

# W o r k i n g P a p e r s

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Bargaining System

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## **An Outline of Austria's Collective Bargaining System**

### **1. Introduction**

The difficulties experienced by many countries in adjusting to the turbulences of the seventies and early eighties has again focused attention on incomes policies. Several cross-country studies have suggested (Bruno-Sachs 1985; Blaas-Guger 1985; Heitger 1987; Jackman 1990), that incomes policies are most successful in countries with corporatist structures. Centralized bargaining or the coordination of wage claims through a central authority within the union federation, an arrangement which makes visible the public interest in moderate wage increases, are considered main features of the link between the structure of the labor market and economic performance. Other key elements of "corporatism" include a high degree of unionization, weak plant-level worker representation, and a high degree of organization on the employer side (Bruno and Sachs 1985; Crouch 1985; Flanagan, Soskice, and Ulman 1983; Heitger 1987).

Austria has been considered a paragon of centralized wage setting, or even of a corporatist economy, by many observers. In four rankings on labor market centralization<sup>1)</sup> compiled by Calmfors and Driffil (1988), Austria is ranked number one three times, number three (after Sweden and Norway) once. A broader measure of cooperation in the labor market, the Bruno-Sachs index of corporatism also classifies the Austrian economy as the economy with the strongest corporatist characteristics. McCallum (1986) as well includes Austria in the group of corporatist countries, together with Germany, Norway and Sweden.

While several authors have linked the degree of centralization or corporatism to the performance of the economy<sup>2)</sup>, others have stressed the potential long-term problems of continued wage restraint, and pointed out the observed tendency of centralized wage bargaining to narrow wage differentials, a development which may increase frictional and structural unemployment and also encourage militancy on the part of skilled labor. The ensuing wage drift may eventually wreck the wage setting system in the long run (Flanagan 1987; Newell and Symons 1987).

The empirical evidence on the importance of centralized bargaining and consensus in affecting the economic performance is still quite tenuous and rests in good part on the extreme position ascribed to the Austrian economy. A close examination of the main elements of Austria's bargaining system may throw some light on these issues.

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1) Centralization is defined as the extent of inter-union and inter-employer cooperation in wage bargaining with the other side. (Calmfors and Driffil 1988:17).

2) There is disagreement, though, whether this relationship is monotonic (Bean, Layard and Nickell (1986); McCallum (1986); Newell and Symons (1987) and others) or hump-shaped (Calmfors and Driffil (1988); Heitger (1987)).

This paper starts with a description of the main institutional features of wage determination in Austria and then discusses the relationship between centralized wage bargaining and the bargaining power of the works councils.

## **2. The structure of collective bargaining in Austria**

### *2.1 A sketch of the trade union organization<sup>3)</sup>*

The trade unions were given the present organizational structure at the end of World War II when the new Trade Union Federation (Österreichischer Gewerkschaftsbund, ÖGB) was formed. The reorganization centralized bargaining, finances, and authority within the Trade Union Federation. In contrast to the fragmentation of the trade union movement along craft and political lines characteristic of the pre-war period, the new federation consists of 15 (before 1978 16) unions organized along industrial lines. The one exception is the Union of Salaried Workers representing all white-collar workers in the private sector<sup>4)</sup>. The boundaries of the 15 unions are so widely drawn that in general very heterogeneous groups of workers are represented by the same union, and conflicts between various groups of workers are resolved

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<sup>3)</sup> For a general description of the trade union movement and other institutions of the "Social Partnership," see Flanagan, Soskice and Ulman (1983), International Labour Office (1986), Tomandl and Fuerboeck (1986).

<sup>4)</sup> This exception reflects a distinction between blue- and white-collar workers that is basic to Austria's legal system of industrial relations and social security. The law assigns white-collar status to employees working in commercial services, superior noncommercial services, and clerical services (Tomandl and Fuerboeck 1986:31-34). White-collar workers have their own representation in the form of works councils, separate from the works councils of blue-collar workers.

internally. There are separate party caucuses within the national unions and the Federation, the far most important faction being the Socialist. Thus, Austria has a very centralized labor movement and there appears to be less room for interunion competition than is characteristic of most other countries in Europe (Flanagan, Soskice, and Ulman 1983:51-52).

The concentration of authority in the Federation probably surpasses that of most other democratic trade union movements and allows the ÖGB to exercise strong leadership over the affiliated unions. To be sure, the leadership of the ÖGB has always taken pains to point out the far-reaching autonomy of the individual unions in formulating their wage policy, but the ÖGB controls the finances of the fifteen unions, and appoints and employs the secretary of each. The centralization of authority within the Federation (and the individual unions) is further enhanced through an indirect system of electing union officials: the elections of representatives to works councils serve de facto also as union elections at the lowest echelon.

Table 1

**Membership in the Austrian Federation of Trade Unions (ÖGB)**

Union	Number of Union Members as Percent of Total Union Membership		Number of collective agreements concluded  in 1990
	1974	1990	
Salaried workers in private enterprise	18.4	20.5	108
Government service	9.9	14.0	5)
Local government service	9.2	10.5	5)
Art, media, liberal professions	0.9	1.0	26
Construction, wood industries	12.8	11.3	88
Chemical industry	4.5	3.5	17
Railroads	7.6	7.5	26
Printing, paper industries	1.6	1.4	4
Trade, transport, traffic	1.9	2.3	26
Hotels, restaurants, personal services <sup>6)</sup>	2.4	3.3	30
Agriculture, forestry	1.5	1.1	2
Food industry	3.0	2.4	157
Metal, mining industries, power supplies	17.9	14.6	4
Textiles, clothing, leather	4.3	2.3	33
Postal, telephone, telegraph	4.1	4.9	5)
Total membership in 1 000	1 580	1 645	
Dependent employment in 1 000	2 667	2 929	

Source: Österreichischer Gewerkschaftsbund 1975, p. I/13, Österreichischer Gewerkschaftsbund 1991, p. I/64 and IV/8.

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5) Though the public sector unions do negotiate with the federal government and local governments, salaries of public sector employees are set by federal or state law, or statutes. In general, as noted in the text, there is one round of negotiations covering all public sector unions and the railroad union.

6) In 1974, the union of hotel and restaurant workers and the union of personal services were two separate unions.

Table 1 lists the membership of the affiliated unions for selected years. These figures in general refer also to union members who have already retired. Data on the number of active union members only are not available. Each union signs a multitude of contracts each year, the number of which is given in the fourth column.

As far as collective bargaining is concerned, the 15 unions are more encompassing organizations than the bargaining units on the employers' side. At the state level, the Economic Chambers (Kammern der gewerblichen Wirtschaft, sometimes also translated as Chambers of Commerce) are public-law entities with compulsory membership at the state level; at the federal level the corresponding organization is the Federal Economic Chamber (Bundeskammer der gewerblichen Wirtschaft or "Bundeswirtschaftskammer"). At both levels, the Economic Chambers are subdivided into six sections<sup>7)</sup>, which in turn are subdivided into more than 100 branch organizations which have the status of a public-law body and have the right to negotiate collective agreements. In fact, many insist on exercising this prerogative, hence the large number of collective agreements in force in Austria. Many wage bargains, though, adopt the settlement terms of other larger employment groups.

According to Austrian law, collective agreements are binding on third parties who did not participate in negotiating an agreement (i. e., on all employers and employees within the scope of an agreement), though provisions of a workplace arrangement or

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<sup>7)</sup> Manufacturing, small-scale business (or handicrafts), commerce, transport, tourism, and financial, credit and insurance institutions. It is a peculiarity of the Austrian system that the goods producing sector is divided into (large-scale) manufacturing (Industrie) and small-scale manufacturing (Gewerbe). In general, separate collective agreements apply to each sector or a branch thereof.



an individual agreement will prevail if they are more beneficial to the employee (Tomandl and Fuerboeck, 1986, p. 38).

## 2.2 *A brief history of union bargaining*

The yearly wage round at intervals of twelve months, with two clusters in the fall and spring, has been an integral part of the wage setting process in Austria for some time now. But these two characteristics, the regular intervals and the clustering in a few months, have evolved over many years<sup>8</sup>). In the fifties and the sixties wage settlements were spread out over the whole year, without any apparent regularities. In some years, new wage claims were put forward by some groups of employees before the majority of the bargaining groups had reached settlements. In this period the metal workers' union and the construction workers' union played a much less prominent role than in later decades. The duration of the contracts varied greatly, from 12 months to as much as 33 months. Macroeconomic goals, such as price stability and maintenance of international competitiveness, were mainly achieved through appeals for wage stops which were supplemented by direct measures to reduce price inflation.

The present-day pattern of wage bargaining began to emerge in the second half of the sixties. The large unions, first the construction workers' union and then the metal workers' union gradually became aware of the responsibility which they bore for the wage development in the manufacturing and construction sectors and, through setting the key bargains, for the whole of the economy. Without any formal

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<sup>8</sup>) For a more detailed exposition of how union bargaining has evolved in the private sector see Pollan (1990).

agreement between the Social Partners, the unions themselves pursued a policy of wage restraint to ensure low inflation and international competitiveness. One of the instruments used by unions to moderate wage increases was to retard wage settlements for several months; two clear examples of this strategy were the wage bargains in the recession of 1967/68 and the slowdown of 1978.

Although annual wage settlements had been standard practice with some large unions, such as the four unions for the public sector, the construction workers' union, and the bargaining units in the trade sector, it was only in the early eighties that the custom of bargaining at yearly intervals became firmly established and extended to all bargaining units. At the same time, two settlement dates were established, one in fall (around November) and one in spring (around May).

The wage negotiations in the fall wage round are usually initiated at the end of September by the metal workers' union for blue collar workers in the metal and engineering sector of manufacturing and in mining; the wage settlement achieved by this bargaining group at the end of October is usually adopted one month later, with minor modifications, by the negotiating parties for metal workers in small-scale industry. This is generally followed by a settlement covering most white-collar workers in manufacturing which usually deviates only marginally from that of the metal workers in manufacturing, and serves as a model for white collar workers in small-scale industry. Negotiations between the four public sector unions (Government Service, Local Government Service, Railroads, Postal Service) also take place in October and November, with the new agreement taking effect at the beginning of the year. This is also the starting date of the agreement covering white-collar and blue-collar workers in wholesale and retail trade. Negotiations in the banking sector follow in January which ends the fall wage round for the major bargaining groups. The wage round from April to June centers around blue- and

white collar workers in the construction industry and related industries, in the chemical and textile industries.

*Table 2*

**Major Bargaining Groups**

Employee group	Number of employees covered by contract in percent of dependent employment
Fall wage round	
Public service employees	30
White- and blue-collar workers in trade	14
Blue-collar workers in metal and engineering industries, mining (manufacturing and small scale industry)	10
White collar workers in manufacturing and small-scale industry	8
Banking sector	2
Spring wage round	
Blue- and white-collar workers in construction, wood, and related industries	9
Blue- and white collar workers in hotels and restaurants	6
Blue- and white-collar workers in chemical industry	1
Blue- and white-collar workers in textile industry	1

Table 2 lists the main employee groups which negotiate new settlements in the fall and spring wage rounds. Bargaining units are grouped together if they form a joint

bargaining committee<sup>9)</sup>, or if the wage settlement of one bargaining unit is usually adopted by another bargaining unit<sup>10)</sup>. Wage bargaining is highly concentrated: the three largest wage bargains cover more than 50 percent, the five largest wage bargains cover about three fourth of the dependent labor force in Austria. About 7 percent are not covered by any collective agreements, mostly in areas where there is no employers' organization which could negotiate a collective agreement (such as in domestic services and non-profit institutions).

### 2.3 *Is there a national wage round?*

In Austria, unlike in Sweden where bargaining at the national level took place until recently, there is no "national wage round". The individual unions instead bargain their own settlements. In fact, the leadership of the ÖGB has repeatedly emphasized that each union is completely autonomous and negotiates under its own authority and has even denied the existence of any national guidelines for wage increases<sup>11)</sup>. But such statements are designed to sooth the self-respect of union leaders and

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<sup>9)</sup> This is the case for the trade sector, where the blue-collar workers are represented by the Union for Trade, Transport, and Traffic, and the white-collar workers, much more numerous, by a section of the Union of Salaried Workers in the private sector; another example are the employees in the construction sector, with the blue-collar workers represented by the Construction Workers Union, white-collar workers by a section of the Union of Salaried Workers.

<sup>10)</sup> Wage settlements in the construction sector and related industries are one example of this practice.

<sup>11)</sup> In 1981, for example, Anton Benya, president of the ÖGB, declared: "The individual trade unions are autonomous in their wage policies. But certainly they will be guided by the economic opportunities of the sectors they operate in. The ÖGB has never specified wage guidelines, but the trade unions have, on their own accord, in a solidaristic wage policy, reached wage settlements that are quite similar" (author's translation; Benya 1981:34).

reflect a reticence to proclaim official guidelines and do not exemplify the actual practice of the leadership of the Federation. As Heinz Kienzl, the long-time economic advisor to the ÖGB, pointed out the main reason why the labor movement in Austria had always rejected official guidelines was that such standards would be viewed as minimum increases and, with the prestige of a union at stake, would foster an unhealthy competition between unions. Internally, however, the ÖGB has always fixed wage guidelines before major wage settlements (Kienzl 1973:230-231). In fact, in the early seventies, when economic growth rates of some 5 percent were considered feasible by the union leadership, Mr. Benya formulated a guideline which was later known as the "Benya formula": union wage settlements should aim at achieving an average growth rate of real wages of 3 percent in the long run. In later periods, when economic growth slowed down the wage guidelines were modified, but the growth in aggregate productivity and aggregate inflation remained the most important standards for wage settlements (Pollan 1984).

Despite the absence of formal wage norms, the increases in wage rates negotiated by the unions over the last two decades have been remarkably uniform.

Table 3

**The Development of negotiated wages and salaries (hourly basis)**

Average rate of increase in percent

	1966-1976	1976-1985
<b>Manufacturing</b>		
Blue-collar workers	10.4	6.3
White-collar workers	10.3	6.0
<b>Small-scale industry</b>		
Blue-collar workers	10.7	6.3
White-collar workers	11.1	5.9
<b>Construction<sup>12)</sup></b>		
Blue-collar workers	10.9	6.6
White-collar workers	11.0	6.4
<b>Trade sector</b>		
Blue-collar workers	10.3	6.0
White-collar workers	10.3	5.7
<b>Tourism</b>		
Blue-collar workers	10.8	6.5
White-collar workers	11.1	6.3
<b>Banking and Insurance</b>	10.5	5.8
<b>Public service</b>	10.9	6.0

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<sup>12)</sup> The construction industry is part of small-scale industry.

Table 3 sets out the increase in negotiated wage rates from 1966 to 1985 for a few major industries<sup>13</sup>). Over the time span of nineteen years, the differences in wage increases seem very marginal. The yearly average increases are clustered around 10,7 percent in the first period, around 6 percent in the second period, with negotiated wage increases in the public sector just barely behind those in the private sector. The highest increases were recorded for the tourism and the construction sectors, sectors where the development of wages and salaries actually paid are strongly dependent on fluctuations in the labor and goods market and which have a low union density. Another striking feature concerns the difference between increases in rates for white-collar and blue-collar workers in the second period: increases in negotiated rates are higher for blue-collar than for white-collar workers. Collective agreements for white-collar workers contain the provision that pay should be related to grades of work and should automatically increase in biennial steps. Thus, earnings of white-collar workers tend to increase regularly and in a fashion that is much less dependent on economic conditions. To counteract this tendency, wage contracts for blue-collar workers generally provide for higher increases in negotiated rates<sup>14</sup>).

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<sup>13</sup>) This time period suggests itself for two reasons: first, starting in the year 1986 a new round of reduction in working hours began, changes which are not reflected in the officially recorded index of negotiated wage increases; second, 1966 was the first year that an economy-wide index of wage rates was computed.

<sup>14</sup>) Earnings of white-collar workers, nonetheless, rise at a faster rate than those of blue-collar workers, as documented in studies of earnings in manufacturing and construction (Pollan 1986; Pollan 1987). This is of course a divisive issue between the Union of Salaried Workers in the private sector and the blue-collar unions.

To be sure, there is the machinery of the Social Partnership, in particular, the Subcommittee on Wages, to ensure wage and price control, but these institutions have been no more than a (useful) façade in the wage and price setting process over the last three decades<sup>15</sup>). The parallel movement in contractual wages and salaries in the seventies and eighties must be attributed mainly to the solidaristic outlook of the trade unions' wage policy and the wage leadership of certain major unions. Thus, the similarity in wage development is less the result of formalized structures as in Sweden, than of informal ways of coordinating wage bargaining through inter-union preparatory talks that attempt to align wage settlements among unions, a process that has evolved over time and seems to have culminated around 1980.

As Flanagan, Soskice, and Ulman (1983:52) point out, the centralization of authority in the ÖGB probably exceeds that of any other democratic trade union movement, a judgement that has been shared by other observers (Katzenstein 1984:61; Traxler 1981; Windmuller 1981:56). Nonetheless, wages are not centrally negotiated and there is only the appearance of a national wage round: from the late sixties to the first half of the eighties wage negotiations proceeded "as if" there had been centrally negotiated wages or central wage guidelines.

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<sup>15</sup>) For a description of the formal apparatus for wage and price constraint available to Austria's "Social Partners", see Flanagan, Soskice, and Ulman (1983). The impact of the "Parity Commission" on the price setting system is dealt with in Pollan (1992).



## 2.4 *A second level of wage bargaining*

Collective agreements that cover a wide range of economic activity may not be appropriate for individual enterprises which are bound by the provisions of the wage settlement. Therefore, in highly centralized bargaining systems wages actually paid may differ markedly from the negotiated rates. This is the case in Austria. Negotiated wages and salaries are minimum rates which set a floor to wage and salary rates that are actually paid. They also provide a reference point for time rates and for fringe benefits.

Many employees are remunerated above the minimum wage and salary rates negotiated by the unions for the industry in question. The size of pay supplements varies greatly from one sector and plant to another. In the manufacturing sector, for which detailed data are available, the excess of actual wages over minimum wages for blue-collar workers was around 26 percent in 1990 (though higher than 30 percent in the seventies and in the early eighties). It ranged from 47 percent in the steel industry to 11 percent in the food and beverage industry (where contracts are tailored to the various segments of this branch). For white-collar workers in manufacturing, actual salaries exceeded negotiated rates by 25 percent in 1990. It is estimated that only between 5 and 10 percent of the workforce in manufacturing work at the negotiated wage and salary rates.

In many firms, particularly large ones, the works councils open negotiations with management over further wage increases, subsequent to the conclusion of collective agreements. As a rule, increases in negotiated rates set a standard for increases in actual wages and salaries. Plant level negotiations usually aim at raising the level of

actual wages by at least the same percentage as that negotiated for minimum wages, thus re-establishing the traditional pay hierarchy in the firm<sup>16</sup>). In good business years this standard has been exceeded, in bad years increases in actually paid wages fell short of increases in contractual rates. In those branches where the unions also negotiate increases in actual wages (see below), plant level bargaining strives at a minimum to close the gap between the percentage increase in minimum wage rates and actual wages.

Over many years, though to a lesser extent in the eighties, increases in actual wages were several percentage points higher than the centrally negotiated increases. The difference, wage drift, has been viewed as a great threat by the trade unions since the late fifties, for it undermines their control over wage increases received by workers, and forces them to initiate wage movements even if they are generally judged undesirable from an overall economic point of view (Kienzl 1971:40). The general stance of wage moderation observed in a centralized system taxes the allegiance of the rank and file and may entice workers' representatives at the plant level to take the initiative in wage bargaining (Kienzl 1973:235-236). In Austria, a very pragmatic way of dealing with this problem has evolved which allows the works council representatives, who are usually union officials as well, to participate in the negotiating process.

The powers of the works councils as regulated in the Collective Labor Relations Act of December 14, 1973 are very extensive. One of their prerogatives is to negotiate

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<sup>16</sup>) This concern seems to be quite strong. An analysis of wage differentials by skill levels for 18 manufacturing branches shows that intra-industry wage differentials are quite rigid and respond only marginally to changes in labor market conditions (Pollan 1983).

"workplace arrangements" (Betriebsvereinbarungen) with the employer on many issues. With regard to wages and salaries, the works agreements may only cover procedural aspects, but not the level of wages and salaries (including bonuses and allowances)<sup>17)</sup>. These questions are the exclusive prerogative of collective agreements.(Tomandl and Fuerboeck 1986:43) The goal of these provisions is to safeguard the monopoly of the trade unions in the area of wage negotiations (International Labour Office 1986:67). Nonetheless, agreements between employers and works councils on pay raises are common practice<sup>18)</sup>. As Tomandl and Fuerboeck (1986:44) note: "Most large enterprises have wage scales that were introduced or amended through workplace arrangements, in defiance of the law. The employers and works councils usually abide by the terms they have agreed to rather than question their legal validity." In this way, even though outside the legal boundaries, unionists at the lower ranks and the works council representatives are involved in the bargaining process, and the potential for conflict between the trade unions and works councils is reduced but not eliminated, as a later section will argue<sup>19)</sup>.

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<sup>17)</sup> In principle, the parties to a collective agreement may delegate the responsibility of bargaining for wage and salary levels to works councils. This must be done through a collective agreement. No cases of such a delegation are known.

<sup>18)</sup> These so-called "free works agreements" ("freie Betriebsvereinbarungen) do not enjoy the same legal status as works agreements in conformity with the Collective Labor Relations Act (Traxler 1981:41).

<sup>19)</sup> Furthermore, as noted above, in certain sectors of the economy, particularly in small-scale industry and the construction industry, the same union negotiates a multitude of contracts, which match more closely the economic situation of different regions and industries and which are also apt to defuse the conflict potential between central union organization and rank and file.

With wages actually paid exceeding negotiated wages by up to 60 percent in some branches and occupations, an increase in negotiated wages would benefit only the lower echelons and narrow wage differentials; efforts to raise the pay level for all employees and to re-establish the customary wage hierarchy would then be credited entirely to the efforts of the works councils at the expense of the reputation of the trade union. To maintain their control over the development of wages, some unions have managed to insert into collective agreements a clause which, in addition to raising minimum wages, also boosts the level of wages actually paid (Ist-Lohnklausel)<sup>20</sup>). As a rule, the increase negotiated for actual wages is somewhat smaller than for minimum wages<sup>21</sup>). The practice of bargaining for increases in wages actually paid has in the past been restricted to unions covering blue collar workers in manufacturing and the sections of the Union of Salaried Workers operating in manufacturing<sup>22</sup>). Thus, less than one fourth of private-sector employees benefit from this arrangement. Union contracts in other sectors, such as in construction and wholesale and retail trade, though not providing for an explicit increase in wages actually paid, include a general clause (in some years only in the

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<sup>20</sup>) The first precedent-setting clause of this kind was bargained for by the metal workers' union in the fall of 1959. Wages actually paid were raised by 4 percent, negotiated wages by about twice as much. (Österreichischer Gewerkschaftsbund 1960:1/56)

<sup>21</sup>) For example, in contracts negotiated by the metal workers' union increases in actual wages were about 50 to 70 percent of the increases in minimum wages. (Pollan 1986:232)

<sup>22</sup>) Blue-collar workers and white-collar workers in the small-scale metal and engineering industry, even though covered by the same unions, have until recently not benefitted from the arrangements in force in the manufacturing sector.

form of a recommendation) which stipulates that the margin (either in relative or in absolute terms) between minimum wages and actual wages is to be maintained<sup>23</sup>).

For some sectors such as manufacturing, a description of the wage setting process must focus on the leading players, the unions and the works councils. But in other sectors, such as small-scale industry and the service sectors with a preponderance of small firms, union representation is rather weak and many plants do not have works councils. In such firms, employees depend more than in other sectors on increases in minimum wages engineered by unions for the whole sector. This may help to explain the above-average increase in negotiated wages and salaries in the tourism sector and in construction. Conversely, the positive wage drift that has been observed in prosperous years must probably be attributed to the pull of a tight labor market, which works through individual pay raises.

### **3. Concluding Remarks**

The recession of 1975 marked the end of the period of vigorous growth in Austria. With smaller real wage increases likely to make it harder for the unions to pursue a cooperative wage policy, some observers raised the question of how long the trade unions would be able to contain wage increases within the room compatible with international competitiveness. It was also feared that in such a climate distributional conflicts, so far of minor importance, would intensify and accelerate the inflationary process, a phenomenon observed in the Scandinavian countries (Flanagan,

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<sup>23</sup>) This seems to be a much weaker form of bargaining for an increase in wages actually paid: wage drift in the construction industry (with many small firms without works councils), for example, shows very large fluctuations which strongly depend on conditions in the labor and goods market.

Soskice, and Ulman, 1983:81). It seems that these doubts were premature. The development from 1975 to the early eighties showed the sturdiness and success of incomes policy. The Austrian wage bargaining system weathered the difficult years of the first and second oil shock as the trade unions were able to attribute the favorable economic performance, above all a low rate of unemployment and a low rate of inflation, to the existing arrangement. The unions succeeded in dampening wage demands by pointing to the slowdown in growth and the balance of payments difficulties, which did arise around 1977. Lower wage increases and the hard currency policy which had been endorsed by the Trade Union Federation<sup>24)</sup> reduced inflation to a tolerable level.

As in other OECD countries, rising unemployment and increasing balance of payments difficulties called again for a moderation in wage inflation in the mid-eighties and eventually both macroeconomic and microeconomic factors did bring about a deceleration in wage growth in the second half of the eighties.

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<sup>24)</sup> In a small open economy such as Austria, a policy of wage restraint needs to be complemented by a price policy in the form of a hard-currency policy to be effective and sustainable in the long run. This point is elaborated in Pollan (1991).

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