is that a high level of regulation of the international banking system is indispensable. It is extremely difficult to identify the correct measure of regulation in a dynamic, innovative financial environment. Safety is an important priority, but so is the flexibility to be innovative and creative, and to identify new needs and compensate for missing markets.

When the transition phase of Basel III is complete on January 1 2019, the minimum total capital which banks will be required to carry will be 8% (or 10.5% including the conservation buffer). We may sympathise with the constraints this imposes on banks to respond to profitable investment opportunities, not to mention anomalies in the risk-weighting of certain assets.

Nevertheless, we must not lose sight of the facts that banks are risk-absorbing institutions by virtue of their intermediation activities, that there are important externalities associated with the stability of the banking system, and that the taxpayer always ends up footing the bill when things go wrong. For these reasons, the public good must take priority over the avarice of shareholders or the rent-seeking behaviour of bank management.

Reform in Austria

Reform is an essential part of progress, and its need is not confined to the international arena.

The Austrian empire was sustained by a first-class administration which provided efficient information and record-keeping for the most far-flung corners of its territory. The main purpose of the Second Republic would sometimes appear to be to serve the needs of the administration.... and of the political elite!

Our public finances are fossilised. The word "reform" is the most frequently used, and ignored, expression in our entire lexicon of public policy.

Our government is preoccupied with maintaining some semblance of harmony between the ruling parties, to the exclusion of any form of progress on urgent questions of social and business policy.

What is needed is obvious. First, we have to cut expenditure on our bloated and excessive public administration and eliminate the duplication which occurs at different levels of government.

We have to tailor our pension system to what is financially feasible and sustainable. The main developments here concern the age of retirement, which must be brought in line with demographic realities.

And finally, we must rationalise our health system to eliminate inefficiencies. It is well known that in matters of health, demand adjusts passively to supply. Thus we must focus on health provision, not on demand, and realise that there are decreasing returns to scale in this sector. Greater quantity does not necessarily mean better quality of service.

Second, the financial resources released in this way can be reallocated to where they can provide a greater return for society.

Top of the list has to be the education of our population. I am known to have some views on this subject. Investment in the education of our population is investment in the future of our society. This is not a suitable area for economies, other than to eliminate waste and duplication. That we have such waste is obvious from the fact

that our expenditure in this area is not reflected in the success of our educational system.

Second on my list of priorities is investment in research. In spite of our wonderful tradition in this regard, Austria has been falling behind in its public allocation in this area. As education and research create a dynamic and innovative environment in which business can thrive, the positive externalities of expenditure in these areas will benefit everyone.

The stumbling blocs are the intransigence of vested interests – in this case, the public-sector unions – as well as a large measure of political paralysis.

The behaviour of the unions is understandable. Union officials are paid to preserve the privileges of their members, whether warranted or not. What is not understandable is that these same officials sit in parliament, strategically placed to block any movement towards progress.

But the real tragedy is the lack of decisive leadership of our political leaders. A hallmark of the intellectual bankruptcy of the political elite must surely be when concerned citizens have to wrestle the initiative from our political representatives, and take to the streets, and the media, demanding change.

Consultatio

In conclusion, I would like to say a few words about the firm Consultatio, a member of this distinguished organisation. This firm has been active in Austria for 41 years and has done much to help promote professional standards during this time. Our membership of AGN has helped us to ensure that accounting and consulting practice in Austria are in keeping with best professional practice in other countries. International contact and information exchange is a two-way process, and we are proud to have been able to give, as well as to receive, by means of this organisation.

I will conclude by wishing you a very successful conference with many useful discussions.

Thank you for your attention.