

The European Forum

Thursday, March 28th 2019, Albertina

Opening Remarks: Dr. Androsch

(The spoken word applies)

Dear Mr. (Mrs.) Chairman,

Distinguished Guests,

This evening, I have the great pleasure of sharing with you some of my views on the developments in the Austrian economy over the past decade, as well as my concerns about some of the challenges which lie ahead.

Let me start with looking back a bit further in our history. After the Second World War Austria enjoyed the immense good fortune of having attained its political independence and right of self-determination – a fortuitous turn of history which had far-reaching consequences for our economic development and prosperity.

The decision taken in the aftermath of the War to set up a welfare state and its subsequent expansion, the extensive civil service and layers of administration that can be seen as vestiges of the Austro-Hungarian Empire, and, last but not least, the consistent implementation of socially-minded, socially inclusive policies have combined to make Austria's regions and its people, by and large, extremely well provided for.

Today, Austria is a typical European economy where the bulk of our industrial structure is comprised of small and medium-sized enterprises. The country is one of the wealthiest in the world and weathered the financial and economic crisis better than most.

It has a relatively low income inequality (shown by its Gini coefficient score), solid environmental standards, a high quality of life, standard of living and life expectancy. The UN Human Development Index ranked Austria in the top 20 countries in the world. The OECD Better Life Index consistently places Austria in the top 15. The Prosperity Index by the London think tank Legatum Institute also has Austria 15th.

What's more, the Austrian economy has grown well, by 1.4% per annum on average in real terms since 2000, thereby almost rivalling the US growth rate, and outperforming the German and European economies, which have grown at 1.2% and at about 1% respectively.

Austria also boasts a high employment rate, high prosperity levels, above-average GDP per capita and comparatively low unemployment. Austria is in the top 5 in the EU and 11th worldwide for per capita income. Thus, the US magazine "Foreign Policy" once described Austria's development as an "Austrian Miracle".

The country's economic achievements are primarily based on the internationally competitive industrial and tourism sectors, which are home to many dynamic SME's. These sectors are supplied with skilled workers thanks to the dual education system providing vocational and academic knowledge.

It is also worth mentioning here the favorable effects of the so-called Sozialpartnerschaft – this traditional partnership between representatives of employers and employees has led to a solid social balance within the Austrian society. It also distinguishes Austria by the fact that there almost never were and still are no strikes or social uprisings.

Historical events, i.e. the fall of the Iron Curtain which returned Austria to the heart of Europe, and the 1995 accession to the EU, were also essential ingredients in her success. These factors have helped fuel a tourism boom, with the sector accounting for 15% of Austrian GDP or 35% of Service Exports. This is particularly beneficial, as it also provides jobs for the less qualified and growth in rural areas.

Further advantages result from the close connections with the economic powerhouse Germany. Austria has also, historically had, and continues to have, strong links with Central and South-East Europe. In fact, our country is a well established economic network hub in the dynamic center of Europe. Austria's integration into the single European market cannot be overemphasised, since the 28 countries of the EU account for the largest, high-income, consumer market in the world.

Having sung the nation's praises, it is, however, necessary to issue a caveat: The generous governmental provision underlying the cohesive social model which has accompanied Austria's economic rise comes with a large price tag in the form of an extremely high overall tax burden. In addition, the Austrian aversion to risk and desire to maintain the status quo have led to overprioritising the perpetuation of existing schemes and structures – as well as a lack of focus on and budget for matters of real importance and urgency.

The world is changing rapidly and presenting us with ever new challenges: The strengthening of right-wing populist, anti-European parties; the worsening political and social conflicts regarding European values, and doubts about the liberal social order and democracy itself, to name but three.

Moreover, from a geopolitical perspective, Europe faces a string of major challenges and a shift in the centre of power: America's self-isolation, China's growing influence, Russia's ambitions to become a major world power, and religious upheavals in the Islamic World and the mass migrations triggered by them. On top of this there are the global grand challenges like Climate change, environmental pollution, the scarcity of resources as well as technological, economic and social transformations like digitisation, shifting business models, or aging societies.

These enormous and unprecedentedly fast economic, demographic, technological, and social changes will ultimately affect all areas of our lives. They can only be managed if we invest in Innovation, R&D, and tertiary education, become less

retrospective, suspicious of change, and risk-averse, and embrace new ideas and approaches. Thus, it is most worrying, perhaps, that Austria recently has lost ground to its economic peers – including Switzerland, Denmark, Sweden, the Netherlands, and even in a sense, Germany.

Many bodies, including the Austrian Federal Economic Chamber (WKO), the World Economic Forum (WEF) as well as the Lausanne-based Institute for Management Development (IMD) see Austria slipping down the rankings in the future, especially in the fields of international competitiveness, innovation and economic freedom. This downward trend is attributed to a lack of political will to implement necessary and overdue reforms.

Some of these reforms are an inescapable consequence of the ageing population, a demographic trend which currently afflicts many countries. They include adjusting the official age of retirement, reducing the incidence of early retirement, and getting to grips with the growing burden of pensions.

But, other problems are home-made, and stem from the widespread sense of entitlement that goes with a very generous social-welfare system. Few Austrians would disagree with the level of service that is provided. The real problem is the administrative apparatus which has grown around this welfare system, and which has become self-serving, fossilised and inefficient. It has now become part of the 'largess' of the political system, leading to duplication, economic capture, and a complete resistance to meaningful reform.

The result is an excessive tax burden, while the debt burden of the state is barely controllable, in spite of interest rates being at a historical low. In addition, inefficient federal and educational structures hamper the effectiveness and thereby reduce the attractiveness of the location in the longer run.

Summing up, the greatest challenges Austria faces today are political in nature: the actual retirement age must rise, energy costs must fall, the tax system and administrative structures must be reformed, as must the higher education system. Austria must continue to develop its strengths, find the courage to reform, and the resolve to stick at it when it is heading in the right direction.

Some 2500 years ago, the Greek philosopher, Heraclitus, said: "The only constant in life is change." He was right, but what he could not know then, was the speed of change we are facing today. With digitisation, artificial intelligence, developments in ICT and bio-technology etc. the rate of acceleration has grown immensely – and so has the urgency to adapt to change. Acquired skills will be subject to an ever-shorter shelf life. Keeping up with change, to maintain competitiveness, is likely to be the greatest challenge in the future.

Thank You.