

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

ALOIS GUGER

Corporatism: Success or Failure?

Austrian Experiences

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## **CORPORATISM: SUCCESS OR FAILURE?**

### **AUSTRIAN EXPERIENCES<sup>1)</sup>**

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#### 1. Introduction

In the decade after the first oil shock the world economy experienced a marked decline in output and productivity growth and a substantial rise in inflation and unemployment.

All industrialized countries were confronted with these important changes in the economic environment more or less to the same degree. However, we can find a considerable increase in the variance of the performance measures of individual countries since the early 1970s. Looking at Western Europe even some highly open economies like the Scandinavian countries or Austria have been much less prone to stagflationary processes than others.

In recent years, the economic policies and institutional arrangements of these so-called "success" countries have attracted growing interest among social scientists. The institutional structure of a country promotes or restricts strategic actions and determines the range of feasible policy options. On the one hand, the degree of centralization in the bargaining process of a country appears to foster the degree of cooperation between trade unions, employers and government; and on the other hand, the political structure of a society, i.e. the relative power positions of labour and business and the State, exert a crucial constraint on the rank order of political priorities. Thus, it seems that countries with powerful centralized trade unions and business organizations, with a strong labour movement, and with highly centralized bargaining arrangements have steered their economies significantly better through the turbulent years since the first oil-crisis than other countries.<sup>2)</sup>

Since Austria has been considered as a paradigm of corporatism in all its various classifications the performance of the Austrian economy in the period of crisis since the early seventies is of special interest.

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1) Paper presented at the WIDER-Conference "Coping with Crisis: Lessons from Corporatist Experiments, Helsinki, 21-22 January 1989. Forthcoming in: Pekkarinen, Jukka & Pohjola, Matti & Rowthorn, Bob (eds.): "Social Corporatism -- A Superior Economic System?", Oxford University Press, Oxford 1990. The author wishes to thank Adalbert Knöbl (IMF), Wolfgang Pollan (WIFO), Kurt W. Rothschild (WIFO), Josef Steindl (WIFO) and Ewald Walterskirchen (WIFO) for comments.

2) Scharpf(1984), Bruno & Sachs(1985), Blaas & Guger (1985) written in 1977

The subject matter of this paper is the analysis of the Austrian economy with respect to its institutional arrangements and economic policy. The paper is organized in five parts: first, we shall briefly comment on the role of corporatist institutions in economics; second, we shall give a brief account of the development of the Austrian economy during the period of crisis and its aftermath; in the third part a description of the Austrian economic strategy of this time - the so-called 'Austro-Keynesianism' - and its underlying institutional arrangements and policy strategies will be given; the fourth part will deal with wage and labour market flexibility, the main concern of prevailing orthodox economics in employment policy; and in the fifth part we shall, finally, discuss some major problems of this approach and give an evaluation of the Austrian model and its prospects.

## 2. Corporatism and Economic Policy

The recent interest of economists in corporatism stems from the role that mainstream economics attaches to labour markets in employment matters. As in the period of mass unemployment in the thirties, neoclassical economists have again diagnosed inflexible labour markets, i.e., too rigid real wages and low labour mobility, as the main reason for the high unemployment over the last 15 years.

Some of the main elements of corporatism, such as powerful, centralized trade unions and nation-wide bargaining systems, used to be criticized by 'free-market economists' as monopolistic elements and hence impediments to the smooth functioning of competitive markets. But since in recent years a number of studies seem to indicate that such corporatist features foster smooth real wage adjustments, corporatist institutions have more and more been discussed as a possible instrument to improve labour market performance, at least for countries with powerful trade unions.

From a Keynesian perspective, however, the meaning of corporatist institutions goes beyond the labour market: As far as the labour market is concerned, trade unions can only act upon nominal wages not real wages. In this model, inflation is determined by wage bargaining and "incomes policies" are seen as necessary elements of viable full-employment strategies: when the growth of money wages exceeds productivity growth the price level will increase. Since trade

union power increases with rising employment, bargaining institutions and trade union cooperation are crucial in this model to control inflation at full employment<sup>3)</sup> .

But, the effects of corporatist institutions go beyond the labour market. Industrial relations shape expectations of the private sector. A co-operative mode of bargaining between business, labour and government with consensual outcomes leads to positive business expectations ("animal spirits") and, hence, fosters private investment and growth.

The consequences of free bargaining at high-employment levels under adverse politico-institutional conditions have been convincingly demonstrated by Great Britain's "stop-and-go policy" in the post-war period and its harmful effects on business expectations, investment and growth.

The Keynesian position is best summed up by Kalecki's conclusion (1943):

"Full employment capitalism' will have ... to develop new social and political institutions which will reflect the increased power of the working class. If capitalism can adjust itself to full employment a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system which must be scrapped."

If corporatist arrangements can be seen as such new social and political institutions which facilitate the pursuit of long-run full employment strategies, some form of corporatism may prove a (necessary) precondition for maintaining full employment in the long run, at least in societies with a strong labour movement.

### 3. Growth and Labour Market Performance of the Austrian Economy since the early seventies

Starting from a low level of productivity the post-war development of the Austrian economy has been a more or less continuous catching-up process (Table 1): In 1970, Austria's GDP per capita was still about 5% lower than in OECD-Europe on average and 20% lower than in Germany. In the seventies and early eighties, however, Austria's economy could improve its relative position significantly. In 1985,

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3) Keynes and his group in Cambridge had clearly seen the problem of accelerating inflation already at the time of the publication of the General Theory; their position is probably best summarized in Joan Robinson's statement in 1943: "Unemployment in a private enterprise economy has not only the function of preserving discipline in industry, but also indirectly the function of preserving the value of money. If free wage bargaining, as we have known hitherto, is continued in conditions of full employment, there would be a constant upward pressure upon money wage-rates... In peace time the vicious spiral of wages and prices might become chronic."

Austria's GDP per capita was about 10% higher than in OECD-Europe and 12% lower than Germany's.<sup>4)</sup>

After the war, rapid productivity growth had been the result of the reconstruction boom and of bridging the technological gap, but soon a deliberate policy enhanced growth. After breaking the post-war price-wage spiral in 1953, economic growth received the highest priority in Austria's economic policy. Since growth was limited by labour shortages throughout the sixties a comprehensive system of investment promotion was introduced to foster capital accumulation and productivity growth. Furthermore, the labour market was opened to foreign workers. Their share in the labour force increased from 2% in the late sixties to 7% in 1973/74. (Figure 1)

Table 1: Growth of Real GDP Per Capita				
Country	Average Annual Increase in %			
	1960-68	1968-73	1973-79	1979-87
Austria	3.6	5.4	3.0	1.6
Germany	3.2	4.0	2.5	1.5
Switzerland	2.7	3.4	-.1	1.5
Sweden	3.6	3.1	1.5	1.6
Finland	3.3	6.5	2.0	2.9
Norway	3.6	3.3	4.4	2.9
Netherlands	3.5	3.7	1.9	0.6
Denmark	3.8	3.3	1.6	1.9
OECD-Europe	3.6	4.0	1.9	1.3
OECD	3.9	3.6	1.8	1.8
SMEC <sup>1)</sup>	3.9	4.2	1.4	1.2

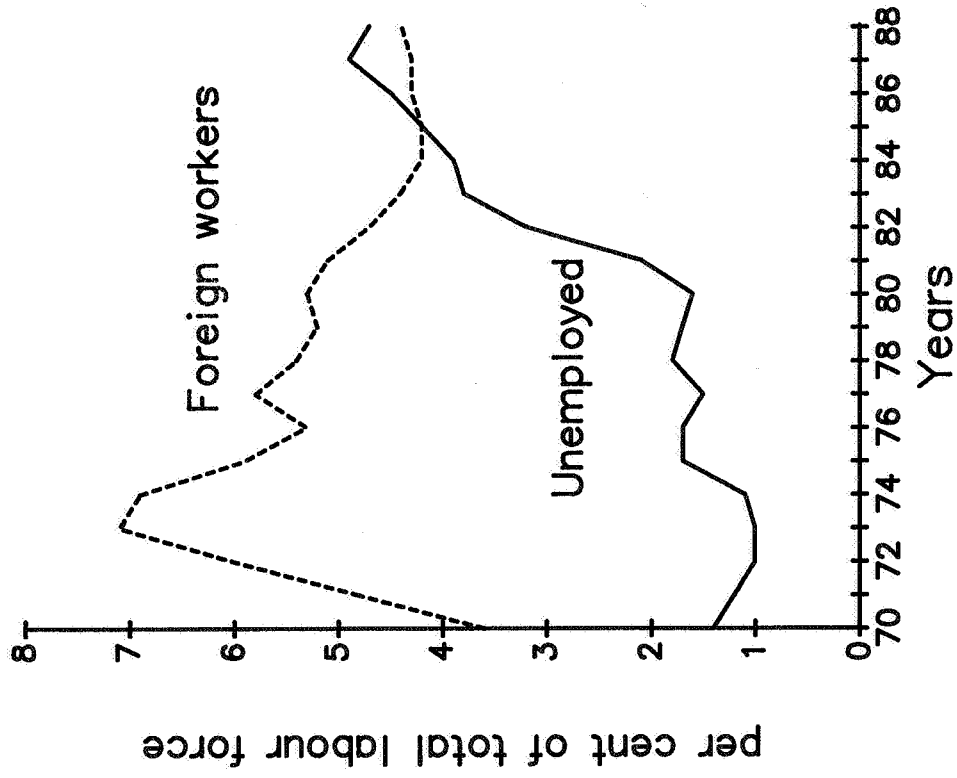
1) Smaller European Countries  
Source: OECD: Historical Statistics, 1960-87, Paris 1989

In the aftermath of the first oil crisis, Austria responded to the recession of 1975 with an expansionary strategy and gave full employment highest priority. In fact, labour market participation and employment increased, and unemployment rates remained under 2% despite a considerable labour force growth till 1980. (Table 2)

The employment policy of the government was also supported by some labour hoarding in the nationalized industries in the late 1970s. In fact, private firms

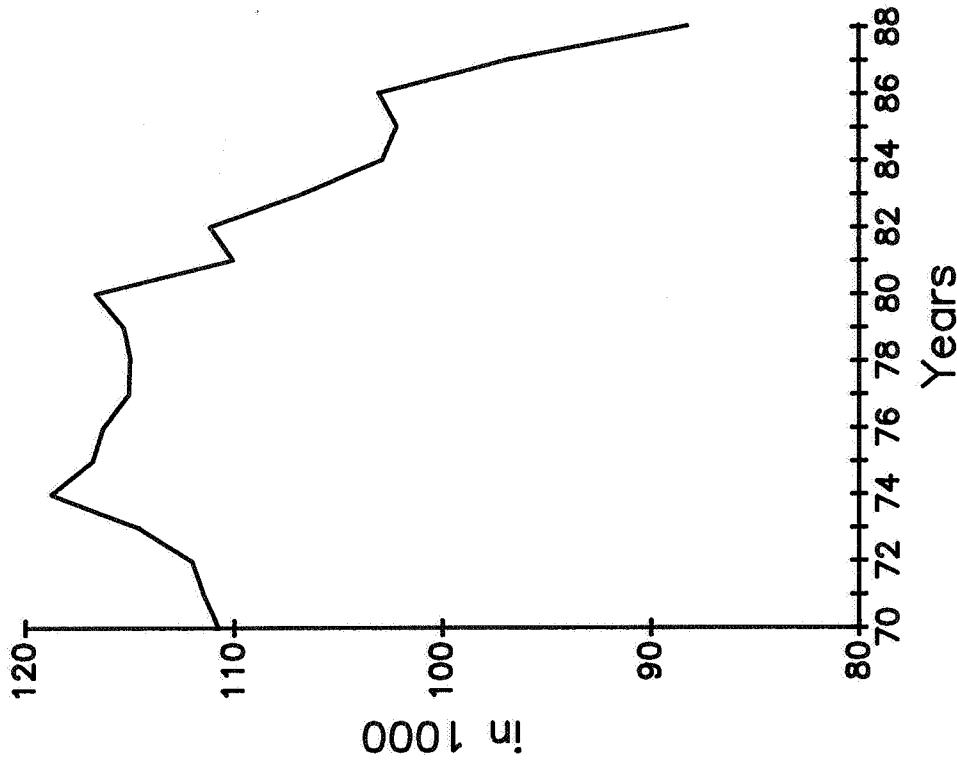
4) According to purchasing power parities OECD (1989); in industry, labour productivity had still been 30% below the German level in 1976, but by 1985 this gap shrank to 13%. (Guger 1988)

Figure 1: Foreign workers and unemployed



Source: WIFO

Figure 2: Employment in nationalized industries



were also rather cautious in their lay-off policies, since unemployment remained at a very low level and business expectations were fairly optimistic<sup>5)</sup> throughout the seventies. Furthermore, there were supply-side measures on the labour market: a reduction of the legal working time, in 1975, and a more restrictive foreign labour policy. (Figure 1)

After the second oil crisis, the policy response was different. All main trading partners, and Germany in particular, followed a more deflationary course than in the 1970s; and Austrian policy-makers moved more and more away from the idea of "diving through the recession".

A number of factors - some hard facts and some ideological or theoretical reasons - which coincided in the early eighties led to this change in policy: In the aftermath of the second oil shock, the effects of the world-wide recession were reinforced by a substantial effective appreciation of the schilling. Rapidly rising unemployment and the structural crisis in the nationalized iron and steel industries put heavy strains on the federal budget<sup>6)</sup>. (Figure 2) At the same time, an enormous rise in interest rates increased the costs of financing the budget deficit considerably. In this environment, the anti-state and anti-activist ideologies of the time found now readier acceptance than in the seventies. Furthermore, the increasing share of interest payments in government expenditures and the deflationary international environment gave some substance to these objections by weakening the multiplier effects of expenditures. Finally, when the Socialist Party under Bruno Kreisky lost its absolute majority in 1983, the coalition governments that followed moved gradually away from the absolute priority to full employment.

Hence, in the eighties, the development of the Austrian economy indicates a gradual abandonment of the policy of the seventies. While the hard currency approach and moderate incomes policies has been maintained, fiscal policy has been significantly less expansionary or even contractionary. The "consolidation" of the federal budget has gained priority over full employment, and the unemployment rate increased from 1.6% in 1980 to 4.9% in 1987.

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5) Austria's high investment rate may be mentioned as an indicator: Gross fixed capital formation was 26.4% of GDP on average between 1974-1979 (OECD: Historical Statistics 1960-1985). Only Norway, Japan, Iceland, and Finland show higher figures in the OECD area. Austria's relative position had been significantly higher in this period than in any period before and after since 1960.

6) Employment programmes and claims on the social budget had to be financed; and the net borrowing of the federal budget in per cent of GDP increased from 2,6% in 1981 to 5,5% in 1983.

The rise in unemployment may seem moderate by international standards, in particular when we take into account seasonal unemployment which is high and rising with the growing tourist sector. But the unemployment figures do not reflect the labour market situation quite correctly; on the one hand, early retirement schemes, special allowances for particular groups of older workers, and a lower recruitment of foreign labour reduced open unemployment. On the other hand, in some regions, the structural crisis of the large iron and steel industries has led to much higher unemployment figures.

Table 2: Employment, Unemployment, and Labour Market Participation in Austria				
Growth of	Average Annual Increase in %			
	1960-68	1968-73	1973-79	1979-87
Population (15-64)	-.1	.3	.4	.8
Total Labour Force	-.7	.6	.6	.3
Total Employment	-.6	.8	.5	-.1
Rates of	Average in %			
	1960-67	1968-73	1974-79	1980-87
Participation <sup>1)</sup>	70.1	67.6	68.9	66.7
Male	90.4	86.4	85.0	80.2
Female	52.1	50.5	53.9	53.6
Empl/Pop Ratio. <sup>2)</sup>	68.7	66.7	67.8	64.3
Foreign Labour <sup>3)</sup>	1.1	4.4	5.8	4.6
Unemployment	2.0	1.4	1.6	3.5
1) Total labour force as % of population in working age 2) Total employment as % of population in working age (15-64) 3) Foreign Labour in % of total labour force Source: OECD: Historical Statistics, 1960-87, Paris 1989 Federal Ministry of Labour and Social Affairs				

As the figures in Table 2 indicate, labour market participation has traditionally been low in Austria. This is mainly due to pension laws and low female participation rates. The legal retirement age is 60 for women and 65 for men, but people can and normally do retire earlier if they have worked for 35 years. Actually, in 1987, at the age of 55-60 only two-thirds of men and one-quarter of women held a job, and at the age of 60-65 only 16% of men and 7% of women.<sup>7)</sup> The participation rates of older people are lower in Austria than in all other European countries but the Netherlands.

7) Walterskirchen (1990) p 54

Religion has an important influence on women's attitude to employment and family; in Catholic countries women's participation rates are significantly lower than in, for example, Protestant countries.<sup>8)</sup> Participation rates of women in the prime age groups<sup>9)</sup> are also low since a substantial proportion leave their jobs to take care of children. In this respect, limited kindergarten facilities, almost no all-day public schools, and little part-time employment possibilities have also to be mentioned. Part-time jobs are not very popular with trade unions in Austria. In particular, female trade union leaders argue that part-time jobs do not offer equal career prospects.

While in many European countries part-time employment has had important effects on labour market performance, in Austria the share of part-time work in total employment grew only from 6.3% in 1973 to 7.3% in 1987. Over the same period, the share of part-time work increased by more than 20 percentage points in the Netherlands and by 7 points (to a level of more than 25%) in Sweden.<sup>10)</sup>

Summing up, the growth and labour market performance of the Austrian economy was quite remarkable in the 1970s. In the 1980s, unemployment figures increased substantially until 1987, though they have remained well below the average European rates. In the favorable international environment of the last two years, unemployment rates have also been declining in Austria. So, at the moment, total unemployment is not of primary concern but long-term unemployment has been rising.

The performance of Austria's economy in the 1970s has often been attributed to its institutions and policy; the question arises, therefore, whether the deterioration of the 1980s is just caused by the abandonment of the former strategy or if the strategy itself was not viable in the longer run?

#### 4. The Austro-Keynesian model: Institutions and Policy

In the late 1970s, Austria's economic institutions and policy approach attracted wide-spread interest.<sup>11)</sup> In the aftermath of the first oil crisis, Austria managed to accomplish low unemployment with moderate inflation and a remarkable rate of growth. While most industrialized countries gave highest priority

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8) Rothschild (1989)

9) Biffi (1988) p.42ff

10) Walterskirchen (1990) p 22ff

11) Arndt (1982); Flanagan & Soskice & Ulman (1983)

to the fight of inflation, Austria pursued a Keynesian full employment strategy, despite inflationary pressures from abroad.

The main characteristics of the Austrian economic strategy, which has ex post proudly been labeled as 'Austro-Keynesianism' (Seidel 1982), are:

- the social partnership as a form of voluntary, informal, and permanent incomes policy to control wages and prices and international competitiveness;
- an expansionary fiscal policy to foster growth and employment;
- a hard-currency policy to fight inflation; and
- absolute priority to full employment and growth

This Austro-Keynesian model differs from Standard Keynesianism; it is not confined to anti-cyclical demand management, but it represents a long-term device to stabilize business expectations with the help of incomes and exchange rate policies, thus, fostering investment and growth; in fact, Austro-Keynesianism focuses extensively on stabilizing the private sector.<sup>12)</sup>

Austro-Keynesianism is, on the one hand, based on rather fundamental Keynesian notions such as uncertainty and volatile business expectations<sup>13)</sup>, and on the other hand, on the corporatist institutions of the Austrian Social Partnership.

Furthermore, there is a specific assignment of instruments and goals that takes into account the openness of the country, her institutional situation, and the inflationary environment of the time. In the period of high imported inflation, the traditional assignment did not seem adequate for a small open economy. While the traditional fiscal policy of compensating for fluctuations in demand was extended to foster growth by investment promotion, exchange rate policy was assigned to price stability<sup>14)</sup>, and incomes policy to external equilibrium by checking the price-wage spiral and preserving international competitiveness. Thus, moderate incomes policies had to soften the combined effects of hard-currency and expansionary fiscal policy on the balance of payments.

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12) In his discussions of the economic plans for the after-war period in the Treasury, Keynes stressed the importance of this point (Guger & Walterskirchen 1988)

13) Tichy (1984)

14) Helmut Frisch's (1976) application of the Scandinavian Model to Austria may have acted as a rationale for this concept; cp. Handler (1982)

As Austria's institutions have been widely discussed in the international literature on corporatism and economic policy<sup>15)</sup> we shall confine ourselves to a rather short summary and raise some special issues.

#### 4.1 The Social Partnership

The social partnership<sup>16)</sup> has been widely considered as the centerpiece of Austria's post-war economic policy. Bruno Kreisky used to describe it as "the sublimation of the basic capitalist class conflict" meaning a more civilized form of class struggle. Its scope is much wider than an institution of wage bargaining; it is a system of institutionalized cooperation between labour, business, and government which is involved in all important aspects of economic and social policy.

The Austrian social partnership was formed on a voluntary and informal<sup>17)</sup> basis by the Austrian Trade Union Federation and the Chambers of Agriculture, Commerce, and Labour to control post-war inflation in the early fifties. Although the immediate reasons were mainly due to the shortcomings in the public administration of the immediate post-war years, it is deeply rooted in the history of Austria: Firstly, from an institutional perspective, there is the Austrian chamber system as the highest level of interest representation with compulsory membership whose origin dates back to the last century. The chambers are legal representatives of their members in the legislative process, i.e. the government has to obtain the appraisal of the chambers on draft legislation before it is submitted to Parliament. There are chambers for various professions, but only the Chamber of Commerce, the Chamber of Labour and the Chamber of Agriculture are of political importance from a macroeconomic point of view and, hence, are represented in the Parity Commission. The Chambers play an essential part as intellectual brain trusts for the two large political parties in the general process of policy and strategy formulation. At the same time, they constitute, together with the Austrian Trade Union

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15) Katzenstein (1984); Scharpf (1984); Goldthorpe (1984)

16) Suppanz & Robinson (1972); Marin (1982); Gerlich & Grande & Müller (1985)

17) The voluntary and informal nature of the Austrian approach has been imposed by the Austrian constitution. In 1952, the Supreme Court of Austria ruled that a (cabinet)commission to coordinate decisions on price controls, rationing, etc. was unconstitutional since the authority of a cabinet minister cannot be superseded by collective decisions of a commission or the Cabinet as a whole. (Flanagan & Soskice & Ulman 1983, p. 58). A decision that proved to be wise, as Josef Steindl pointed out to me, since it pushed back the rather great influence of lawyers in Austrian politics and strengthened the impact of economic reasoning in Austrian economic policy.

Federation (ÖGB), the nation-wide, top-level bargaining institutions for wage and price policies.<sup>18)</sup>

Secondly, from the perspective of political history, the tragic experience of irresolvable class conflicts and civil war in the inter-war period and the German occupation encouraged a cooperative mode of relationship between the social classes.<sup>19)</sup> After World War II, the need for such cooperation was reinforced due to the desire for quick independence from the allied occupational forces.<sup>20)</sup> The achievement of political consensus was reflected in a long-lasting coalition government between the Austrian Peoples's Party (ÖVP) and the Austrian Socialist Party (SPÖ), both representing the major interest groups and together representing about 90% of the electorate.

Thirdly, while the trade unions in the First Republic (1918-1938) had been fragmented along craft and political lines, their institutional structure was changed dramatically in 1945 by the formation of the Austrian Trade Union Federation. In general, this structural reorganization not only increased the power of the labour movement by centralizing authority, finance and bargaining but, in leaving less room to inter-union competition, placed a higher priority on long-run and nation-wide macroeconomic goals and promoted a cooperative mode of trade union contact with employers. Today, the Trade Union Federation represents some 60% of all Austrian employees, and in large industrial companies this percentage is much higher.

The Parity Commission for Wages and Prices is the most important formal institution of social partnership. It was founded in 1957 and is formed by the Chambers of Commerce, Labour, and Agriculture, together with the Austrian Trade Union Federation (ÖGB) and the relevant ministers on a voluntary basis. Although the Federal Chancellor acts as chairman, members of government have no right to vote. All decision have to be unanimous. The Parity Commission works on a voluntary basis and has no legal authority nor means of applying direct sanctions. The threat to impose sanctions is left to the government, but has hardly ever been used.

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18) Biffi & Guger & Pollan (1987)

19) Matzner (1974)

20) At the beginning, the intellectual left was rather sceptic and suspected the realization of the ideology of Austro-Fascism and right Catholicism ("Ständestaat"), since the chambers which had been instruments to expel the socialists and trade unions in the thirties should now integrate labour.

The Parity Commission is the top-level bargaining institution of incomes policy in Austria; it was set up to control price and wage trends. Thanks to its tripartite structure, however, it has also become "an instrument which gives the employers' and workers' organizations a voice in government economic policy in general and conversely enables the Government to make sure of co-operation from these organizations in its economic policy measures." <sup>21)</sup>

The Parity Commission has formed sub-committees on prices and wages to handle its task of curbing prices and wages: The Prices Sub-Committee authorizes price increases which have to be justified by substantial cost increases and applied for by individual firms or branches. Since the Sub-Committee has no authority to examine firms' accounts, its effects are limited and more or less confined to postponements of price increases. In the late 1970s, the Prices Sub-Committee covered about 20% of consumer prices and about 50% of industrial prices; officially regulated prices and tariffs, which cover another 15% to 20% of consumer expenditures<sup>22)</sup>, and import prices are excluded. Today, the coverage is still lower and by and large confined to certain basic foods and energy supplies.

The Wages Sub-Committee exercises its control on wages by approving or refusing the opening of wage negotiations. Its task is to combine both wage-bargaining autonomy at the branch level and the introduction of macroeconomic considerations in the wage formation process. To start wage negotiations, individual trade unions have to apply through the Trade Union Federation. Thus, although wage negotiations are conducted by the subordinate sectoral trade union bodies, the Federation has a voice in fixing the dates and co-ordinating the individual wage claims. Actually, there is a Working Party on Wage Policy at the trade union headquarter to formulate common objectives of wage policy. Although individual trade unions are autonomous in their actual wage negotiations, bargaining processes have to be authorized and are co-ordinated by the Trade Union Federation and the Wages Sub-Committee.<sup>23)</sup>

In this context, it seems to me that the power of the Austrian Trade Union Federation vis-a-vis its subordinate sectoral trade unions - at least some of them - is somewhat overestimated in international studies on wage bargaining and corporatism. For one thing, the high and growing wage differentials indicate that one needs to be careful not to put too much emphasis on the high degree of

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21) Suppanz & Robinson (1972) p. 17

22) Nowotny (1989) p.138

23) Suppanz & Robinson (1972) p. 11ff

centralization of bargaining in Austria. By having control over finances, the Trade Union Federation is potentially very powerful, but has given much autonomy to the individual unions.

In 1963, the Parity Commission set up a third permanent Sub-Committee, the Economic and Social Advisory Board, to extend the activities of the Commission beyond incomes policies and to broaden the scientific basis of economic policy. The Advisory Board is composed of representatives of the social partners and ministries as well as of experts of the Austrian Institute of Economic Research and universities. Its task is to study important economic and social questions and prepare a scientific basis for policy recommendations of the social partners to the Government. Compared to similar institutions abroad, the Advisory Board is "both a group of expert advisers and a body for resolving conflicts of interest."<sup>24)</sup> It has to be seen, on the one hand, as an instrument of finding consensus by providing a common assessment of important features of the economy but, on the other hand, it has also served to suppress the discussion of crucial issues such as the problems of environmental protection.

In addition, there are Councils to various ministers where the social partners play a leading role. They are composed of representatives of the social partners, of the public administration, and experts of research institutions, and their important task is to advise the minister in special fields.<sup>25)</sup>

In short, the Austrian social partnership, whose institutions and climate of consensus grew out of the history of this country, can be characterized by a rather high degree of centralization, a wide scope of policy involvement, a cooperative mode of industrial relations, the absence of direct government involvement, and by informality.

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24) *ibid* p.21

25) Most of these councils have been formed since late sixties when the need for a more scientific basis of policy-making became apparent. As a rule, they have a legal basis like the Council for Living Standard Adjustments of Pensions (*Pensionsanpassungsgesetz* 1965), the Council for Labour Market Policy (*Arbeitsmarktförderungsgesetz* 1968) or the Council for Foreign Labour Policy (*Ausländerbeschäftigungsgesetz* 1975) to the Minister for Labour and Social Affairs. (Butschek 1973, Frank 1975) From a political perspective, as Felix Butschek pointed out to me, the Council of Labour Market Policy might also be seen as an instrument of the first single-party (conservative) Government (1966-70) after the War to integrate the trade unions and the Chamber of Labour into the administration of their traditional domain.

## 4.2. Incomes Policy: Wages and Wage Flexibility

In many countries, governments resort to incomes policies as short-term manoeuvres to cope with accelerating inflation; incomes policy is normally confined to wage and price regulation and is backed up by legal force. In contrast, the Austrian social partnership represents a long-term, voluntary strategy incorporating virtually all aspects of economic policy. This means that incomes policy in Austria is embedded in a national economic strategy and co-ordinated with monetary and fiscal policy.

### 4.2.1. Wage Policy

The Austrian Trade Unions have no explicit distributive goals: Their policy is based on a firm growth ideology. Trade union leaders argue that, since Austria's productivity level is still low, wage policy is not an effective redistributive instrument; it would lead to a lower investment rate and reduce long-term productivity growth and, consequently, to lower real wage increases.

Progressive taxes and high public expenditures are considered as appropriate redistributive instruments.<sup>26)</sup> Since the seventies Trade union leaders and the politicians of the labour movement have emphasized uniformly that maintaining full employment is the most effective distributive policy.

Generally, the wage policy of the Trade Union Federation has been oriented at both compensating for inflation and long-run productivity growth in the long run. In the period since 1960 both real wages and productivity have on average been growing about 3 1/2% per year. In the sixties, the unions pursued an explicit countercyclical wage policy, which implied rather moderate wage claims during business upswings and some pressure during a recession. Hence, wage policy had overall stabilizing effects.<sup>27)</sup>

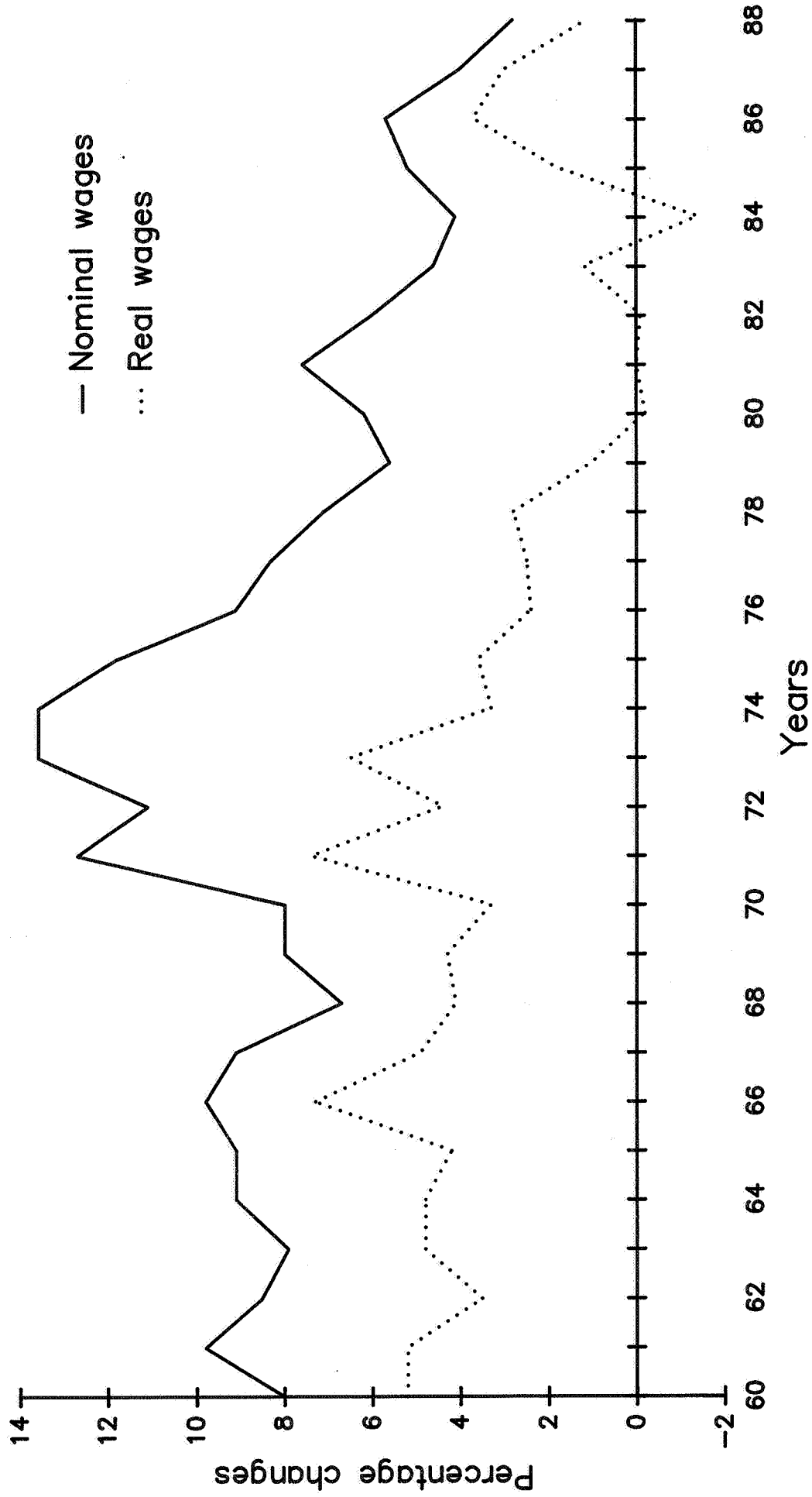
In the seventies, the trade unions aimed at promoting growth and full employment and formulated as new guideline the so-called "Benya-formula", which aimed at a long-run real wage growth of 3%. Since productivity growth ranged between 4-6%, at the time, this implied that firms were widely provided with funds for investment. (Table 3)

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26) In fact, the overall tax system is not progressive in Austria, because of a large share of indirect taxes it is rather proportional cp. Guger (1987)

27) Pollan (1984)

Figure 3: Growth of nominal and real wages per capita



Since it became soon clear in the seventies that a unilateral stimulation of demand would clash with external equilibrium, current account considerations were more and more taken into account in wage claims.<sup>28)</sup> Actually, the wage explosion of 1975, which was mainly due to far too optimistic forecasts, was soon corrected by moderate wage agreements in the following years, when even trade union leaders spoke of the "overdrawn" wage round of 1974/75. (Figure 3) Also, the figures in Table 3 show that the international cost competitiveness of manufacturing has improved substantially since the mid 1970s, although the Austrian iron and steel industries were in a deep structural crisis in the mid 1980s.

Table 3: Labour Costs and Productivity in Industry			
	1964-73	1973-79	1979-88
	Average Annual Increase in %		
Total Wage Costs Per Hour	10.7	11.0	5.7
Productivity Per Hour	6.7	5.9	4.2
Unit Labour Costs	3.7	4.8	1.5
Exchange Rate:			
Weighted Trading Partners	-0.5	- 3.1	- 1.5
Germany	1.4	- 0.1	- 0.4
(- means a revaluation)			
Unit Labour Costs of Main Trading Partners in Austrian Schilling			
Germany	5.8	3.8	2.2
Switzerland	3.5	8.2	2.3
Italy	3.9	3.3	2.9
Sweden	1.8	4.8	- 0.2
Weighted Trading Partners	3.8	4.5	2.1
Austria	3.7	4.8	1.5
Source: Austrian Institute of Economic Research(WIFO), OECD: Main Economic Indicators			

#### 4.2.2. Wage Flexibility

Despite the corporatist institutional setting, which has often been considered as an obstacle to flexible market adjustments, nominal and real wage flexibility in Austria is relatively high by international standards. Taking into account our

28) According to wage equations for the period 1964-1984, an increase of the ratio of the current account deficit to GDP of one percentage point dampened the growth of contractual wage rates by half a percentage point; cp. Biffi, Guger, Pollan (1987)

foregoing analysis, Austria's corporatist institutions have, however, to be seen as an important reason for this high wage flexibility.

Wage equations show that Austria is one of the few countries where the Phillips relation still holds. The unemployment elasticity of nominal wages comes close to that of Japan and has been one of the highest in the OECD countries. Since price increases have not been fully compensated and nominal wages react flexibly to changes in unemployment also real wage flexibility has been high.<sup>29)</sup>

A comparison between the seventies and eighties also reveals that wage flexibility has not decreased in the eighties when unemployment started to rise significantly. On the contrary, the unemployment flexibility of wages seems to have rather risen in the 1980s, since the Metal Workers Union, which acts quasi as wage leader, were hit most severely by the crisis in the nationalized industries.

#### 4.3. Demand Management

In the fifties and sixties the promotion of economic growth had highest priority. Hence, fiscal and monetary policy started from a long-run growth perspective. When, in the seventies, the maintenance of full employment became the prime objective, their role was not any more confined to mitigate cyclical business fluctuations but was committed to foster investment through an extensive system of tax incentives and direct subsidies (accelerated depreciation, tax credits, low-interest loans).

Since fiscal and monetary policy was coordinated with incomes policy through the institutions of social partnership, an expansionary fiscal strategy which was accommodated by monetary policy could be pursued despite inflationary pressures. The inflation of the seventies was clearly conceived as cost inflation that could not be fought effectively by monetary instruments.

In Austria, the main demand management instrument is fiscal policy. Monetary policy was committed to accommodate fiscal policy. In this context, the Austrian National Bank is, on the one hand, obliged by law "to consider the economic policy of the Government" and is, on the other hand, also part of the corporatist networks of social partnership through overlapping memberships. The main objective of the National Bank was to smooth the waves of financial speculation and to stabilize nominal interest rates. But since 1976 the hard-currency option has tied the

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29) The elasticity of wages with respect to prices is somewhere between 0.5 and 0.9 and with respect to unemployment 1.3 *ibid* Appendix, Table 5 and 6

Austrian schilling to the German mark, the room of action of monetary policy has been seriously limited and to a high degree exogenously determined by the Bundesbank.

In Austria, the mere size of the public sector gives great importance to fiscal policy; in 1983, the share of public expenditures in GDP amounted to 55%. Furthermore, built-in stabilizers play an important part due to a well-established system of social security; hence, budget balances are highly sensitive to output and employment fluctuations. Although these automatic stabilizers may have been of great importance, there were also significant discretionary fiscal actions; full employment budget measures indicate a clear change to a more expansionary fiscal stance after 1975.<sup>30)</sup>

Variable	1974-77 % Increase over 3 Years	1980-83 % Increase over 3 Years
Structural Budget Deficit(% GDP)	+3.5	+0.6
M1 in Real Terms	+9.2	+1.9
Real Domestic Demand	+11.2	+0.2
Current Account Balance(% GDP)	-2.4	+2.3
GDP in Real Terms	+8.7	+3.0
Employment	+0.6	-2.5
Rate of Unemployment (%point change)	+0.5	+2.6

Source: SEIDEL, Hans: "Austria's Macro-economic Policies in the Last Decade, in: SAUNDERS, Ch.(ed.): "Management of the Economy and of the Enterprises in East and West", Macmillan, London 1987

Austria's growth advantage in most of the period 1974-1982 was related to its expansionary fiscal policy and could be termed as "government-led growth" (Walterskirchen 1990). All in all, the government's expansionary fiscal stance and straightforward commitment to full employment and growth gave business confidence and stabilized the private sector.<sup>31)</sup> To the second oil crisis the policy

30) Guger (1978), Frisch (1982)

31) It is also worth mentioning that in the recession of 1975 the Austrian economy suffered less severely from the world-wide decline in foreign demand than, for instance, the West-German economy. In Austria, export demand fell by 3,5% and imports by 5,5%, while in Germany the decline in exports was 6,1% but import demand increased by 2,6%; see Butschek (1985) p. 156f, 167

response was less clear as is aptly illustrated in the following Table 4 by Hans Seidel (1987).

The response to OPEC II was still expansionary, but it was rather moderate compared to the policy in the seventies. The much higher public debt at the beginning of the second period and the high levels of interest rates were certainly important causes for this policy change. Since the mid-1980s the Federal Government has given high priority to budget consolidation; there have been cuts in public consumption and partial privatizations of nationalized industries. The overall effects on effective demand were slightly restrictive in the last years. The 1989 budget had, however, moderate expansive effects due to the revenue losses caused by the income tax reform.

#### 4.4. Hard-Currency Policy

Price stability has traditionally been assigned to monetary policy. Taking into account the conditions of a small open economy and the origin of inflation, Austria has assigned price stability to the exchange rate and external equilibrium to incomes policy since the seventies.

Since 1976 the Austrian schilling has been closely tied to the German mark; the consequence has been an effective appreciation of the schilling. This policy has been widely considered as a precondition for the expansionary demand policy in the face of high inflationary pressures from abroad.

Interestingly enough, this policy was suggested by the trade unions: On the one hand, because it would slow down the increase in import prices, but also because it may have made it easier for the trade unions to explain their moderate wage policy to their members by exchange rate policy reasons.<sup>32)</sup>

In the early seventies fiscal and monetary policy had been well coordinated in following a rather expansive course. The National Bank aimed at stable nominal interest rates as well as a stable price level and exchange rate. Then, since the mid seventies the Austrian Schilling has been tied to the German Mark. Yet, mainly due to capital market imperfections, Austrian monetary policy managed to combine its policy of stable interest rates with a roughly constant exchange rate to the German Mark till 1979. Then, with growing capital market integration and rising German interest rates this policy became unsustainable and the National Bank gave up its interest policy. The decision to keep to the fixed Schilling-DM rate has since

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32) Winckler (1988)

narrowed the room of manoeuvre for monetary policy and Austrian monetary policy has to a high degree been determined by both the Deutsche Bundesbank and the difference in inflation expectations between Austria and Germany. Nevertheless, there is no indication that Austrian monetary policy has had particularly restrictive effects on the real economy.<sup>33)</sup>

## 5. Problems of Corporatism in Austria

In the 1980's, it has become more difficult to pursue expansionary policies, particularly in the restrictive environment of the big neighbor Germany; so Austro-Keynesianism has lost much of its appeal. Unemployment started to rise and public debt and interest payments on that debt increased rapidly. When, in the mid-1980s, the deep crisis in the nationalized industries also became a big burden for the federal budget there was a rather radical change in economic policy. Since then budget consolidation has had high priority in fiscal policy and federal budgets have been rather restrictive<sup>34)</sup> and have no longer been an instrument promoting growth and employment. In fact, expansionary fiscal policy, a crucial element of the policy of the 1970's, has been given up.

Although the restrictive international environment and the burden of public debt may have been the actual reason for these important changes, the question remains if endogenous flaws of Austria's policy of the 1970's may have reduced its long run viability? Actually, there has already been for some time the contention that Austro-Keynesianism suffers from allocative inefficiencies.<sup>35)</sup> And Tichy writes: "If Austro-Keynesianism should fail in the longer term, it will probably be because of the fact that industrial policy is definitely conserving old and outdated structures".<sup>36)</sup>

### 5.1. Allocative Inefficiencies

The Austro-Keynesian policy of the 1970's was essentially a macroeconomic strategy which aimed at growth and full employment. First, there was a crucial lack of allocative aspects in this strategy. Industrial policy was more or less confined to indirect investment promotions such as accelerated depreciation, investment

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33) Handler (1989)

34) Although, in 1989, the income tax reform which lead to big loss in tax revenues bolstered disposable incomes substantially.

35) Guger(1978) p. 19ff, Aiginger (1983), Walther(1984), Winckler (1985)

36) Tichy (1984) p. 382

allowances, and low-interest credits effecting all industries across-the-board and favouring particularly capital-intensive industries. While this policy fitted in with the macroeconomic strategy of fostering overall growth and a high level of employment, it more or less ignored the long-run allocative effects and hampered the process of structural adjustment and technological progress.<sup>37)</sup> Besides, there is evidence that, in the nationalized industries redundant labour was hoarded to support the full employment strategy in the late 1970's.<sup>38)</sup>

Second, there is another important aspect of inefficiency in Austrian corporatism: There are numerous regulations, such as the Gewerbeordnung, protecting substantial parts of goods' and services' producers, in particular the professions, against new competitors.<sup>39)</sup> Hence, although the wage level is relatively low by international standards in Austria services are rather expensive.

Furthermore, in agriculture and food processing industries we can find a sort of paradigmatic case of a 'distributional coalition' (in the sense of Mancur Olson) between food processing industries, farmers, and the Food Workers' Trade Union, which leads to both relatively high profit margins and wages in these industries and high food prices for farmers and consumers.<sup>40)</sup>

## 5.2. High Wage Differentials and Slow Structural Change

Due to an extensive social system and large public expenditures on social affairs, Austria has often been compared with Sweden as a country of a high degree of equality. But the structure of primary incomes in Austria differs substantially from other corporatist economies: Wage differentials are very high in Austria. According to total labour cost and earnings data for manual workers (Table 5), Austria shows the highest inter-industry wage differentials in Europe. Among industrialized countries, inter-industrial wage dispersion is only higher in Japan, USA, and Canada.

Segmentation in the Austrian labour market is generally relatively high; also, wage differentials according to social status and qualifications are much higher than in the Scandinavian countries and higher than in Germany: In the early 1980s, the ratio between industrial earnings of manual and non-manual workers was 61% in

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37) For a more comprehensive treatment of Austrian industrial policy, see Landesmann (1990)

38) Nowotny (1979), cp also Figure 4

39) Szopo (1986)

40) Guger (1988)

Austria and 69% in Germany.<sup>41)</sup> (Table 6) Earnings data in industry for April 1989 show also that the ratio of low-skilled blue-collar worker earnings to earnings of their high-skilled colleagues is 73% in Austria and 81% in Germany.

Table 5: International Comparison of Inter-industrial Wage Differentials					
COEFFICIENT OF VARIATION IN % Manual Workers					
Land	Industrial Production		Production of Goods and Private Services		
	Labour Costs per Hour	Earnings per Hour	Earnings per Hour		(year)
	1984	1985			
Japan	29	24	29	35	(1985)
USA	29	25	22	30	(1987)
Canada		24	22	28	(1986)
Austria	20	19	21	27	(1987)
United Kingdom	19	18	17	21	(1988)
Finland		17	16		
Germany	20	14	12	21	(1986)
Switzerland		14	16	18	(1985)
Belgium	18	15	15		
France	19	12	12	18	(1982)
Netherlands	18	13	11	17	(1985)
Norwegen		16	13	15	(1985)
Italy	11	12	8		
Denmark	9	13	9	14	(1987)
Sweden	10	10	8	10	(1987)

Source: ROWTHORN (1990), GUGER (1990), Table 1

The Austrian wage structure has been rather sensitive to market forces.<sup>42)</sup> In fact, two elements seem to have been of outstanding importance; the general labour market conditions and the opening of the labour market for foreign labour. In the last 30 years, inter-industrial wage differentials have widened substantially as the changes in the coefficients of variation in Table 6 indicate. In the early 1960s, the inter-industrial wage dispersion of manual and non-manual workers had been quite similar, i.e. less than 15% of average income. Then, in the late 1960s and early

41) Guger (1989)

42) Pollan (1980)

1970s, when labour demand increased rapidly, the dispersion of blue-collar earnings widened with the influx of cheap foreign labour (Figure 1), while the structure of salaries remained stable.

From the mid-1970s to the late 1980s, the dispersion of both wages and salaries increased. Over this period, overall labour market conditions deteriorated and general wage policy has followed a rather moderate course. Both factors may have been of importance for the explanation of the tendency to rising inequality; since low contractual wage increases have left ample room for wage drift in industries where either demand conditions and profitability have been better or where the trade union organization has had a stronger position, as it had in the nationalized industries till the mid-1980s. Furthermore, in Austria, the concept of 'soldaristic wage policy' has more or less been confined to broadly equal increases in contractual wage rates. The actual development of effective earnings has been left to branch- or firm-specific negotiations. In fact, till lately, there was hardly an attempt to reduce absolute wage differences. However, in this fall-wage round there have already been some activities in reducing wage dispersion within certain industrial wage contracts.

While wide wage differentials and a flexible wage structure have often been considered as instrumental to labour market flexibility and productivity growth, the Austrian experience teaches rather the contrary. The large and widening inter-industrial wage differentials have rather hampered the process of structural adjustment; first in the 1970s, by keeping labour and capital too long in marginal production, and second, in the mid-1980s, by impeding the process of reallocating labour from high-wage but money-losing (nationalized) industries to profitable industries paying lower wages. In addition, there were also for too long public subsidies<sup>43)</sup> to ailing industries which have weakened competitive pressures and slowed down the process of restructuring.

A more solidaristic wage policy with higher wage increases in the low wage sectors would probably have led to higher wage and labour market rigidity, but certainly also to higher capital mobility and, thus, to faster structural adjustments in the period of high employment till 1981.

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43) However, in the 1970s, subsidies to nationalized iron and steel works were low compared to the subsidies per ton in the EC. But, in the mid-1980s, the financial help to the nationalized industries was quite substantial.

Table 6: Wage Differentials in Industry		1961	1971	1981	1987
Inter-industrial Wage Differentials:		Coefficient of Variation			
Monthly earnings:					
Employees		14.6	19.8	22.8	24.7
Blue Collar		14.7	20.9	24.0	25.1
White Collar		13.9	13.8	16.2	17.8
Hourly Wages			16.5	19.0	21.8
Monthly Earnings in		Industrial Average = 100			
Oil Industry		128.7	150.9	165.5	173.4
Clothing Industry		76.7	62.2	58.4	55.4
Monthly Earnings Workers		Blue Collar in % of White Collar			
Industrial Average		57.7	60.3	61.1	59.2
Hourly Wages of Blue-collar Workers		Qualification: Lowest in % of Highest Skill			
Industrial Average		62.8	63.4	66.5	68.6
Source: GUGER, A.: Einkommensverteilung und Verteilungspolitik in Austria, in: ABELE et al.(eds.): Handbuch der Österreichischen Wirtschaftspolitik, 3rd edition, Manz, Wien 1989 p.186					

## 6. Summary and Prospects

Corporatism is an important feature of the political economy of Austria and her economic performance. Austrian Social Partnership represents a voluntary, long-term device of cooperation between labour, capital and the government in virtually all aspects of economic and social policy.

From a macroeconomic perspective, corporatism has been rather successful in Austria, despite some adversities. In the fifties and sixties, the promotion of economic growth and, in the seventies up to 1983, full employment had highest priority in the national economic strategy. Accordingly, an expansionary policy, in the short run through the budget and in the long run through an extensive system of tax incentives and subsidized credits, was complemented by a hard currency policy, directed towards holding back financial speculation and stabilizing interest rates. Unions aimed at stabilization of employment and prices and not so much at

changes in the functional distribution of income. Since the rapid acceleration of imported inflation in 1973, Austria has tied the Schilling first to a currency basket and since 1976 to the German Mark. The hard-currency policy was supported by the Austrian Trade Union Federation, which shows the high degree of trade union cooperation. Also, through the institution of Social Partnership incomes policy is embedded in a national economic strategy and coordinated with monetary and fiscal policy.

In the increasingly deflationary environment of the 1980s, when public debts and interest payments increased rapidly, the fiscal policy has been changed from an expansive course to budget consolidation as primary objective. Today, mainly due to faster-than-expected international expansion, the consolidation process is well under way, despite a major income tax reform that implied rather large revenue losses. Also, unemployment has also been declining in the last two years.

From a microeconomic perspective, Austrian corporatism has been less successful. There has been a lack of allocative efficiency; on the one hand, there are numerous regulations in the interest of specific sectors and groups as well as sector-specific distributional coalitions at the expense of consumers. On the other hand, the process of structural adjustment has been hampered by an industrial policy which favoured large capital-intensive enterprises rather than small businesses, as well as by high and growing wage differentials which kept capital and labour too long in marginal production.

In recent years, some major improvements on the supply side of the economy have been initiated; first, the restructuring of the nationalized industries is well under way; second, the new tax system favours the technological improvement of the capital stock and the enlargement of firm's capital base; third, there have also been moderate steps to reduce subsidies and a process of some deregulations has been going on in the agricultural and food production sector quite recently. Finally, the trade unions themselves have become aware of growing inequalities and tend to narrow wage dispersion in most of the new wage contracts.

Austria's economic performance has been creditable again in the last years. Corporatism and its institutions, however, have been losing influence and popularity in the last decade; on the one hand, due to the changes in the employment structure, i.e. shifts from large-scale manufacturing production to services, and the crisis in nationalized industry organized labour has been gradually losing some of its authority and influence. On the other hand, the social partnership has also failed to get rid of the reputation of a "production coalition" (Pelinka 1989) unable to take up new problems of general interest, such as environmental protection.

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