

# Letter from ... Vienna

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2016. Austria's social democrats are in power, in a loveless grand coalition with their conservative opponents. The government is unpopular; unemployment is rising, government debt growing, and reforms are absent. The rightwing populist Freedom Party of Austria is leading in the polls, on 30 per cent of the vote. The SPÖ lags badly, on just 20 per cent. To say that Austrian social democracy faces major challenges is to put it lightly.

1970. The Social Democratic Party of Austria becomes the largest party for the first time. Party leader Bruno Kreisky becomes federal chancellor of what is to be the most successful social democratic government in the country's history. He set out to modernise society following three key principles: 'Leistung, Aufstieg, Sicherheit' (performance, advancement, security). After the oil price shock of the mid-1970s, Kreisky's finance minister Hannes Androsch, in a social-liberal tradition close to German social democratic chancellor Helmut Schmidt who was also in power in at the time, pursued a popular policy mix of Keynesian demand management and supply-side economics, keeping unemployment as well as inflation rates at low levels. And in spite of a system of proportional representation which militates against it ever happening, the SPÖ succeeded in winning an absolute majority in parliament three times in succession: 1971-1975-1979. The golden age of Austrian social democracy was in full swing.

The social democrats managed to keep pace with changing times: at the end of the 1980s and the beginning of the 1990s, Chancellor Franz Vranitzky and finance minister Ferdinand Lacina carried out reforms which maintained Austria's competitiveness as it joined the European Union and the economy became more globalised. During Vranitzky's term in office, the SPÖ changed its name from Socialist Party into Social Democratic Party of Austria.

By the time Viktor Klima became party leader and chancellor in 1997, he was strongly influenced by the third way. The current party programme was written in 1998 and has some third way elements. However, Klima by 2000 had left politics altogether and his successor Alfred Gusenbauer distanced himself from third way thinking in the UK and Germany and created an Austrian version of the third way under the name 'solidarische Hochleistungsgesellschaft' (solidarity high-performance society). And, after the financial crisis, these ideas completely disappeared.

Now, the SPÖ's drift from the centre-ground of Austrian politics has seen it far from winning an absolute majority for many years. In Austria, we enjoy an inequality of income and wealth which is fairly low compared to international standards, in no small part thanks to the social democratic inheritance. However, 'taxing the rich' is currently the party's single most important topic today, while many social democrats are reluctant to countenance new reforms. But in an era of globalisation simply increasing redistribution will not help us to cope with the challenges we face.

According to the European Innovation Index, Austria is classified as 'innovation follower', not as 'innovation leader'. The country spends less than three per cent of GDP on research and development, and for many years it spent even less than two per cent. Regulations impede competition in the markets for goods and services, which also reduces the pressure to innovate.

The education system underperforms compared to Finnish or German schools. Intergenerational education inequality is also high. We should promote social mobility, which would improve equality of opportunity and creative destruction. Universities are underfunded and too few students study the so-called 'stem' fields (science, technology, engineering, mathematics).

The public sector is very inefficient, estimated to cost almost four times as high as in Switzerland or Sweden. Insufficient coordination between national and subnational government leads to duplication of effort and inefficient use of public resources.

It is possible to implement structural reforms and carry out fiscal consolidation to reduce public debt and expenditure without hurting the poorest. Sweden, Switzerland and Germany led the way here, having already conducted reforms while maintaining their welfare states. Austria has still a long way to go and would benefit from a social democratic party leading the way on this agenda.

Indeed, preserving the status quo is not a social democratic programme, but a conservative one! A progressive agenda based on our three basic values of performance, advancement, security would combine social responsibility and economic competence. The progressive social democrats ([Progressive Sozialdemokraten](#)) which I have founded, advocate such reforms in order to change the SPÖ and Austria for the better.

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