

Taking a risk

VIENNA

A daring pensions plan will test the skills of Austria's leader

WOLFGANG SCHÜSSEL, Austria's chancellor, has strong nerves. He did not blink when the other 14 countries in the European Union imposed a diplomatic freeze on Austria three years ago to punish him for his temerity in forming a coalition with Jörg Haider's far-right Freedom Party. Nor did Mr Schüssel seem unduly bothered when Mr Haider brought down the same government last year. Nor did he flinch from the brickbats earlier this year when he decided to team up, once again, with the Freedomites—though Mr Haider, tucked away as governor of the southern province of Carinthia, is now less in the national limelight. So it is no surprise that Mr Schüssel is determined to ride out the latest storm, caused by his government's plan to revamp Austria's expensive pension system. This time, though, it is less certain that he will manage to keep his cool.

Just about everybody, including all the main parties, agrees that pension reform is overdue. Some 15% of GDP is gobbled up by public pensions. Worldwide, only Italy is as profligate. Few Austrians work full-time beyond 60. But as they live longer, the pay-as-you-go system is becoming unaffordable. If nothing is done, in 20 years almost half of gross wages will be needed to keep the system afloat, says Bernd Marin of the European Centre for Social Welfare Policy and Research in Vienna.

The last two attempts to reform the system were too timid. In 1997, a Social Democratic-led government, with Mr Schüssel's conservative People's Party as a junior

partner, ended up boosting pensions rather than cutting them. Three years ago Mr Schüssel, in coalition with Mr Haider's Freedom Party, raised the retirement age by 18 months, to 61.5 years for men and 56.5 years for women—and was vilified by opposition parties and trade unions for his supposed callousness.

This time, Mr Schüssel has decided to take a much more daring plunge. A few weeks after reviving his fragile coalition with the Freedomites, he presented a proposal to cut the benefits of new pensioners by 13.5% next year and to impose heavy penalties on people retiring early. Those now in their 30s could lose as much as 50% by the time they retire in the 2030s.

An angry reaction by Social Democrats and trade unions was expected but Mr Schüssel is facing revolt within his coalition too. The social-affairs minister, Herbert Haupt, who formally leads the Freedom Party, is one of the authors of the reform. But when Mr Haider blasted the government from his Carinthian redoubt and called for a referendum on pensions, Mr Haupt followed suit and disavowed his own work. Voices of dissent, even in Mr Schüssel's own party, are getting louder.

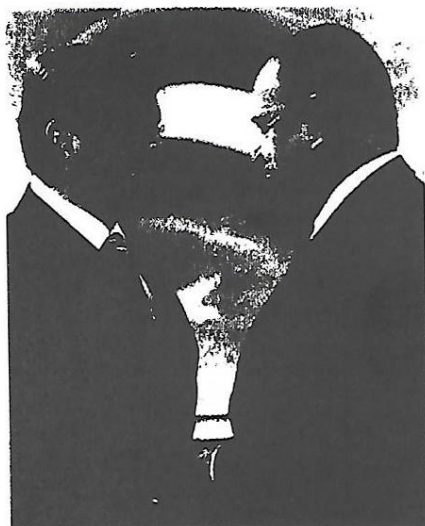
The proposals were plainly written in a hurry. For example, the government decided to extend the earnings period used as the basis for calculating pensions from 15 to 40 years. Fine, but they forgot to adjust earnings from decades ago for inflation. So some people may actually get far less out of the system than they paid into it. The main losers will be women who worked only part-time during their child-raising years.

One reason for the plan's sloppy design is the government's desire to reduce its own subsidies to the pensions system, which stand this year at €7 billion (\$7.5 billion). It needs to make savings as early as next year if it is to carry out its promised tax cuts of €3 billion without breaking the

threatens it. But Germany's economy is not improving. Last year it grew by just 0.2%, the slowest rate in the euro zone. The chancellor's strength lies in the lack of any realistic alternative remedy.

His opponents want huge public investment to revive growth. But it would be difficult to square that with Germany's commitment to keep within the limit on budget deficits imposed by membership of the euro club—especially since the opposition-controlled upper house last month threw out a bunch of tax increases.

Mr Scholz predicts a "clear majority" for Agenda 2010 when the Social Democrats vote on it in June. Perhaps. What this week's events show is not that Mr Schröder's policies are necessarily doomed but that he still faces a big test of political skill to make his followers swallow them. ■



Can Schüssel face down Haupt?