

Comments on:

## Strategien für Wachstum und Beschäftigung

Ralf Kronberger  
Austrian Federal Economic Chamber  
Financial, Fiscal and Trade Policy Department

OeNB Workshop  
Vienna  
03 March 2006



Verstehen. Denken. Handeln.

## Strategies for Growth and Employment (1)

- ⇒ Public sector & growth
- ⇒ Trade (policy) & growth

Verstehen. Denken. Handeln.



## Strategies for Growth and Employment (3)

### Improvement of fiscal federal relations (OECD)

Less a question of policy recommendations than of the political process → action needed

Little changes since first Finanzausgleichsgesetz (BGBl. 45/1948) and a large body of literature with mostly agreeing positions on economic policy recommendations underpin this hypothesis

Verstehen. Denken. Handeln.



## Strategies for Growth and Employment (2)

### Improvement of fiscal federal relations (OECD)

Ambiguous results of theory and empirical evidence on nexus between growth and fiscal federalism

#### Arguments (+)

- ↑ allocative efficiency
- ↑ competition between governments (levels)
- ↑ accountability → ↑ pressure to innovate
- ↓ concentration of power

#### Arguments (-)

- ↑ regional inequalities
- ↓ quality of decisions
- high fixed costs
- possibly counteracts stabilization

Verstehen. Denken. Handeln.



## Strategies for Growth and Employment (6)

### Trade (policy) and growth

Export-led growth in Austria?

Theoretical link between growth and trade is ambiguous (Commission)

Empirical evidence tends toward a positive link but econometrical models face drawbacks (Winters) - policy instruments are modeled too rudimentarily

Further applied research to be done in the areas:

- services trade
- economic effects of outsourcing and off shoring →  
increasing dynamics in particular in the service sector

Verstehen. Denken. Handeln.



## Strategies for Growth and Employment (7)

### Trade (policy) and growth - policy recommendations

Sector-wise analysis and recommendations - highly differing regulations in the various service sectors

Trade policy and "Standortpolitik" are complements

- investment policy
- education
- strong institutions - facilitation of adequate adjustment, correction of externalities, information failure and market power

Continuing monitoring and adjustment of institutions (e.g. WTO)

Verstehen. Denken. Handeln.



## Strategies for Growth and Employment (4)

### Taxes, supply side and growth

E.g. Wifo-estimates (Breuss et al.) of the tax reform 2004/2005 only consider effects relating to the demand side - the reduction of the corporate income tax rate clearly induces supply side effects

→ Adequate measurement would help policy recommendations

Verstehen. Denken. Handeln.



## Strategies for Growth and Employment (5)

### Budgetary discipline - input oriented government spending

Amendment of financial constitution and budget law currently in parliamentary process

debt brake (spending rule) at the federal level proposed → effectiveness of smoothing effect on possible fiscal contractions?

Yet only framework for input oriented government spending proposed - details stipulated in 2nd budget law amendment in next legislative period → efficiency gains?

Verstehen. Denken. Handeln.



## Strategies for Growth and Employment (8)

### Literature

Breuss, F./Kaniovski, S./Schratzstaller, M. (2004), Steuerreform 2004/05 - Maßnahmen und makroökonomische Effekte, Wifo Monatsberichte 8/2004, Wien.

Thießen, U. (2005), Fiscal Decentralization and Economic Growth in High Income OECD Countries, Wifo Workshop Reform des Finanzausgleichs, 18.11.2005, Wien.

Wälde, K./Wood, C. (2004), The empirics of trade and growth: where are the policy recommendations?, European Economy - Economic Papers Nr. 204, European Commission, Brussels.

Winters, A. (2004), Trade Liberalisation and Economic Performance: An Overview, The Economic Journal 114, F4-F21.