

**Economic Theory**

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**ECONOMIC POLICY FOR SMALL  
AND MEDIUM-SIZED BUSINESSES WITHIN  
THE MODEL OF NATIONAL CAPITALISM:  
AUSTRIAN PRACTICE**

**Abstract**

The high efficiency model of national capitalism, which has been successfully implemented in some developed European countries, is presented. On the example of Austria the role of government regulation is highlighted, which contributes to the achievement of economic freedom. The priorities of Austrian economic policy are researched for support of small and medium businesses.

**Key words:**

Economic policy of the state, national capitalism model, Austrian economic model, national economy, business sector, small and medium-sized enterprises.

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**Problem Statement.** Among the world scientists the debates do not cease on the future of the capitalist model of national economy. Also different views are stood for as to its withering away, transformation, acquisition of new forms and others. This is particularly actualized during the regular global financial and economic crises. In October 2010 the authoritative scientific meeting was held at Columbia University with participation of George Soros, many Nobel laureates in Economics, Directors of major banks and Investment Funds to discuss the issue of «Sovereign funds and long-term investments: a new form of capitalism?» In the course of the discussion the economists came to the conclusion presented by Augustin De Romanet, the Board Chairman and Chief Executive of the financial company *Caisse des Depots et Consignations*, which is under the control of the Parliament of France: «Each wave of the global crisis generates speculation about the death of capitalism, which had been yet predicted by Karl Marx in the XIX century. But capitalism continues to exist, reforming at its each stage [1].

In the past two decades, free markets, which are an attribute of capitalism, swept the world, laying a strong potential for positive changes. But traditional capitalism can not solve such threatening economic problems of social development as a significant gap between wealth and poverty, inequality of access to public services and benefits, inability to open a business and productive power of an individual. From this view ever more economists reach the idea that capitalism has to reform in the direction of diffusion of ownership and broad development of small and medium-sized businesses under strong public support of this process, which is a priority component of economic policy and system of state regulation. Implementation of this model of capitalism enables to solve the key social and economic problems of social development. The corroboration of this fact recognition is the emergence in the scientific literature description of similar, though somewhat peculiar, models of economic development, such as «a model of socially oriented market economy», «a model of national economy», «a model of national home», «a model of social protection», «a model of social partnership» and others.

For example, Professor of Economics *Muhammad Yunus* in the recently published book «Creating a World without Poverty: Social Business and the Future of Capitalism» (New York, 2007) presented his own vision of a new business model, which should combine the power (might) of free markets and search for humane development, release and maximum user the creative vibration of business. A model of social business offered by him provided for a combination of traditional business and social objectives. M. Yunus implemented the developed model in practice. As the founder of *Grameen Bank*, he has provided micro-credits (mostly to women with low incomes) with no collateral for starting small businesses and reducing poverty, as well as he helped to effectively invest the

earned income. Due to micro crediting 10 million people worldwide were able to leave the miserable state [2]. For the development of social business model and its practical implementation M. Yunus («the banker to the poor») won the Nobel Prize.

However, such models are only certain interpretations or specification models of national capitalism, which had been launched in the U.S. and actively developed from the 1950's. Constantly evolving and acquiring a modern format, this model is successfully implemented in many European countries (Switzerland, Austria, Scandinavian countries, etc.), providing high dynamics of economic development and decent living standards of the overwhelming majority of their citizens.

**Analysis of recent researches and publications.** Many national and foreign scientists dedicated their researches to the analysis and description of the models of economic development. The most distinguished ones worldwide are the theoretic acquisitions of the following foreign researches: L. Baltserovytch, A. Buzhalin, S. Hlaziev, A. Kolhanov, Ya. Kornaii, V. Kudrov, V. Livshyts, D. North, A. Oslund. Among Ukrainian scientists who successfully work at the analysis of the economic development models and the development of optimal model for Ukraine are: A. Halchynskiyi, V. Heyets, Yu. Pakhomova, A. Filipenko, V. Cherniak and others.

The model of national capitalism was grounded by the following scientists: A. Berle, D. Nadler, J. Burnham, S. Chase, S. Kuznets, J. Clark, M. Salvadori and others.

Among Russian scientists who dedicated their researches and publications to economic model analysis are: Ye. Avdokushin, S. Bocharov, H. Vachnadze, O. Pohorletskiyi, M. Stepaniuha, A. Fergiuson, Yu. Yudanov.

The author of this paper has been researching the model of national capitalism, including that on the Austrian example [3] for 15 years, as far as he considers that model to be the most acceptable for Ukraine.

**The objective of the article** is to substantiate that the capitalist economic model at this stage is being transformed from traditional to «popular» forms; to show that it is the model of national capitalism in its current format that allows the countries which are implementing it, to achieve a high level of national competitiveness and prosperity; on the example of Austria to study the most important component of national model of capitalism, that is, the economic policy as for small and medium-size businesses, the continuous pursue of which provided that country's joining the group of the richest countries in the world.

### The main results of the study

#### **Austria's economic policy for business sector in the context of national capitalism model implementation**

The international ratings indicate a high level of efficiency and competitiveness of the Austrian economy and prosperity of the country in general. According to the report submitted by the World Economic Forum (Switzerland), Austrian Global Competitiveness Index 2011–2012 rated the 19th position in the world, and is rated the third among the richest EU countries [4].

Austrian GDP growth (2.3% in 2010) for many years abreast exceeds the average EU-15 figure. The life quality in Austria is among the highest in the world. Along with stable economic performance and social security the country owes all the characteristics that determine the quality of life, such as equitable distribution of incomes, low unemployment rate, high life expectancy, low crime rate, the highest standards of environmental protection.

In Austria, international companies can rely on very high political stability and legislation transparency. According to the «World Competitiveness Yearbook» in the area of 'The danger of political instability Austria takes the 7<sup>th</sup> position among 59 industrialized developed countries, and thus it belongs to the most stable countries in the world.

After the economic risk ratings published in the famous magazine «*Euro-money*» Austria takes the 11th place among 100 countries, that is, it again takes a leading position. Thanks to the policy of «social partnership» that has for decades successfully being implemented between employers and employees, there are only 0.8 strike days per 1 million employed people in Austria. So, the country is not only in a leading position in terms of low risk of strikes, but also it distinguishes with low unemployment rate and rational wage policy.

In the area of energy resources supply Austria ranks the third globally, as the availability of electricity is provided by more than 99%. Practically there are no natural disasters in Austria [5].

Undoubtedly, Austria could achieve this tangible success due to implementing of the optimal economic model, which generally corresponds to the basic fundamentals and principles of national capitalism model in its present format and subjects to Austrian peculiarities.

The current economic model of Austria is based on the following main principles [6]; political stability, transparency of legislation; priming of economic growth through the implementation of public policy in favor of liberalization and privatization; freedom of entrepreneurship; free competition; priority development of small and medium, including family, business; small gap between incomes of individuals; social harmony; ensuring a sustainable future for citizens due to a

strong social system; social partnership between employers and employees, high level of personal security; full integration into the global economy.

These principles are embodied in Austria in life through appropriate state economic policy, the main component of which is the policy of business sector. The economic policy aimed at the business sector, has its objective on the one hand, to provide as many opportunities as possible for enterprises of all sizes (but especially small and medium) and sectors, and on the other – to support different types of businesses to increase competitiveness of Austria and its economic growth. Taking into account the structure of the Austrian economy, where small and medium enterprises (SMEs) represent 99.6% of all businesses, it is not surprising, that the cornerstone of economic policy is a policy for SMEs (*SME policy*).

Under the EU classification, followed by Austria, small and medium enterprises are those firms that do business with less than 250 employees. According to statistics provided by the Austrian Economic Chamber (WKO), in early 2010 in the country as a whole there were 294,099 enterprises, out of which only 1030 employ more than 250 employees, and thus are not considered to be small or medium-sized enterprises (SME).

Most SMEs are engaged in real estate, wholesale and retail trade, housing and food industry (Table 1).

Table 1

**Quantified presence of SMEs in key economic sectors, 2010**

No	Industry	SMEs number
1	Mining	340
2	Industrial production	28 385
3	Electricity, gas processing industry and others	1 568
4	Construction	26 893
5	Wholesale and retail trade, repair of motor vehicles and motorcycles	77 946
6	Housing and food industry	46 362
7	Information and communication	16 092
8	Activity in finance and insurance sector	6 633
9	Real estate	86 810
	In general, SMEs	294 099

Source [7].

SMEs in Austria make a heterogeneous picture. More than half of them are the sole companies that do not have employees, but often show the growth of potential and plans to hire workers. In 2008, in Austria there were 5 thousand medium-sized enterprises (with more than 50 employees), which as a whole employed 500 thousand people. This fact proves that the problems and needs of small and medium-sized businesses tend to have significant changes [8]. Among the significant changes that gathered steam in the last decade in Austria should be noted tendency to extensive development of innovative activity at the enterprises of small and medium-sized businesses (table 2). It is demonstrated by the key characteristics that are now inherent in SMEs:

- high rates of research and development (R & D) investment in this business sector that is constantly growing;
- very large number of highly innovative micro-companies;
- high growth rate of R & D expenditures among these enterprises;
- excellent know-how and high ratings of R & D in companies operating in IT, electronics, biotechnology and the production of auto parts;
- introduction of a wide range of programs to support small and medium businesses in these areas.

Similar processes are the result of a strong policy of Austria in R & D the implementation of which is controlled by the Ministry of Science and Research (*BMWF*), Ministry of Transport, Innovation and Technology (*BMVIT*) and Ministry of Economy, Family and Youth (*BMWFJ*). This policy is directed at the solution of such priority tasks as providing high-tech development of the national economy, promotion of SMEs, strengthening of cooperation between research institutions and enterprises both, at national and international level. If the company satisfies at least one of these priorities, it has a chance to get funding and is strongly stimulated. Therefore, spending on R & D in Austria is quite high compared to the average one in the EU.

In Austria, the largest investment volume in R & D is accounted for large enterprises where a large number of jobs related to innovation activities is concentrated. Among SMEs the lion's share of professionals (78%) is involved in knowledge-intensive sectors of the market, while large companies work using medium and high industrial technologies. Medium-sized enterprises typically use less innovative technologies than smaller companies. As for the micro-companies (less than 10 employees; turnover less, or equal to 2 million euros), 33% of them provide knowledge – intensive services implementation in high technologies and 32% of them work in knowledge-intensive service sector [7].

Table 2

**Distribution of innovations in the process of SMEs activities, 2010**

SMEs size in a number of employees	SMEs that introduce innovations in products, %	SMEs that introduce innovations in production processes, %	SMEs that are actively engaged in marketing and implementing organizational innovations, %
10–49	29,8	32,8	44,0
50–249	52,8	57,8	71,1

Source: [7].

Obviously, this broad development of small and medium-sized enterprises in Austria became possible due to the economic policy as for the business sector, aimed at the full support of competition and freedom of business.

**State contribution into economic freedom**

According to *The Heritage Foundation*, the index of economic freedom in Austria makes 71.9 points placing the Austrian economy on the 21<sup>st</sup> position in 2011. This score is by 0.3 points better than in 2010. Austria occupies the 10<sup>th</sup> place among 43 countries of the European continent, and its overall score is much higher than average regional and world indices.

The index of economic freedom in Austria in 2012 is 70.3 points, allowing it to take the 28th place in ranking of the freest economies in the world. As we see, compared to the year of 2011 this position happened to be worse by 1.6 points, which is primarily related to increased government spending and some decrease in business activity in the country. Today, Austria is estimated the 14-th among the countries of the European continent. The ratings of Austrian Index of Economic Freedom for the period of 2008-2012 are presented in *Fig. 1*.

Further we will show the role of state regulation in Austria's achievement within some parameters of economic freedom for business in general and SMEs in particular.

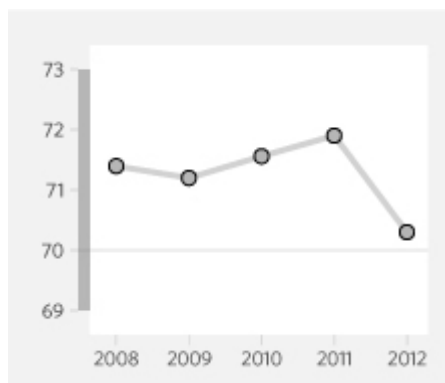
Table 3

**Ten parameters of economic freedom in Austria, 2011–2012 (in points)**

2012	2011	Parameter	Average	2012	2011	Parameter	Average
70.3	72.8	Freedom of running business	64.3	80.0	80.0	Freedom of investment activity	50.2
87.2	87.6	Freedom of trading	74.8	70.0	70.0	Financial trading	48.5
50.5	50.3	Fiscal freedom	76.3	90.0	90.0	Recognition of property rights	43.6
15.4	28.0	Government spending	63.9	79.0	79.0	Freedom of corruption	40.5
82.2	82.9	Freedom in currency area	73.4	78.1	78.2	Freedom of labor	61.5

Source: Developed by the author on the basis of [9].

Figure 1

**The ratings on Austria's Index of Economic Freedom, 2008-2012**

Source: [9].



**Freedom to do business.** Entrepreneurial activity in Austria is generally based on the «General Conditions of Business» (*Allgemeine Geschäftsbedingungen*). Under the Austrian law, «General Terms» shall not oppress a partner and are valid only if the partner agrees with them.

General principles of the legal framework in Austria contribute to the development of the business sector, the spread of innovative business, and growth of economic efficiency. Long-term barriers that were an obstacle for businessmen of wholesale and retail trade to enter the market, greatly weakened, but the administrative costs in the initial stage of the new business still remain burdensome.

Fair competition is the main condition for a sound market, characterized by high quality products, low prices and innovation developments. To neutralize the danger of converting the system to rampant competition in which some companies have resorted to any means to obtain unjustified benefits, in Austria there acts an Antitrust Law aimed at combating the formation of cartels, abusing the dominant position on the market, agreements on prices, and also providing control over the associations of enterprises. Regulations on Austrian Antitrust Law are included in the Law on Cartels (*Kart*) and the Law on Competition (*Wettb*), which prohibit those actions.

Under special control according to the Law of Cartels are unions of companies, which provide an impact on the Austrian or European market. The union is understood, for example, purchasing an essential part of the company, particularly through merger or conversion, concluding contracts for management or acquisition of interest in a LLC, doing business in the amount of at least 25 or 50%. Such associations shall be registered if the turnover of participating companies exceeds certain limits, and is prohibited by state bodies, if as a result of this association a dominant market position is created or strengthened [10].

In Austria the Contract Law is acting (*Vertragsrecht*), the main provisions of which are regulated by the Austrian Civil Code (*Allgemeines Bürgerliches Gesetzbuch*) and by the Law on Business (*Unternehmensgesetzbuch*), which entered into force on January 1, 2007/ the latter Law defines the relevant business regulatory tools for all business areas.

The Austrian Contract Law is based on the principle of contract freedom. Accordingly, the contracting parties are free to regulate their contractual relationship, if the contract terms are not inconsistent with law or custom. The term «contract» is treated as mutually consented declarations of an offer and acceptance. In general, neither offer nor acceptance requires a specific form. Under the Austrian law, the agreements recognized as oral agreements and these under certain conditions concluded through convincing actions (tacit agreements) are deemed to have legal effect. However, there are some exceptions to this rule. For example, arrangements for the provision of security, insurance contracts and

certain agreements relating to protection of consumer rights must be made in writing to take effect. More stringent requirements are applied to the form of notarial acts.

**Freedom of trade.** Trade policy in Austria is almost the same as in other members of the European Union. The overall average rate for the EU was 1.2% in 2009. However, the EU has rather high and even constantly growing prices for agricultural and industrial products, and the tariff code of MFN (most favored) is sophisticated. All-European non-tariff barriers include agricultural and manufacturing subsidies, quotas, import restrictions and prohibitions on certain goods and services, limiting access to the market in some service sectors, non-transparent and restrictive regulations and standards, contradictory regulations and customs administration. There are additional restrictions in the field of biotechnology and in some service sectors.

Austria has a Law on Electronic Commerce (EC), through which the European Union Directive on the implementation of EC is embodied in life. This Law regulates the legal framework conditions for electronic business communication. Under the terms of the EU Directive on Electronic Commerce and the Austrian «Law on Electronic Commerce», the legal rules are applied according to the principle of the country of origin: the one who provides services is subject to the provisions of the country in which its company is incorporated. Accordingly, if a company that provides services or offers a product is registered in Austria, it is subject to Austrian regulations on doing business relationships, and to other regulations relating to sales of goods and provision of services. If the Austrian regulations are met, the company can decide itself whether it wishes to offer services in other EU countries. It will face no barriers.

Also, a company incorporated in another country that is a member of the EU can offer services in any other country of the European Union, if it meets all the requirements of the country where it is registered.

Contracts may be concluded through the Internet. However, they are subject to the same legal regulation as other contractual obligations. The essential difference is that the supply of goods through the Internet can not be regarded as a negotiated offer, and serves only as information for the consumer to make his proposal be contracting

**Freedom in taxing area.** Austria has high rates of income tax (tax on personal income) and moderate corporate tax rate (income tax for legal entities). The upper limit of income tax (*Einkommenssteuer*) is 50% and the rate of corporation tax (*Körperschaftsteuer*) – 25% (the lowest rate among that in the member -countries of the European Union). Other taxes include the following: value added tax (VAT), tax on insurance contracts, the tax in case of transfer of real property. In 2011, tax revenues as a whole accounted for 42.9% of GDP. The share of SMEs taxes replenishing the state budget reached up to 70%.

Natural persons residing in Austria have to pay tax on all incomes, including those that they earned outside Austria. Foreigners pay tax only on income earned in Austria.

Tax income is calculated on a progressive differentiated tariff. A special form of levying income tax is a tax on capital income. This type of tax is paid in Austria on such items of income: dividends, interest and other income from investments (stocks and shares in the Company); income from interest on securities; income from cooperative shares and the share of income from the activities of the company (for non-company individuals) or of the proceeds received as a result of liquidation of the company (for non-AT members); services as the beneficiary of a private fund; revenues received by a person who is a confidential (closed) corporate member.

Companies with employed capital (*Kapitalgesellschaft*) must pay a minimum corporate tax of 5% of the statutory minimum capital. This is the minimum tax rate for limited liability of 1,750 euros, and for joint stock companies it makes 3,500 euros per year. For new firms some tax relief is provided for [11]. Special tax regime is not established for small companies. The shadow economy exists in all EU countries, but in Austria that index is the lowest.

**Freedom in the monetary area.** Austria, as a member of Euro-currency zone has a very liberal currency control regulations. It is based on the ruling EU-provisions and the Austrian Currency Law (*Devisengesetz*), adopted in 2004. The Austrian National Bank monitors the movement and use of foreign currency in the country.

Within the EU the principle is acting respectively a free flow of capital. There are no legal restrictions on payments and capital transfers between Austria and other countries that are the European Union members.

In respect of currency transactions with the countries outside the EU, there are, with few exceptions, also practically no restrictions on payments related to international trade, investment or other transactions, nor on capital transfers, dividends, profits or other income. Foreign firms have unrestricted access to the Austrian capital market.

**Freedom of investment.** For the implementation of foreign investments at least one managing partner has to be a resident and comply with legal requirements, while non-residents must appoint an authorized representative out of nationals of Austria. Foreign and domestic private entities may acquire and dispose of the rights necessary for doing business. Austrian law prohibits the transfer to private ownership of several businesses in certain areas. In particular, this includes the objects of infrastructure, enterprises providing public services, as well as some state monopolies. In Austria, there is no state control or special requirements as for current transfers, foreign currency conversion or return of income transferred abroad. Agreements on changing the ownership of property are

subject to approval by local authorities. The system of legal and regulatory adjustment, as well as the accounting rules is transparent. Expropriation cases are rare and require special legal authorization.

**Freedom of finance.** Austria has one of the most competitive in the world banking systems. Banks provide a wide range of credit and financial services. Credits are allocated on market terms, and domestic and foreign investors have unlimited access to capital markets. Five largest banking groups in Austria account for about 60% of total assets. Financial regulation is carried out in accordance with international standards. Monetary and financial market is fully liberalized and has no restrictions on cross-border transactions. The Government responded to the banks' risk concentration regarding problem assets in Central and Eastern Europe, providing a guarantee of deposits and capital infusion. In December 2009, the State nationalized the financial group of *Hypo Alpe Adria* [9].

**Recognition of property rights.** Private property is highly respected and protected. The performance of the contractual agreements, as well as the effectiveness of measures to protect intellectual property is guaranteed.

Austrian law entitles foreign citizens and legal entities to set up businesses in Austria, to manage and buy companies.

**Freedom from corruption.** Corruption in Austria is at a minimum. According to the non-governmental international organization of *Transparency International*, in 2011 Austria ranked fairly high 16th place in the world among 180 countries in terms of corruption (the first places are taken by New Zealand, Denmark, Finland, Sweden, Singapore, Norway, Netherlands, and Switzerland, where virtually there are no corrupted civil servants) [12]. Bribery of Austrian and foreign government officials is to be prosecuted. In September 2009 the government introduced amendments and clarifications to the Provisions of Criminal Legislation on Corruption, which eased some rules of law which were considered too rigid.

#### **Austrian economic policy towards the SME sector in the framework of the EU policy [13]**

On June 25, 2008 the European Commission published «*A Small Business Act for Europe*», based on the European Charter for Small Enterprises (adopted in 2000) and it represents the first European initiative for sustainable growth and comprehensiveness of small and medium enterprises (*SMEs*).

On December 1, 2009 the *Competitiveness Council* adopted a document «*Conclusions on the Small Business Act*», including Appendix of «*Action Plan*». The document stressed the fundamental role of *SMEs* in economic growth and job creation in Europe, and recorded introduction of support for *SMEs*. The following three priority areas were identified: to improve the access to finance; to facilitate market entry; to create a regulatory environment for support of small

and medium-sized businesses. Implementation of this policy on small and medium enterprises must be carried out both on the EU and Member States level. The document also affected Austrian commitment to comply with *Small Business Act, SBA*.

As it was expected, the intentions of the EU member countries differed at the national level respectively different areas of SME-policy. In particular, Austria gives the critical importance for SMEs to have access to adequate finance. In addition, the Federal Ministry of Economy, Family and Youth of Austria see a need to solve in the nearest future a number of priority tasks including:

- strengthening of innovation in all areas of trade and industry;
- innovative education and continuous professional development;
- stable and conscious entrepreneurship;
- cultivation of entrepreneurial spirit;
- creative industries;
- improved access / participation in standardization;
- intensive participation in public tenders;
- special support for establishing sole business;
- continued support for women entrepreneurs;
- further internationalization.

In 2010, the European Union organized a consultation on the SBA. The notes of major players, government and regional administrations have been taken into account during the preparation of the Handbook Review of «Small Business Act for Europe», published in February 2011. The Review presents the progress that took place in the first two years of implementation of «Small Business Act», it includes new actions, offers ways to improve the mechanisms for implementing the SBA, and also shows its contribution to the new program of policy reform in the Europe-2020 strategy.

### **1. Measures taken by Austria at the state level**

To improve access to finance for small and medium business the Federal Government in 2008 approved two economic stimulus packages totaling 2.6 billion euros for the period of 2009–2010:

- Package I includes tools for funding to ensure that the Austrian business will have in its disposal a sufficient capital.
- Package II focuses on investing, including not only stimulation of investment, particularly in the future, but also on investment in the public sector, particularly in the construction of schools and universities.

- Another incentive was the introduction of tax reforms in 2009 designed to release 3.2 billion euros for increase of demand.
- In general, these measures are estimated at 6.2 billion euros, or 2% of GDP in Austria.

It is important that the «Package SME-2009 is the Package for Business Power», which was presented to the Federal Ministry of Economy, Family and Youth of Austria in 2009, provides for improvement of business activity due to reducing of the administrative pressure; increasing of innovation funding; strengthening of brand image of companies based on new standards of quality and easier access to finance.

In 2011–2012 the SBA is focused on supporting the state targeted programs of «Enterprises renew themselves» (after the crisis began), «Knowledge is success» and «Application of new legal regulations», which were adopted in spring of 2011.

## ***2. Activities undertaken in cooperation of the European Union and Member States***

Austria has started many projects at European level, basing on 10 principles of SBA. In 2011, the Federal Ministry of Economy, Family and Youth of Austria in cooperation with the General Department for Enterprise and Industry of the European Commission held two international events such as the «*Third European SME Week*» and «*European Enterprise Awards 2011*».

**Conclusions.** Nowadays capitalism is in the process of transformation and renewal. More and more economists, Heads of administration organs of various countries realize that the capitalist economic model has to evolve in the direction of diffusion of ownership and administration increasing the number of owners through all sorts of incentives for small and medium businesses, reducing the gap between wealth and poverty, formation of national middle class, reaching a high welfare and quality of life for all, not for a small group of citizens. These essential parameters comply in full with the model of national capitalism, which has long and successfully been operating in a series of world countries. In most classical form, this model operates in Austria, the economic policy of which is aimed at supporting and active development of each of the model parameters. The main part of the Austrian economic policy is the government support of the business sector, especially of small and medium enterprises, the development of which allows solving the problem of achieving high efficiency of national economy and social cohesion of society. We consider the model of national capitalism, which has been successfully implemented in Austria, to be ideal for Ukraine.

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