

“Österreichs Zukunft braucht Innovation”

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„Spielraum für Zukunftsinvestitionen gesucht – Ansätze und Hebelwirkung einer Staatsreform“

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(Transkript der Rede in englischer Sprache)

Introduction “[...] also might be useful with regard to the situation in Austria today. Of course I am not here to intervene or interfere in your domestic political debate. I must admit that if any former Prime Minister or Minister of Finance had come to Sweden while I was Prime Minister and presumed to intervene in domestic politics I would definitely have given him a lecture. So I will be a little careful.

Having said that I just want to say the following before we start. I travel around the world, giving lectures about almost everything. My incompetence knows no bounds. But there’s one thing I can tell you: wherever I have an audience in front of me of this size and this structure, I think they would be happy to change places with you. Don’t forget that. Austria is a rich country. Austria is a beautiful country. Austria is one of the healthiest societies in the world. Let me say that about you because if you say it about yourself, well ...

[...] On reform: it is a question of permanent reform that is what I have learned from my years as Prime Minister and Minister of Finance. Permanent reform. Constant reform. Never ever think that the job’s done, so to speak, that you’ve finished. No, it is just one part of the process. Then you have to carry on. Remember what they said about innovation. When you think you have reached an excellent result, a level of excellence, there are others who will beat you to it. Of course this is about cooperation, yes, but first and foremost, it’s about competition. Those who end up in second place may be excellent people but they are not the winners. What you need are winners. And what

you're participating in is competition. Of course you can also cooperate. But never forget, it is a competition.

Having said this, talking about innovation - it is about a cluster of different aspects, about the development of a society. It is about the innovation systems themselves. Of course, institutes, resources, evaluation, excellence, international competition - that is one part of it. Infrastructure, living in the most modern society, having the best possible information technologies, the best possible connections within the international arena. You can spend as much money as you want on research and development, if you don't have access to the infrastructure, you are out of the game. It's about the education system itself. Starting with the primary school system, through secondary schools and finally universities.

And there is something you need to consider: that is that you are living in a graying society. It's an ageing society. This is in one respect a success - we are getting older and older, we live long lives - but soon in European countries we will have a situation where a majority of the electorate is aged 50 years or above - it's graying societies. And therefore in the future we're going to need every single young woman and man in the workforce because there will be so few of them. Because those of us who are 60 and above will be in the majority. So therefore you need to take them through the education system from primary school to university. You need to have at least 50% of the cohort, they are linked, they belong to each other. Having a participation rate of 30% or thereabouts and then an early dropout rate of 50% of those 30% is just not sustainable. It's linked to the success or failure of research and innovation. It's education, it's infrastructure, it's innovation systems as such. It's also stable political and financial conditions. Possibilities to foresee that this society is able to continue with its bold policy, for instance, in innovation and research. Because they don't mismanage their public finances. How many European politicians have we seen who have promised bold programs with borrowed money? It leads to catastrophe. And don't think that it can't happen to Austria. Of course it can. It happened to Sweden - and we never regarded ourselves as a case study for the International Monetary Fund. When I was first appointed Minister of Finance, we had the IMF sitting in the waiting room, waiting to visit the Minister of Finance, telling him (me) what to do with the Swedish economic situation. It was humiliating; none of us had ever thought we'd end up in that situation. But we went on to solve that problem. You need to have close cooperation between industry and society. The success

in the Swedish case is the result of very long-standing and close cooperation between our multinational companies and the universities and the universities of technology. Pharmaceuticals, telecommunications, heavy trucks, military equipment, you name it, information technologies - we have all the multinationals and they have their firm and long-standing relations with one of the Swedish universities. It's of mutual interest. You create the necessary critical mass. One of our problems is that we have had some problems defending the location of head offices in Sweden when they are merging our big companies. They merge with others from other countries and it has happened that the head office has then also been moved abroad. And when the head office leaves, research and development often follows. Don't underestimate that.

It's also about a culture. If you look at Austria, if you compare the number of patents, you can see that Sweden, which is roughly the same size as Austria, has 100% more patents than Austria. It tells you something about the tradition of innovation in relation to industry. It tells you also something about the necessity of the availability of venture capital for those who have registered those patents.

It is this whole chain of measures. Starting with primary schools, going through the education system, going through the whole society, ending up with resources that are big enough for research and development. Cooperation with companies. And then of course, a constant debate about the results we need to achieve. Because over the last 10 to 15 years, at least in Europe. There has been a tendency to presume that there is one clear solution to every societal problem and that is more research and development. Every politician who wants to find a solution to a problem in society asks for more resources for research and development. I doubt that that is the solution in all cases. And perhaps, when you have expanded your resources as quickly as you have done, you may find you've also built a lot of air into the system. There might be room for discussion here: are we using our resources efficiently enough? This is my experience and when you put that question to huge scientific organizations, the answer is not always crystal-clear, I can assure you. So don't hesitate to do that.

For me, the situation we have in Europe is frightening. But let me say, I am strongly in favor of the Euro, the European Union, the internal market, the enlargement of the European Union. It is also a cornerstone for Austria's development. There are many who admire Germany and its success today.

Rightly so. Germany implemented a large number of measures in connection with the so-called Hartz Commission at the beginning of 2000 - 2002 to 2004. Roughly at the same time as the programme we designed in Sweden. When the enlargement of the European Union was completed, the internal market was fulfilled and the Euro was introduced, Germany was prepared. And they won the battle on the market. It is a success for the German export industry. And so also for the Austrian export industry. You are frequently linked to German development, to German industrial success.

And you are also a key player if you look at investments in Central Eastern Europe. Go to Turkey - the biggest foreign investor is Austria. Go to Hungary, go to Rumania and other countries. It is Austrian money and Austrian companies. It will provide a tremendous input, sooner or later, to the Austrian domestic economy too. One of the reasons why Austria is performing better than the rest of Europe is of course the link to the German economy and to this new, growing market in your neighbouring countries. But that will not last forever if we don't solve the problem inside the Euro. I'm convinced we will do so. But we will have a new type of European Union - a completely new type. A more federal character that has the political strength to balance the common currency. If you take a close look at the European structures you'll see it is a process that's already taking place and is happening quite quickly. It is a dramatic change. I don't like that, to be honest, but I am realistic enough to see it. The Euro will not only survive, it will continue to grow. And if it does not survive, the countries that will lose the most, are those that have gained the most in recent years in terms of development. So it is in the interests of both Germany and Austria to be extremely constructive in supporting those that are suffering problems right now.

And don't underestimate the situation. When Spain, Italy, Greece and the others come back on the market after these remarkable reforms they are forced to introduce, they will come back and then they will be extremely competitive. Those who today are successful are a little bit laid back. Not seldom telling themselves how successful and beautiful they are, yes, but some day, the others will be standing there: young, well-educated and also well-prepared. Greeks or Italians or Spaniards. And that is the new competition. If by then you are still stuck in the old structures, you will be left behind. So remember - constant reform, permanent reform.

If I look at your situation, there is a striking similarity with the Swedish situation before our crisis. And that is the development regarding your relative

unit labor costs. And I have studied this. I have pretty much lived with this problem for the last 15 years in Europe. And the financial situation in many countries, the public finance problems - they often start with relative unit labor costs heading in the wrong direction. Salary increases are too generous. Competitiveness is not sufficiently high and good enough. And then you start losing markets, and then you start seeing unemployment growing, and then you start seeing deterioration in public finance. It is a very clear connection. So, basically, if you stand still whilst others are reforming, you end up not as number two, not as number three but somewhere far beyond like number six or number seven or eight. The point is that constant reform, constant focus on competitiveness is not only about research and development. Of course not. It is also about the wage formation process and the way you organize work in your different companies. If you can't do that you won't remain competitive. It's a cluster of questions that are interlinked, it's a cluster that is not only Austrian, it is European.

I had the task of reforming the Swedish economy. It was in fact quite an easy task. Because we had no alternative. It's not difficult to work out what to do - the difficulty is in doing it. That isn't only so for a state, it's the same for a company, for your private economy. It's not rocket science - talking about the economy really isn't rocket science. The difficulty is revenues and expenditures -, you need to have a balance. If not now, then at least over time. And if you can't achieve that balance then you need to reduce your expenditure. Or increase revenues. But you have to do it. You can't wait. And if you wait too long, you will be punished by history. And those that come too late will always be punished by history. We've learned that. So we did it. We were forced to do it. It was about democracy. It was not about the Swedish welfare society. Well, yes, it was in one sense. But it was much more a core issue for our society and our task - and that was democracy itself. I remember standing in front of an audience of this kind - I had been newly appointed as Minister of Finance - it was in the US on Wall Street. I was sent there to borrow money to finance the Swedish welfare system. And the young people sitting in the audience, mostly young men and a couple of young women with an average age of about 27, started to ask me all sorts of questions about the Swedish welfare state. About the primary school system and why it was so expensive; unemployment benefits; the pension system. And after a while I got angry and I was about to tell them it was none of their business. But I realized it was. Because if I hadn't been able to answer their questions, then they wouldn't have lent me money. So they were de facto the ones in charge.

It is about democracy. Imagine a Greek parliamentarian. Coming back home to his electorate, trying to explain what's happening in Athens just now. Or a Spanish or soon a French member of their national assembly. When IMF and the financial sector tells the politicians what they have to do if they want to be allowed to carry on borrowing money, to finance the deficits. We had never thought it possible that we would have this situation in Sweden but we ended up there. We turned it around, we put forward measures that were harsh, I was the most hated politician in Sweden ever and ... we succeeded. We won the battle, within 4 to 5 years they turned the deficit of 12% to a surplus of 3%. And we have had a surplus ever since. And securing that, and this is important, means not only reducing the budget, making sure you have a balanced situation - it means also ensuring that that you can't fall back again and that is also really important. And that means structural reforms. So it is a program that is both about the actual crisis to reduce the deficits and also about structural reforms to avoid the deficits from happening again.

We introduced a new budget law that de facto told the parliament that if you want to add new expenditures you also need to finance it. Please do that. If you want to reduce taxes, please do so. But you also need to tell them where cuts should be made because there are links between expenditure and revenues. And since this law was introduced our parliament has been very constructive. It's nothing bad. It is a structural reform. The same goes for local authorities. They can't go on building up debt while we focus on being more productive at national level. A new pension system, a new wage structuring system, everything - we went through it all and took the relevant decisions over a couple of years. We did it because we thought it was the right thing to do. And then you end up with a classical question for a politician: aren't you in politics to be reelected? Yes. The art of politics is not in being elected in the first place - it's obvious if you look around almost anyone can get themselves elected. But getting reelected is a little bit more difficult. With this task ahead of you, you must forget the discussion. Because if you do the right things you will probably not be reelected. If you don't do anything you will definitely not be reelected. So it's really quite an easy choice. I think we did the right thing and we survived. It took 8 years for us to have something back from the electorate in appreciation. They saw the results of the 6-7 years and then they said maybe you did the right thing after all. I'm telling you this because my point is that restoring public finances does not take a genius as an economist to calculate how to do it. It is a political task. It is about creating the majority. Not once, but perhaps for 200-300 different decisions in parliament for the

coming 4-5 years. And then you also have to ensure that you introduce structural reforms as well so that you don't slip back again. Then, once you have completed one task you need to start again. It is a process of permanent reform, we have to constantly modernize. And there, of course, research and development are the crucial factors.

As I said earlier, I believe in the Euro and in the fact that it will continue to grow. More and more countries will go for the Euro. I say that because I want to be provocative - everyone today says the opposite: it is just a question of when a country, x or y, will leave the Euro cooperation. I don't think we will have any exits. I think we will have new countries entering. And even now there is one new country waiting for the decision and that is Latvia. A small country but they'll enter the cooperation. And for us, Sweden for instance, outside the Euro, we see one problem today that is a very serious problem that you who are inside the Euro cooperation don't have. We have several examples. Perhaps Sweden, perhaps Norway. It's ironic - many of those countries, those who are most critical of the European Union and the cooperation inside the European Union. But they are still dependent upon economic cooperation, i.e. exports and imports. And that is of course a strongly growing part of their whole economy. Let's take Austria for instance: 50% of your GDP is exports. The same figure goes for Sweden, if not more. For Sweden, in 1970 exports only accounted for 30% of our GDP. I guess that by 2020, exports will make up 55%, perhaps 60% of our GDP. It's not a pendulum, it's a process. It's a process of integration and for small open economies currency is a risk not an asset. That tells me one thing: I think there will be more members in the Euro club, more countries that will see this as the way forward.

I'm also strongly in favor of a growing Europe, a larger Europe. There will be new member countries. It's better to have them inside the club rather than outside. There are those who say that in the last ten years the enlargement of the European Union has been too fast and gone too far. Yes, perhaps. But don't forget - there are also those who say that over the last 20 years the enlargement of the European Union has been too fast and gone too far. And if you reflect for a moment - 20 years - that's the length of time Austria, Sweden and Finland have belonged to the club. No, there is only one way - that's a growing integrated Europe. Now we have to build the political structures and talk properly about European cooperation. Talk about the strengths and perhaps also reflect on how the shape you'd be in now if you

had not been a member of the European Union and the Euro cooperation. What currency would have been the dominating currency in Europe in such a case? Would that have made things any easier to handle politically? In such a situation which countries would have opted for a devaluation strategy to improve their competitiveness? No, the Euro is here, not only to stay, but it will continue to grow. And those who are competitive will be the winners. It's about wage formation, yes, it's about innovation, research and development, yes, it's about education, yes, it's about infrastructure, and yes it's about long-term commitment to a fiscal policy that is stable and clear. If you can achieve that, while conducting ongoing reform, then you'll be the winner. If not, you'll end up as number two. And that is not what we want. We want to win, we want to succeed. That is Austria's place. Alongside Sweden, or the other way round.