Grand coalition in Austria plans major spending cuts

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Coalition talks in Austria are still in full swing, but the Social Democrats (SPÖ) and the conservative Austrian Peoples' Party (ÖVP) have already agreed on radical spending cuts under the next government. The spending cuts are above all aimed at stabilising heavily indebted banks in the Alpine republic.

Shortly after the legislative elections on September 29, the SPÖ and ÖVP announced they would continue the grand coalition, which has governed Austria for the last seven years. Each party recorded its worst election result since the Second World War. The popular hostility toward the ruling parties stems from the budget cuts and savings in social spending imposed under SPÖ Chancellor Werner Feymann, as well as tax increases that mainly hit low- and middle-income groups.

Against this background, the SPÖ in particular had promised that no further cuts would be necessary after the election to achieve a balanced budget by 2016. Only a few weeks later, a multi-billion hole was suddenly discovered in the budget. According to experts, the budget shortfall amounts to €40 billion for the period to 2018.

The Austrian media is asserting that finance minister Maria Fekter (ÖVP) deliberately presented incorrect figures before the election, so as to present the work of the previous government in a more favorable light. Fekter has pointed to projections that only became available after the election. However, the daily *Standard* referred to a report by the parliamentary budget service in May that spoke of similarly dire economic data.

In fact, there is a direct connection between the austerity measures being demanded and the crisis of the Hypo Group Alpe Adria banking firm. The bank, which was nationalised as an emergency measure in 2009, has since become a multi-billion burden whose exact cost remains unknown. To date, €3 billion of taxpayers' money has been transferred to the financial institution. In September the European Union approved further billions in aide to the bank, which owns toxic assets mainly in Eastern Europe.

The former Carinthian state bank was first supported with taxpayers' money five years ago. The bank is exposed to risks totalling some €18 billion. In contrast to other European countries where banks have been bailed out, Austria has only calculated a portion of Hypo's debt as state debt. If the €18 billion of Hypo liabilities were added to the ledger books, state debt would reach the dangerous level of 80 percent of GDP.

Credit rating agency Standard and Poor's has been exerting increasing pressure on the Austrian government. It has threatened a possible downgrade of the country's credit rating if state debt rises to the record level of more than 80 percent of GDP. Austria would then have to pay higher interest rates to borrow money on debt markets. Rating agency Moody's has also threatened a downgrade. "The longer politicians take to find a solution for the Hypo bank, the more likely this scenario is becoming," commented the daily *Die Presse* .

According to statements from party spokespeople, each area in the federal budget has been reviewed in the talks between the SPÖ and ÖVP over the past two weeks. There is unanimity in this process on the need to attack the pension system.

Big business and employers' associations demanded rapid action immediately after the election. The legal retirement age is currently 65 for men and 60 for women, although a gradual increase to 65 for women born after 1963 has already been agreed to.

However, the real retirement age is on average just under 60. “An increase in the retirement age from 58 to 62 would bring €7 billion alone,” stated Austrian Federal Economic Chamber president Christoph Leitl recently. The SPÖ and ÖVP have been trying for some time to reduce Austria’s relatively high pensions. But this has met with strong popular resistance.

In addition, government subsidies are to be cut. Approximately €18 billion in annual funding is currently directed to agriculture and business, as well as in state subsidies for the railways and hospitals, where cuts are now to be focused.

There are also plans to eliminate jobs in the public sector under the slogan of “administrative reform.” The president of Austria’s board of auditors has argued for “massive measures.” Chancellor Feymann intends to hold talks with the heads of the various states [provinces] over this. The governor of Upper Austria, Josef Pühringer of the ÖVP, has already put on record that future reforms be “major.”

Promises made in the election campaign, such as higher benefits for family support, were quickly thrown overboard by the negotiators. This has led to anger among organisations for family support and among young people.

The criticism from opposition parties like the Greens is completely hypocritical. In the municipal council in Vienna, the SPÖ and Greens have also adopted significant spending cuts, placing the debt burden on the backs of the population. The city is targeting a balanced budget by 2016, as provided for in Austria’s “domestic stability” pact.

Due to the economic crisis, the government in Vienna is doing all it can to implement austerity measures that have long been planned. This is playing into the hands of the far right. In the parliamentary elections, more than 30 percent of voters backed extreme right-wing parties.