

Dynamics of National Employment Models (DYNAMO)  
1<sup>st</sup> Project Conference  
and  
26th Conference of the  
International Working Party on Labour Market Segmentation (IWPLMS)  
Berlin, 8 – 11 September 2005

**The End of the Austrian Way?  
From state-led coordination to ‘negotiated liberalism’**

**First draft**

**Please do not quote**

Jörg Flecker  
Christoph Hermann  
Forschungs- und Beratungsstelle  
Arbeitswelt (FORBA)  
[www.forba.at](http://www.forba.at)  
[office@forba.at](mailto:office@forba.at)

## **1. INTRODUCTION**

As a small country Austria has received much less academic attention than the leading capitalist nations in Europe. In many economic aspects, the country belongs to the large group of continental European countries, and because of extraordinary important role of the banking sector in financing industrial enterprises Austria certainly is a variation of what Michel Albert called Rhenish Capitalism. But at the same time the Austrian version of Rhenish Capitalism has a number of distinctive features resulting from its subordinate position in the international economy and in particular from the dominant role of neighbouring Germany. Such features include the existence of a number of low wage sectors with low employment stability (e.g. tourism) and the support of the export sector through lower labour standards. On the other hand, because of far-reaching social partnership influence and the stability of the collective bargaining system, Austria was occasionally also compared with Sweden and other Nordic countries. Yet what these comparisons have often underestimated is the large public sector Austria has created in the postwar years. The public sector not only included state administration and infrastructure provision, but banks and industrial corporations. Within the terminology of the models of capitalism-literature, hence, the Austrian postwar model can be characterised as a mix between state-led and coordinated capitalism. The state actively interfered in the private economy not only by imposing regulations, but by actively creating employment and by boosting growth through corporate investment.

Yet since the 1970s, Austria has undergone massive changes. The election of a centre-right government in 2000 and the subsequent protests and strikes against the government's pension reform in 2003, were only the last in a long chain of events. Perhaps the departure from what was known as Austrian model started in the early 1990 and in particular with Austria's entry to the European Union in 1995. What followed was a wave of internationalisation, the sell-off of large parts of the public sector, a shift from Keynesian demand-side economic stimulation to neoliberal austerity, the flexibilisation of labour markets and a shift from passive to active labour market policy, developments that are usually associated with liberalisation. Yet while the role of the state has clearly diminished with the abandoning of public ownership in banks and industrial corporations, coordination is still a dominant feature of the Austrian model. Hence we believe that the changes of the last 20 years can be described as shift from state-led coordination to something like 'coordinated liberalism'.

## **2. THE AUSTRIAN MODEL**

Austria was, and for most parts still is, a negotiated and highly coordinated market economy, yet with a strong involvement by the state, which went beyond imposing regulations to direct and marshal the activities of private enterprises. State-involvement and coordination is based on three main pillars: social partnership, a comprehensive and effective bargaining system, labour representation on the company level, as well as a

large public sector. All four elements made sure that the country experienced a period of extraordinary stability and social peace during the postwar decades. For many years Austria had strike rates which otherwise was only known from countries with authoritarian regimes and no independent labour movement (and perhaps Switzerland). Stability and social peace were the result of a far-reaching “interest mediation process” including the government as well as the main interest organisations such as the Austrian Trade Union Federation and the Chambers of Labour and of the Economy.

In Austria this system is known as social partnership. It is widely perceived as unique institutional setting and ensemble of political practices, responsible for the extraordinary social stability the country enjoyed during the postwar period. It meant that fundamental political issues were not decided by majority votes in the national assembly, but by tripartite (the government and the representatives from labour and capital) decision-making processes. Through Austro-corporatism the social partners gained substantial influence in political decisions apart from the traditional content of collective agreements such as wages and working hours. Traditional subjects of social partner consultation included issues such as social policy, labour law as well as labour market policy and vocational education and training. On the other hand, the active involvement in decision-making processes rendered the social partners co-responsible for economic coordination. Hence the Austrian Trade Union Federation more than once refrained from high wage demands for the sake of economic stability and it even accepted the major cuts in social expenditures introduced by a series of austerity packages in the 1980s and 90s. This process of “general interest mediation” took place even during majority governments of the People’s Party in the 1960s (1966-70) and the Social Democratic Party in the 70s (1970-83).

Among other issues, social partner consultation plays an important role in the so-called dual system of vocational education and training (VET) including public education via VET schools and company training. Regulated through different legislations and the involvement of various state agencies (ministry of economy and labour as well as ministry of education), the social partners play an important role in the development and administration of VET apprenticeships, including the determination of financial compensation for the apprentices and some of the employment conditions. As we will discuss further below, the VET apprenticeship system has come under increasing pressure in recent years.

Apart from tripartite decision-making processes, the high level of economic coordination was also granted by an effective and far-reaching collective bargaining system. On labour’s side collective agreements are negotiated and signed by the branch unions and union of private employees (GPA), on the employer’s side in most cases by the Chamber of the Economy. Collective agreements are legally binding for all employees in the respective sector regardless if they are union members or not. In the public sector, agreements are passed by law after negotiations between the government and the public sector unions. As a result, the vast majority of dependent employees in Austria are covered by collective agreements. The coverage rate reaches 95% of the workforce and is among the highest rates in Europe. However, the main reason for the high coverage rate is the mandatory membership of private companies in the Chamber of Economy. Because of the mandatory membership they are not able to leave the bargaining unit as in Germany and other countries. They can form separate negotiating

bodies, as sometimes done on a regional level, but they are still compelled to reach an agreement with the unions, as otherwise the agreement signed by the Chamber of the Economy prevails. There are exceptions for certain professionals such as doctors, solicitors, architects etc. These groups have their own chambers, which sometimes refuse to negotiate with the unions. But they represent only a very small part of the workforce (another group which is not covered by collective agreements are self-employed workers, but this, as we will discuss further below, is a rather new development).

As a second layer of interest representation, workforces in companies with five and more employees have also a right to elect works council representatives. Elected works councils have certain information rights and they can sign legally binding company agreements, but they are not members of the board of directors as their German counterparts in what is known as German co-determination. However, works council representatives can exert substantial influence on management, especially in public sector companies, and they can make sure that pay and working conditions and other labour issues comply with existing regulations. Yet elected works councils mainly exist in large companies and are exceptional in companies with less than 20 employees (see table below). Moreover, while the Austrian collective bargaining system has remained remarkable stable in recent years, works council representation has become weaker as the number of companies with elected works councils tends to decrease.

**Table: Establishments with works council (Betriebsrat) (2004)**

Size (number of employees)	Establishments with works council	Number of works council members	Share of all works councils	Establishments with works council as a proportion of all establishments
5 – 10	950	2.150	5,75 %	3 %
11 – 19	1.140	2.350	6,17 %	6 %
20 – 49	2.780	8.320	22,29 %	27 %
50 – 99	2.040	8.060	21,56 %	60 %
100 – 199	1.330	6.760	18,09 %	77 %
200 – 499	860	5.550	14,87 %	87 %
500 – 999	250	2.460	6,6 %	100 %
1000 and above	110	1.750	4,68 %	100 %
Total/ Average	9.460	37.400	100 %	14 %

Source: Austrian Trade Union Federation

Despite the far-reaching labour regulations imposed by the dual system of industrial relations, Austria always had lower labour standards than the most advanced European economies, and especially lower ones than neighbouring Germany (where 30 per cent of exports go to and 40 per cent of imports come from). Working hours have always been longer and wages lower in order to attract German investments and to make Austrian exports more competitive. The unions were very well aware of Austria's subordinate position in the international economy and supported the national development strategy by what they call "responsible" – read moderate – wage and working time demands. Working hours in the metal industry, for example, remained at 38.5 hours per week and hence are among the longest in Western Europe, while in Western Germany they fell to 35 hours (for blue collar workers). In addition collective agreements tend to provide Austrian companies with higher working time flexibility. Also labour legislation in several regards is weaker than in Germany, including weaker protection from dismissal. In sum, Austria is a good example that coordination does not necessarily mean higher labour standards. In small and economically dependent countries such as Austria, coordination can also mean lower standards than otherwise could have been achieved by the unions in reckless bargaining with employers – at least as long as there is full employment as it was for most parts of the postwar period.

The third main pillar of the Austrian model was the massive state sector. In the 1970s about a quarter of GDP was produced by publicly owned firms. In 1978, the Austrian state owned 32.6 per cent of the registered capital. The public sector in Austria not only included public administration and public services, but a wide range of industrial corporations and some of the major banks (including the two largest banks, Creditanstalt and Länderbank). As the state-owned banks themselves held shares in a number of non-financial corporations, there was a second layer of indirectly state owned corporations. Such indirectly state-owned companies included the largest European brick company and major firms in the vehicle and chemical industries and especially construction industries. In 1985, the nationalised industries accounted for 25 per cent of turnover and almost 17 per cent of employment of the entire industrial sector. Most of them were engaged in the gaining and processing of raw materials such as aluminium and steel. Hence as Karl Aiginger (1999) notes, "while public ownership in infrastructure had long been a common feature of European economies, maintaining a large public ownership in manufacturing up to the 1990s was an Austrian speciality among Western market economies". Through the directly and indirectly publicly owned banks and industries, the federal and regional governments, the political parties and sometimes even works council representatives attained substantial influence in the design and organisation of the Austrian economy. Local politicians lobbied more than once to attract or protect jobs from state-owned companies. Because of the far-reaching state involvement, economic objectives were frequently subordinated to political goals such as the advancement of economically disadvantaged regions and the support for private companies.

Moreover, workers in the state sector, including the nationalised banks and industries as well as public services, enjoyed a high degree of employment stability and security (in fact most of them were practically irredeemable, meaning that staff levels had to be reduced by voluntary measures such as 'golden handshakes' and early retirement schemes in the 1980s and 90s). Frequently state-owned companies also offered better

than average pay and working conditions or at least relatively generous compensation for the exposures related to the work in a steel mill or a comparable strenuous environment. To some extent these improvements also affected the situation in private firms, although the private sector in Austria is heavily dominated by small and medium sized companies (SME's account for 98% of all companies and for 65.5% of employment). Despite the privileged status of its workforce, the public sector and especially the state-owned industries were extremely successful. They grew faster than the private firms and were more often engaged in exports, while supporting the private sector by providing them with cheap (below world market prices) resources.

Jobs were comparable stable and well paid in a number of branches outside the state sector. In manufacturing, for example, most employers pay wages above the collectively agreed wage rates (as an Austrian speciality wage bargaining not only contains collective agreed wages but also the growth rate of effectively paid wages). But there has also been a number of sectors with low wages and particular low employment security. Not by chance these are the sectors with a high percentage of female and migrant labourers, unskilled workers and with weak trade union representation. Yet labour market segregation can also be seen in the enormous differences of average branch wages. In terms of wage disparity, Austria in fact rather belongs to the Anglo-Saxon than to the Continental Europe not to mention the Nordic model. Low-wage sectors include tourism, which as we will discuss further has been important to tackle the traditional trade deficit, retail trade, cleaning and the textile and clothing industry. The already high branch dependent differences have further increased in the last 20 years. In sum the Austrian model of state-led coordination has always been highly selective privileging certain groups of workers and capital over others. Not by accident, Austria has one of the highest gender wage gaps in the European Union.

The highly state-led and coordinated character of the Austrian economy has gained international attention and acknowledgement in the early 1980s. While other countries have struggled with the implications of an international economic downturn, Austria still experienced significant GDP growth rates after the two oil price shocks in the 1970s. Part of the success was the application of a distinctive set of economic policies known as Austro-Keynesianism. In macro economic terms, Austro-Keynesianism was a combination of Keynesian anti-cyclical deficit spending with a strong currency through a fixed exchange rate between the Austrian Schilling and the German Mark. Yet in micro-economic terms the large public sector also played an important role in maintaining high levels of employment in an increasingly difficult business environment. Retrospectively, the Austrian model was quite successful. The country reached full employment and experienced extraordinary high GDP growth rates from the 1950s to the early 1980s. As a result of what some authors have called "catching-up Fordism", GDP per capita reached the level of the richest Western European nations in the late 1970s and exceeded the West European average in the early 1980s.

### **3. CHANGES**

One of the major developments that have challenged the Austrian model in the past 20 years is the Europeanisation and internationalisation of the regulatory framework and of the economy. As a small country, Austria has always been highly dependent on exports and imports and on foreign investment. In the reconstruction period, urgently needed capital was provided by the US-led European Recovery Program. With the acceptance of Marshall Aid, Austria has been economically integrated in the West European bloc, while remaining politically neutral. The most important trade partner in the postwar period was (and still is) Germany. Yet despite the heavy dependence on foreign trade and investment, Austria followed a quite protectionist development path. Until the 1960s, national production was sheltered through various tariffs and subsidies, while particular vital sectors such as energy supply, food production and transport were entirely exempted from international competition. Through the specific way Austria had been integrated in the post-Second World War economic order, giving priority to resource intensive production such as chemical and steel industries and abandoning technologically sophisticated productions such as car manufacturing, the country was highly dependent on exports, especially technologically advanced final and investment goods (Austria still suffers from an excess in capital intensive and a lack of research intensive industries). The result was an increasing trade deficit which was partly alleviated by a large and since the late 1950s fast rising tourist sector.

In the 1960s Austria intensified its efforts for stronger international economic integration. For political reasons – based on an agreement between the Allied Forces and the government Austria was politically neutral since 1955 – Austria refrained from joining the European Economic Community (EEC), where most its trade partners were located. Instead it (as other neutral countries such as Sweden and Switzerland) became part of the European Free Trade Association (EFTA). Temporarily this caused a setback in trade, but with the signing of the Free Trade Agreements between the EEC and EFTA in 1973 and the subsequent establishment of the European Economic Area (EEA) in the early 1990s, the country was able to re-establish its strong trade relations with EEC member states such as Germany and expand trade with its neighbouring countries in Eastern Europe after the lifting of the iron curtain. About the same time the EEC started to move from a pure economic to an increasingly political organisation, whereas EFTA was more or less paralysed in the EEA, fuelling fears that Austria would become politically isolated. Hence after the disintegration of the Soviet Union in the early 1990s, Austria with the former EFTA-members Finland and Sweden finally applied for membership in what was about to become a supranational federation.

Since 1995 Austria is part of the European Union. Although many Austrian companies have already successfully competed in the European Economic Area, the entry into the Single Market fuelled competition, especially in the previously sheltered sectors such as transport and food production (and later on in 'liberalised' public services such as telecommunications and energy supply). In road freight transport, for example, prices fell by about 30 per cent as a result of European wide competition. In food production, moreover, a number production sites were closed in a series of European-wide concentration and consolidation processes. Another major impact was the application of

new competition rules, which banned the use of state subsidies to support national companies in economic difficulties, as Austria has frequently practiced with its nationalised industries in the 1980s. As a result of growing competition, the number of insolvencies and bankruptcies increased sharply in the mid 1990s. Another indicator for increased competition is the merger and acquisition activity. Again, the data show a clear increase between 1993 and 1997. Yet social partner involvement made sure that the restructuring process was carried out in a “socially acceptable manner”. Redundant workers were put in so-called labour foundations where they received in comparable generous terms resources for vocational retraining and intensive support in the search for new jobs.

With EU membership Austria also abandoned the deficit-spending part of Austro-Keynesianism and instead subscribed to neoliberal austerity. The first austerity packages were passed in the 1980s with approval and partly even active involvement of the social partners. Some authors have subsequently described the changes as shift from demand-side to supply-side corporatism or from Austro-Keynesianism to Austro-neoliberalism. On the other hand, the presence of the Austrian Trade Union Federation made sure that the austerity measures did not question the fundamental principles of the postwar welfare system, including the provision of decent pensions for those who or not able to work until 65 or who have worked less than 45 years. In the 1990s, the austerity measures were intensified as part of the implementation of the Maastricht criteria and of Austria’s preparation for membership in the euro zone.

The neoliberal course was further aggravated with the installation of a centre-right government in 2000. The Austrian Freedom Party came out second in the national elections, outstripping the conservative People’s Party, which has played the role as junior partner in a “grand coalition” with the social democratic party since the mid 1980s. In the following negotiations about the new government, which was expected to rule the country in the next four years, the leader of the people’s party, Wolfgang Schüssel, managed to sidestep the winning social democrats and formed a majority coalition with the Haider-led freedom party. The new government carried neoliberal austerity to a new level by making a balanced budget the main goal of its first term in service. Yet in the wake of continuously sluggish growth and rising unemployment, the government shifted its attention away from the zero-deficit (the budget deficit increased again since 2002) in the second term and instead introduced major tax breaks for large and international corporations. The corporate tax rate was reduced from 34% to 25%, and the government introduced a unique tax model in Europe, which allows groups for companies to offset losses made outside Austria.

Yet the new centre-right government has not only pushed neoliberal restructuring, it has also determined the extraordinary consensual approach to reach basic economic and social decisions in the country. To be sure, there are still numerous examples of cooperation between the state and the main social actors, but labour representatives have been increasingly sidelined from fundamental decision making processes. The most spectacular example is the aforementioned pension reform of 2003, which was passed despite massive critique and resistance from the trade unions and the chamber of labour (coalition talks between the conservatives and social democrats had failed not least because the union-friendly wing of the SPÖ would not accept the proposed cuts in the publicly financed pension system). Confronted with growing ignorance and

rejection from the part of the government, the Austrian Trade Union Federation increasingly resorted to other means to defend their positions, including strikes and demonstrations. In spring 2003, more than 250,000 people took part in demonstrations against the pension reform. The growing conflictual character of Austrian capitalism, hence, can also be seen in the spectacular rise of work stoppages. With 779,182 participants and more than 10 million hours, there were more strike activities recorded in 2003 than in the sum of the previous ten years.

**Table: Development of strikes**

	Number of participants	Number of days lost due to strikes
1989	3,715	2,986
1990	5,274	8,870
1991	92,707	58,341
1992	18,039	23,437
1993	6,869	13,008
1994	0	0
1995	60	120
1996	0	0
1997	25,800	2
1998	0	0
1999	0	0
2000	19,439	2,947
2001	0	0
2002	6,305	9,306
2003	779,182	1,305,466
2004	30	178

Source: AK 2005.

Of course it remains to be shown if the recent increase in strike activities really marks a break with the general pattern of social peace and stability that has characterised Austrian capitalism since the end of the second world war, but as Ferdinand Karlhofer (2005) notes, “die Art, wie sich innerhalb kurzer Zeit die Beziehungen zwischen Politik und Verbänden entwickelten, hatte mit dem hergebrachten Bild der Sozialpartnerschaft kaum mehr etwas gemein”. In a recent assessment on the state of the Austrian social partnership, Emmerich Tálos (2005) draws the conclusion that “die Sozialpartnerschaft wurde vom international beachteten und vergleichsweise von großer Kontinuität geprägten Erfolgsmodell weitgehend zu einem Auslaufmodell korporatistischer Interessensvermittlung. ... Die ÖVP-FPÖ-Regierung hat die Spielregeln der

Interessenvermittlung und Interessenpolitik entscheidend verändert. ... Sozialpartnerschaftliche Mitgestaltung der Sozial- und Wirtschaftspolitik ist vom Regel- zum Ausnahmefall geworden“.

The opening up of the economy through the abolishment of capital controls in the 1980s and EU membership in the mid 1990s, Austria's economy has become increasingly international. Foreign direct investment took off in the early 1990s and on an accelerating pace after 1995. In 2004, foreign investment accounted for 51.9 billion euro of 22 per cent of Austrian GDP. The by far largest investor is Germany, reflecting the close trade relationship between Austria and Germany. On the other hand, Austrian companies are increasingly investing outside Austria, preferably in CEE. In fact in 2004 for the first time in Austria's postwar history, Austrian companies owned more shares (52.3 billion euro) on foreign firms than foreign investors in Austria (although a large part of these shares are holdings in non-industrial corporations). Privatisation and internationalisation also changed the traditional forms of financing corporate investment.

As a special version of Rhenish capitalism, Austria was characterised by close relationships between the banking and the industrial sector, often strengthened through cross-ownership and cross-membership in the supervisory bodies. In this system the stock market for many years only played a very marginal role. Hence the change in corporate financing can also be seen in the strong revival of the Viennese stock market in the 1980s and 90s.

Internationalisation, however, not only brought new investors to Austria and encouraged Austria's companies to invest up road it also led to significant job losses. Because of significant lower wage costs, several national and international corporations have relocated parts of their production sides to CEE (Philips, Siemens etc.). Since 2000 employment in the Austrian electronic industry has decreased by 16%. According to one estimation, some 22,000 jobs were lost in Austria because of direct investments in CEE-countries between 1990 and 2001. On the other hand, international corporations have installed their CEE headquarters in Austria. Currently, the CEE-management of some 300 multinationals from a wide variety of sectors is located in Austria providing employment for some 9,000 individuals. Research on mergers and acquisition showed that Austrian companies that are taken over by international corporations often are assigned the role of CEE-headquarters. There are fears however that headquarters and back-office functions are increasingly moved to CEE-countries.

Internationalisation also changed the face of the Austrian workforce. At the peak of the postwar expansion, the Austrian Trade Union Federation and the Chamber of the Economy agreed to permit migrants to take up employment in Austria on a temporary base. Most of these so-called guest workers were low skilled and were used to fill up increasing job vacancies in the low income sectors such as tourism and the textile and clothing industry. They were hired by special agencies in their home countries but mainly in Turkey and former Yugoslavia. After a temporary setback after the postwar crisis had finally hit Austria in the mid 1980s, migration started to grow again in the 1990s. Migration grew particularly fast in the first half of the 1990s, but also between 2001 and 2004 when 40,000 additional migrants received a working permission. In 2004, 362,299 workers held a foreign citizenship. Together they account for 11% of

overall employment. According to figures from 2001 almost half of the migrant population arrives from the Balkan and another 15.6% is from Turkey. The 'old' EU member states together account for 15.9% of migrant workers, while 9.5% are from the 'new' member states. In the last couple of years there is also significant increase in migration from Germany. Migrants are still concentrated in the low wage sectors and construction, and even second and third generation migrant children have hard times to attain secondary education. In recent years, the government has issued special working permits for seasonal workers in tourism and harvesting as well as for trainees from CEE deployed, among other jobs, as truck drivers in international road transport.

The most obvious departure from the Austrian model was the privatisation of the public sector in the 1990s. As mentioned before, until the early 1980s, the state-owned banks and industries were quite successful. Yet most of the industrial corporations had been engaged in the gaining and processing of raw materials (mining, oil, chemicals, steel, aluminium etc.), only few in the development and application of cutting-edge technologies. In the wake of the continuing world economic crisis in the 1980s, especially the resource intensive state-owned industries increasingly slipped into economic difficulties. Yet because they played more than simply an economic role, they were not allowed to cut production and lay-off staff to adjust supply to shrinking demand as most private firms did. Instead, the state-owned industries were used to maintain employment in a situation of fast rising unemployment. As a result, the nationalised industries helped to hold unemployment at bay but produced increasing corporate losses, putting an additional pressure on the already mounting budget deficit. After the end of the social democratic majority government and after a diversification and reorganisation of industrial production in five subordinate holdings did not bring about the expected results, the government decided to pull back. The retreat was also a reaction to an evolving public debate on inefficiency and mismanagement, caused by the influence of politicians and works council representatives. Yet as Aiginger notes, the motives for privatisation may have been mixed, "but the potential of the revenues for reducing federal budget deficit was the driving force".

The privatisation campaign actually started in 1987 with the sale of a minority stake in the profit-making petrol and gas company OMV. The final stage of the nationalised industry started in 1993 after the coalition partners had agreed to sell all the majority stakes. The privatisation law stipulated that privatisation should serve the maximisation of revenues, yet as much value added as possible should be maintained in Austria as possible. Hence in 1997 the majority of all five large holdings were privatised but in four of them the state still held a strategic share. In 2000, the new government formed by the FPÖ and ÖVP decided to sell-off the remaining shares and to close the chapter of the state's active engagement in economic development in Austria. In 2003, the government divested its 34.7% stake in VOEST-Apline (VA) steel, a leading European steel producer, and its 25% shareholding in Böhler Uddeholm, an important tool and speciality steel manufacturer. In 2005 it sold its 14.7% share in VA Tech, a metallurgy, power generation and infrastructure conglomerate, to Siemens, which already held 16.5% of the shares.

After the state-owned banks had sold-off most of their non-financial companies, they themselves became subjects of privatisation in the 1990s. After a major wave of mergers in the course of which the Creditanstalt and Länderbank became part of Bank

Austria-Creditanstalt, the majority of shares of the new Austrian market leader were finally sold to the German Hypovereinsbank. The Hypovereinsbank itself is now about to be taken over by an Italian bank, creating one of the biggest financial groups in Europe. However, within the Hypovereinsbank group the Austrian subsidiary could obtain a strategic position through its responsibility for the expansion into CEE.

After the privatisation of the nationalised industries and banks, the government also started to sell-off the national tobacco company and parts of the public services. In 2000, it sold 25.8% of its shareholdings in the Telekom Austria to Telecom Italia. In 2004 it gave away another 17% to national and international institutional investors. Further near-future privatisation plans include the divestment of the remaining 30.2% shareholding in Telekom Austria and of a minority share in the state-owned postal company, after it had already sold 100% of the postal savings bank PSK to another Austrian bank. Although still state-owned the transformation of public services into incorporated companies, has dramatically altered the nature of these companies. As a result of increasing profit-orientation, thousands of jobs have been cut since the mid 1990s – but, again, following the coordinated pattern mainly by shifting redundant employees into early retirement. At the same time, labour costs have been reduced through the deployment of non-standard forms of employment such as part-time work and agency work and the outsourcing of non-essential activities.

The privatisation of state-owned companies, which for many years have provided apprenticeship training beyond the company's own needs, has put additional pressure on the emerging crisis of the dual system of vocational education. For many years now, applicants outnumber the apprenticeships provided by private sector firms. One reason for the apprenticeship crisis is the inadequateness of certain apprenticeships, which are too narrowly focused and partly outdated to meet the requirements of a fast changing economy, where special skills risk to be devalued in increasingly short time periods. A second reason is the increasing pressure to reduce labour costs, which attempts employers to substitute unskilled workers for craft workers or to misuse apprentices as low-wage labour, or to stop training apprentices and instead hire graduates from VET schools and colleges. Because of the continuous lack of apprenticeships, the government has started several initiatives to create additional training opportunities, including the establishment of public apprenticeship-training centres. The prevailing trend, however, is the shift to VET colleges.

Internationalisation and privatisation led to changes in corporate governance structures. In Austria, too, share-holder value orientation has become increasingly important. A survey of the balance sheets of 324 joint stock corporations in the last 10 years shows that dividends tended to increase faster than output. In the ten years under observation, the share holders not only received back their investments but gained another 71% in profit, whereas the growth rate of personnel costs clearly remained behind growth in output. The same survey also shows that dividends tended to be higher in companies with foreign investors – net profits accounted for 171% of investments – while the personnel costs are lower than in companies without foreign holdings. An outstanding example is the previously state-owned BA-CA where management despite record profits has abandoned the existing employee-friendly collective agreement for general banks and instead switched to the cheaper agreement for saving banks under repeated protest from the unions and works councils. Another example is the continuing conflict

about plans to save labour costs at the national air carrier Austrian Airlines. Internationalisation and growing share-holder orientation has also contributed to a decline in the number of companies with works council representation. Among others, the Canadian auto parts producer Magna International has put pressure on the workers of one of its Austrian plants to stop a works council election. Magna has a long standing issue with labour representation, none of the Magna production sites in North America is unionized.

Employment security and stability was not only eroded through the job losses in the former state sector, but also through increasing labour market flexibilisation. As other European countries, Austria, too, has experienced a substantial increase in non-standard jobs in the last 20 years including part-time employment, marginal employment, self-employment and agency work. The number of part-time employees, for example, has increased more than three times since the mid 1970s and more than doubled since 1990. The share of part-time employees in total employment has increased from 6% in 1974 to 16.4% in 2003. The part-time rate of women has increased from 14.6% to 31.4% over the same period.

**Table: The development of part-time employment**

	1974	1979	1983	1988	1992	1996	1999	2003
Part-time work men and women in thousands	171.2	176.7	196.6	234.6	311.5	385.0	445.8	605.9
Part-time work women in thousands	155.3	163.0	181.1	213.1	73.4	336.0	402.4	525.6
Part-time work men in thousands	15.8	(13.8)	15.5	21.5	38.1	50.0	62.2	80.3
Part-time rate men and women in %	6.0	6.1	6.6	7.5	8.8	11.1	13.2	16.4
Part-time rate women in %	14.6	15.0	16.4	17.2	18.5	24.2	27.9	31.4
Part-time rate men in %	(0.9)	(0.8)	0.8	1.1	1.8	2.4	3.0	4.0

Source: Bergman et al. 2004 updated.

A large part of the newly created employment is part-time jobs. In fact the increase in female employment since the mid 1990s is almost entirely due to the rise in part-time employment, while the number of women working in full-time jobs has stagnated or even slightly fallen in. Wholesale and retail are among those sectors with a particular high percentage of part-time employees. The percentage has increased from 17.84 per cent in 1995 to 26.22 per cent in 2002. Especially in retailing the expansion of part-time employment is the result of the liberalisation of shop opening hours in 1997 and 2003.

Although in principle marginal employment has existed since 1955, substantial interest in this form of employment started not before the late 1970s as a result of a substantial

raise of the wage level under which employment is defined as marginal (1999: 283 euro per month). Since 1995 the number of marginally employed workers has increased by more than 60 per cent or from 4.8 % of to 7.2% of employment. For men the increase amounts to almost 75%.

**Table: Development of marginal employment**

	1996	1998	2000	2002	2004
Absolute					
Men	41,315	46,727	55,102	60,424	65,301
Women	107,488	124,224	141,670	151,490	157,605
Total	148,803	170,950	196,772	211,913	222,906
% of total employment					
Men	2.7	3.0	3.5	3.8	4.1
Women	8.2	9.3	10.1	10.4	10.4
Total	5.3	5.9	6.6	7.0	7.2

Source: Wörister 2005.

Women are more frequently affected by marginal employment than men. In 2004 more than 10% of female workers were marginally employed. Moreover, marginal employment is more frequent among low and medium qualified workers and comparable rare in jobs with higher qualifications. Not surprisingly, marginal employment mainly exists in predominantly low-qualified and female sectors such as business services including cleaning services (18%), retailing (14%) and hotels and restaurants(10%; *ibid.* p. 64). In wholesale and retail marginal employment (including marginal quasi-freelancers) already accounts for 10% of total employment. The number has increased by almost 70% since the mid 1990s.

Another form of atypical work, which has become increasingly popular, is self-employment. Since the mid 1990s the number of self-employed workers outside the agricultural sector in Austria has increased from 231,600 to 273,200 or by almost 20%. Now they account for 8.2% of total employment. In the late 1990s the government responded to the problem that an increasing part of the workforce is excluded from the social security system with the introduction of a new category of self-employed workers – the so-called quasi freelancers (*freie DienstnehmerInnen*). Quasi-freelancers are covered by health- and pension insurance but remain excluded from unemployment insurance. The number of quasi-freelancers has increased from 9,611 in 1998 to 23,051 in 2003.

As other forms of non-standard employment, agency work has existed on a marginal scale for a number of years. Yet as response to the increasing demand for agency

workers, the government passed legislation to regulate agency employment in 1998 (Arbeitskräfteüberlassungsgesetz). Since then the number of agency workers has more than doubled.

**Table: Development of agency work**

	1989	1992	1995	1998	2001	2004
Absolute	7,955	8,716	12,503	20,772	33,156	44,125

Source: Wörister 2005

In contrast to other forms of atypical work, agency workers in Austria are predominately male. Recently the subcontracting agencies have signed a collective agreement regulating the working periods, during which agency workers are not assigned to a contractor. For the rest of the time the same regulations apply as for the regular workers in the respective workplace.

Apart from some isolated adaptations in the social security act and the passing of the agency employment act, Austria has so far not seen a comprehensive labour market reform. But what Austria has seen in the last 15 years is a far-reaching reform of labour market policies based on cuts and restrictive reorganisation of the unemployment benefit system. The change in policy not least was spurred by Austria's entry to the EU and subsequent adaptation of ESF policies and the development of the National Action Plans (NAPS). As a result, expenditures on Active Labour Market Policy (ALMP) have considerably grown since the mid 1990s. A growing number of unemployment benefit recipients are affected by ALMP-measures. As a number of critics of the ongoing restructuring have pointed out, activation policies are linked to an ever tighter and restrictive benefit regime. In his view there is a growing obsession of the employment system to force people into employment at all costs. Activation policies are even extended to the so-called second net (Social Assistance) of the Austrian Welfare System.

**Table: Development of Active Labour Market Policy**

	ALMP as % of LMP	Sum Passive and Active as % of LMP	Active Passive Expenditure as % of ALMP	Share ESF on total exp. ALMP	Share Re-Training on total exp. ALMP	Share Employment on total exp. ALMP
1996	12,15%				71,8%	22,27%
1997	16,02%	18,27%	14,04%	25,06%	68,37%	23,03%
1998	16,90%	19,32%	14,28%	21,79%	66,47%	24,16%
1999	20,27%	24,40%	20,34%	18,07%	66,05	24,91%
2000	21,26%	25,81%	21,41%	11,08%	60,5%	29,87%
2001	20,50%	26,43%	28,92%	12,98%	58,89%	30,55%
2002	21,86%	27,80%	27,23%		63,13%	28,68%

Source: Business Reports PES (Public Employment Service).

Despite internationalisation, privatisation, fiscal austerity, corporate tax breaks and labour market flexibilisation, or perhaps because of them, the macro-economic performance of Austria has been rather poor. Since Austria has joined the EU in 1995, GDP-growth rates were significantly lower than in the previous 10 years (1985-1995). In fact growth rates were even lower than the European average. Austria, moreover, has lost its leading position with respect to GDP per capita, and while unemployment remained low in European terms, full employment is not even an issue anymore.

**Table: The development of unemployment**

	1980	1984	1992	1996	2000	2004
Male	1.6	4.7	5.7	6.9	5.8	7.5
Female	2.3	4.3	6.2	7.3	5.9	6.6
Total (Austrian calculation)	1.9	4.5	5.9	7.0	5.8	7.1
Total EU calculation	1.6	3.8	3.6	4.3	3.7	4.5

Source: Wörister 2005.

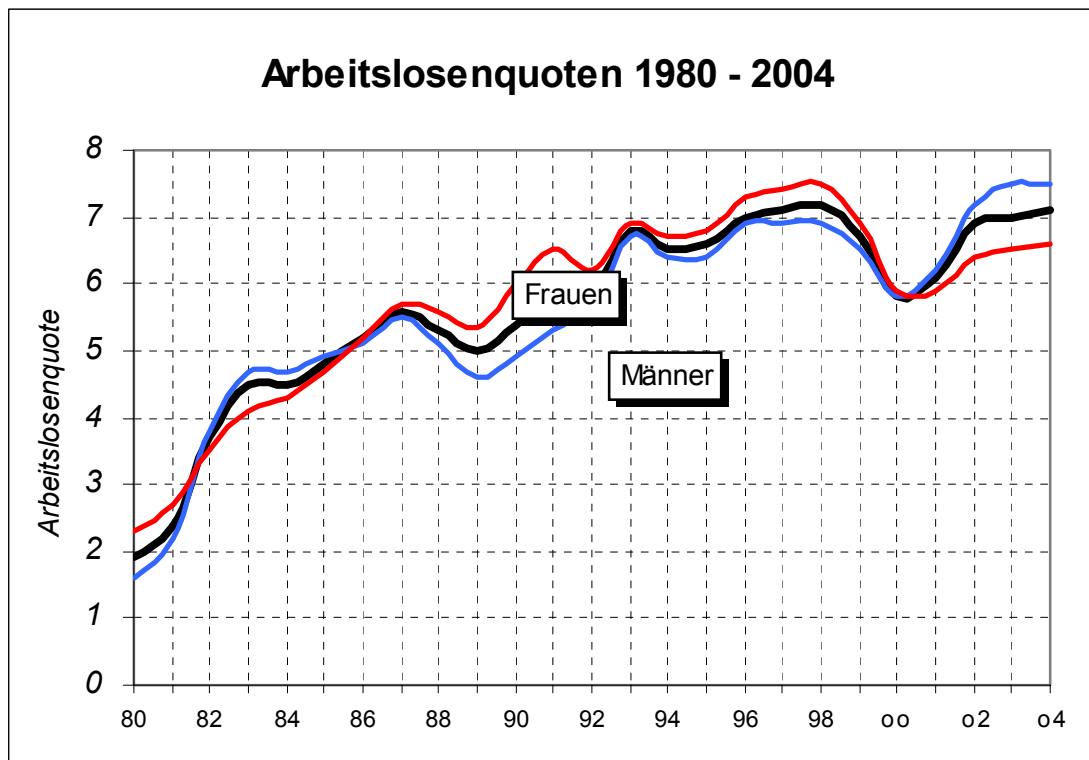
The increase in unemployment in past 20 years has shown a number of distinctive features:

- Unemployment increased particularly fast in the secondary sector and since 2001 men are more frequently affected than women.

- The labour market has become increasingly dynamic: Both, the number of those entering the unemployment system and those leaving it, have increased since 1990.
- Despite the growing dynamic the proportion of those who consistently remain in the system (the so-called structural unemployment) also increased.
- Employees with low and medium levels of qualifications (including VET apprenticeships) are more frequently affected by unemployment than those with higher qualifications. According to the latest labour markets statistics, 42% of those registered as unemployed have compulsory schooling as highest level of education, another 39% a VET apprenticeship, whereas those having a secondary school diploma or higher levels of education only account for 12%. Employees with lower qualifications are not only more often affected by unemployment, but also the unemployment period tends to be longer. However, since 2000 also those with higher qualifications, including academics, are increasingly often unemployed.
- Males, many of them in the secondary sector, are more often affected than females, but female unemployment has increased rather fast in the last few years.
- Unemployment is higher among older workers many of which have low qualifications and previously worked in the secondary sector (the unemployment rate for those 50 years and older is 8.3% compared to 7.1% for all ages). On the other hand, younger workers have also increasing problems to find a job.
- The number of those who are looking for a job is substantially higher than the official number. If we include the recipients of advanced retirement payments, the participants in courses and those looking for a VET apprenticeship, the number reaches 9% of total employment.

Structural problems and the consolidation of unemployment can also be seen in the long-term increase of unemployment assistance recipients (after a certain amount of time unemployed move from unemployment benefit to unemployment assistance). The number has increased from 44,100 or 1.5% of dependent employment in the early 1990s to 95,000 or 2.9% of dependent employment in 2004. The percentage of unemployment assistance recipients among the number of individuals who receive some sort of payment from the unemployment insurance has increased from 26.6 to 39% over the same period.

Graph: Unemployment rates, women and men



#### 4. WHAT IS LEFT?

Public ownership of manufacturing companies – gone; full employment – gone in reality and as a political aim; tripartite concertation with the ‘social partnership’ – gone to a large extent, self-management of the social security system by the social partners – undermined through influence from party-politics... The changes described above may convey the impression that there is nothing left from the ‘Austrian model’. However, even commentators arguing that Austria went down the neoliberal way quite far, by using the prefix ‘Austro’ they indicate a deviance or a particularity in how neoliberalism is being assumed. This particularity stems on the one hand from the stability of parts of the previous model and, on the other, from path-dependent changes in others. As far as stability is concerned the collective bargaining system, the regulation of working hours and the trade union influence on active labour market policy deserve highlighting.

The spectacular upsurge in industrial action in 2003 and the increasingly conflictual political environment can be assumed to have led to fundamental change of the collective bargaining system. With few exceptions however, the Austrian bargaining system has remained remarkably effective and stable not only during the last decades of the 20<sup>th</sup> century but also over the last years. Despite continuing pressures for decentralisation agreements are still mainly reached on the sector level (although they

sometimes allow for deviations on the company or plant level). In the private sector, collective agreements are usually signed between the branch unions, the white collar workers' union and the chamber of economy. The agreement is binding for all workers in the sector, independently of their union membership. The number of workers covered by sector agreements still accounts for 95 percent of all dependent employees. An additional three per cent are covered by company agreements. Yet the latter have increased in recent years mainly as a result of the outsourcing and privatisation of public services. In fact the system could not only be maintained, but expanded to include new and particular sensitive sectors such as IT services, private education as well as private health and social services. Yet the main reason for the extraordinary stability and effectiveness of the Austrian collective bargaining system is the mandatory membership of private companies in the chamber of economy. This obligation makes it impossible for private firms to abandon existing agreements by leaving the employers' association (as we have seen in Germany and other countries in recent years). Employers can form separate bargaining units and negotiate separate contracts, but they are still obliged to reach an agreement otherwise the existing contract persists.

Being one of the most sensitive issues, the regulation of working hours can be seen as a good indicator for the stability of the regulatory framework and for the degree of decentralisation of bargaining. Although an amendment of the working time law in 1997 increased the possibilities for varying working hours, these variations remain dependent on approval by a sector-wide collective agreement. As a result, working time flexibility has remained a sector bargaining issue, despite growing pressure from the corporations to shift negotiations on the company level. Earlier this year, the employers demanded new working time legislation that would have increased the scope for arrangements on the company level. This initiative however failed showing the capacity of the trade unions to defend the sector level collective agreements as main forms of regulation. Yet, the defence of the way of regulation implies concessions regarding the possibilities for companies to introduce annualised hours and other flexible working time schemes.

In spite of many reforms, the social partners have been able to uphold their influence on the Public Employment Service. While this doesn't prevent the worsening of conditions for the unemployed, it influences the way how the consequence of restructuring are dealt with. For example, in sectors and companies facing mass redundancies training and employment schemes are established with the aim to support the re-entry into the labour market. These 'work foundations' were first introduced to cushion layoffs in the nationalised industries. Later on they were used to help workers affected by redundancies in the forwarding business and in the food industries, sectors suffering from Austria's access to the EU. Now 'work foundations' are an established form of active labour market policy.

Stability in some parts of the previous 'Austrian model' is complemented by path dependency in others: In spite of the growth of non-standard employment, for example, the standard employment relationship can still be seen as a societal norm dominating the employment system. Future-oriented sectors, such as IT-services, that were expected to turn to network forms of organisations and new forms of employment turned out to be rather conservative in this respect: The proportion of standard employment relationships in the IT industry is actually higher than it is on average in the economy as a whole;

employers prefer long-term relationships with workers in order not to lose investment in training and to keep knowledge within the company. Yet as already mentioned above, other sectors show a strong concentration of marginal employment (retail) and quasi-freelancing (call centres). Rather than deviating completely from the previous employment model therefore the changes rather lead to the cleavages and polarisations becoming even more pronounced. Their existence however is nothing new but was an important but often overlooked and partly disguised particularity of the traditional 'Austrian model'.