The Austrian model and the financial and economic crisis

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1. The dynamics of the Austrian model

_The Wall Street Journal_, writing about Austria in 2006, noted that the once sleepy, corporatist economy had changed into one of Europe’s most competitive thanks to ‘free-market’ reform and tax cuts. Perhaps this is an exaggeration. Austria still has significant corporatist institutions and the liberalisation of markets did not go as far as hoped for by the country’s economic elites, especially in the area of public services. However, there is no doubt that the Austrian model has undergone far-reaching changes since the mid-1980s, when an economic crisis put an end to the post-war system (Hermann and Flecker 2009).

While in the post-war decades Austria was characterised by a high share of public ownership in industries and banks and extensive market regulation that sheltered businesses from international competition, much of what happened during the past three decades has been intended to create an environment that is attractive to foreign capital and to make native capital more competitive. Subsequent measures have included the liberalisation of trade and capital flows and the reduction of corporate taxes. Lower tax revenues aggravated budgetary problems and demands for budgetary austerity and cuts in the welfare system. As a result, economic and social policy have increasingly been subordinated to the overall objective of improving corporate profitability.

Many of the changes were facilitated through Austria’s accession to the EU in the mid-1990s, which in turn led to a further Europeanisation and internationalisation of the Austrian economy. On the other hand, Austrian capital also profited immensely from the EU’s eastward enlargement. But while profitability soared as a result of outsourcing and productivity increased, due to the shareholder-value orientation and eastward expansion, unemployment remained high compared to...
the post-war decades (but low compared to other EU Member States). In terms of economic policy Austria has come much closer to what one might call the neoliberal mainstream.

Two aspects of the Austrian reform process are particularly interesting: the transformation took place slowly, developing over several decades – the first ‘austerity package’ was introduced in 1987 while the last major welfare cuts took place in 2003. The changes were partly masked by institutional continuity (ibid.). Apart from a brief period with a right-wing government (2000–2006) the social partners continued to play a substantial role in mitigating policy differences, even though the outcomes were generally more beneficial to capital than to labour. As a result, the changes took place without major resistance from organised labour. On the contrary, the trade union movement defended most of the austerity packages (except those adopted between 2000 and 2006) and Austria’s accession to the EU.

Another feature with regard to which Austria has shown remarkable stability is the conservative welfare state with a high proportion of cash-based benefits. Despite some attempts to improve the situation of women, welfare institutions continue to discriminate against women and other individuals with low incomes and discontinuous working careers. As a result, social inequalities have tended to increase despite a comparatively well developed welfare state and a stable and comprehensive collective bargaining system. Inequalities are partly fuelled by the transformation of labour markets (Atzmüller 2009). Even though Austria has not experienced a direct attack on employment standards and security, atypical and partly precarious forms of employment have emerged alongside the standard employment relationship. By far the most important form of atypical employment is women working part-time hours. The employment rate of women has increased, but it is still far below that of the Nordic countries (Mairhuber 2010).

Three aspects of the transformation of the Austrian model have made Austria particularly susceptible to the effects of the crisis: first of all, with economic liberalisation Austria was integrated more closely into the European and world economies, while very moderate real wage growth and austerity policies made it even more dependent on exports and hence on external demand. Second, the privatisation of the banking system spurred the transformation of the banking sector from a public utility into profit-maximising businesses which are more than willing to take major
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risks if they promise extraordinary returns (although the crisis has shown that public ownership does not necessarily prevent bank managers from making risky investments). EU enlargement into Central and Eastern Europe encouraged Austrian banks to turn themselves into international companies with major branches in the new member states. For years these investments generated extraordinary returns but they have turned out to be a major liability during the crisis. Third, low real wage growth and a persistent fall in the wage share (wages as a proportion of GDP) have not only limited internal demand but have also contributed to the trade imbalances within the European Union, aggravating the crisis for a number of peripheral member states and ultimately threatening the European integration project.

2. The crisis in Austria

The crisis hit Austria in the second half of 2008, ending a phase of accelerated growth that had started in 2003. GDP growth rates reached 3.5 per cent annually in 2006 and 2007, fuelling profits and inflation. After years of stagnation, workers also capitalised on the favourable economic climate and achieved significant real wage increases in 2006 and 2007. Growth also resulted in a fall in the unemployment rate below 4 per cent (Labour Force Survey) just before the crisis struck in 2008. GDP growth fell in the last quarter of 2008, but overall GDP still grew by 2 per cent in 2008 (Scheiblecker et al. 2010: 322).

The situation changed in 2009. In the first quarter of 2009 the economy contracted by 2.2 per cent compared to the fourth quarter of 2008 and by 4.9 per cent compared to the first quarter of 2008. The economy continued to shrink until mid-2009 with the effect that GDP fell by 3.6 per cent annually. The last time the Austrian economy recorded such a decline in GDP was in 1949 (Scheiblecker et al. 2010: 323). Despite the massive blow the Austrian economy still performed better than many other European economies, including Germany where GDP fell by 5 per cent (ibid. 234).

The Austrian economy is highly dependent on exports. While the main trading partner is still Germany, Austria has intensified its economic relationships with new EU Member States in Central and Eastern Europe, following the opening of these economies after 1989 and their accession to the European Union (Hermann and Flecker 2009). While Austria profited from years of above average growth in the CEE countries, the
massive exposure of Austrian banks in the region turned out to be a major risk when the crisis unfolded. Total bank assets fell by 3.3 per cent in 2009 (Scheiblecker et al. 2010: 323).

Apart from the banking sector, which was saved by the adoption of a 100 billion euro rescue package, the crisis initially affected mainly the export sector. Total exports fell by 20 per cent in 2009. Among the export sectors, manufacturing was hit particular hard and within the manufacturing sector the main victims were producers of investment and durable consumption goods and related intermediate products. Output in manufacturing started to fall in the fourth quarter of 2008. Some manufacturers struggled with a 30 to 50 per cent decline in orders (Hermann 2011). The pace of contraction increased markedly in the first quarter of 2009 when value added diminished by 6 per cent. Over the year value added fell by 11.7 per cent (Scheiblecker et al. 2010: 369–70).

Construction, too, was severely exposed to the crisis. Even though Austria experienced a marked growth in construction in 2006 and 2007, the boom was not comparable to the Irish or Spanish housing bubbles. When demand started to diminish in the second half of 2008, construction firms still had plenty of work in their books from existing contracts. But in 2009 the lack of new contracts led to a substantial fall in construction activities. Output decreased by 7.6 per cent in the first quarter of 2009 and by 2.3 per cent annually (Scheiblecker et al. 2009: 372). The decline in private demand was partly offset by public investments. These investments spurred growth in the construction sector in the fourth quarter of 2010 (ibid.).

The economic crisis quickly turned into a labour market crisis, but the reduction in employment was less severe than the contraction in GDP. While GDP fell by 3.6 per cent in 2009, unemployment increased by 1.4 per cent (ibid. 361). The number of unemployed persons increased by 57,000 from June 2008 to June 2009, while the number of participants in training programmes rose by almost 16,000 over the same period (Stiglbauer 2010: 28). Following the trajectory of the crisis, job losses first appeared in the manufacturing sector, with losses in February 2009 outstripping employment gains for the first time in six years. Over the course of 2009, employment in manufacturing fell by 6 per cent (Scheiblecker et al. 2009: 369). Other sectors also cut employment with
the effect that the pace of reduction increased until the third quarter of 2009, when total employment slumped by 1.9 per cent (ibid. 361).

Unemployment increased quickly and at an increasing pace until June 2009 when 33 per cent more unemployed persons were registered than in the preceding month. Overall, unemployment increased by 48,100 persons or 22.6 per cent from 2008 to 2009. In terms of registered unemployment, the unemployment rate increased from 5.8 per cent in 2008 to 7.2 per cent in 2009 (ibid. 366). If people in training and other labour market service measures are included, unemployment reached 9.6 per cent in 2009 (ibid. 368). In Eurostat terms, unemployment accounted for 4.8 per cent in 2009 and was therefore significantly lower than in most other European countries (ibid. 366). Given the impact of the crisis on the manufacturing sector, men were more frequently affected by unemployment than women. Particularly affected, too, were young workers, migrants and semi- or unskilled workers (ibid.). The average duration of unemployment increased during the crisis, as did the proportion of long-term unemployed persons (ibid. 368).

Among the first workers who lost their jobs were temporary agency workers. The number of agency workers increased significantly during the economic boom preceding the crisis, but declined by 15.9 per cent between July 2008 and July 2009; in manufacturing the reduction amounted to 32.8 per cent over the same period (ibid. 365). Employment cuts in manufacturing and in employment agencies combined were as big as in the rest of the economy put together (Stiglbauer 2010: 28). However, agency workers were not only the first to be laid off. They were also the first to be re-hired after growth started to pick up again in the second half of 2009 (Allinger 2011). Permanent employment also started to bounce back in 2010, but by the end of 2010 the manufacturing sector was still lacking 56,000 jobs compared to the peak of employment in mid-2008 (Marterbauer 2010: 922).

3. Responses to the crisis

3.1 Fiscal policy

In the face of the crisis, Austria, like many other countries in Europe and around the world, temporarily returned to Keynesian deficit-spending. As a first measure the government adopted a generous rescue package for
The government pledged to inject up to 100 billion euros into the banking system, if needed. The rescue package was extremely generous relative to the size of the country and reflected the enhanced exposure of Austrian banks in Central and Eastern Europe. Of the 100 billion, only 7.3 billion were actually used. In addition to saving banks, the government also adopted two economic stimulus packages to help the struggling economy. The volume of the package was 12 billion euros, or 3.5 per cent of GDP (Breuss, Kaniovski and Schratzenstaller 2009; Berger et al. 2009). The main stimulus came from tax cuts for households and tax credits and subsidies for companies. A major tax reform which was initially planned for 2010 was brought forward and adopted in 2009. The tax giveaways accounted for 2.1 per cent of GDP, although they benefited mainly high earners. Households in the first four income deciles gained less than households in the tenth income decile (ibid. 36). In terms of expenditure, stimulus money went mainly to the modernisation of railway infrastructure and road construction. Investments in social infrastructure included the introduction of a cost-free kindergarten year for children before they start school, but in sum they were fairly marginal. Deficit-spending, in other words, followed the traditional spending path and barely promoted structural change or social innovation. Part of the stimulus package was also a 22.5 million car wreckage premium.

As a result of deficit-spending, the yearly deficit (according to Eurostat figures) increased from 0.9 per cent of GDP in 2008 to 4.1 per cent in 2009 and 4.6 per cent in 2010; the total deficit increased from 63.8 per cent of GDP in 2008 to 69.9 per cent in 2009 and 72.3 per cent in 2011 (partly because of changes in deficit calculation). In order to tackle the growing deficit, the government adopted an austerity package in 2011, totalling 6.3 billion euros (Schratzenstaller 2011). Except for a special tax levied on banks in exchange for the support they received during the crisis, the major part of the additional revenues come from consumer taxes (on cigarettes, gasoline, air tickets and so on). This means that lower income households contribute a significantly higher proportion of their income to the fiscal consolidation than high income households. Low income households also suffer from cuts in welfare spending, including cuts in care benefits and family allowances. Other areas particularly affected by spending cuts include education, research, and art and culture. Overall, the cuts follow a traditional pattern, mainly affecting those who are most vulnerable and aggravating rather than
alleviating social problems. Cuts in research and education are particularly problematic given Austria’s poor record in both fields.

3.2 Labour market policy

The government adopted a number of measures against the growth in unemployment, pooled in two labour market packages. The most popular measure was the reform of short-time working. The reform was based on a social partner agreement, underlining the role of the social partners in mitigating the effects of the crisis. Short-time working existed before the crisis but played only a minor role. Among other things it was used to help companies affected by environmental disasters. In October 2008, right before the outbreak of the crisis, 400 workers were registered as taking part in short-time working schemes (BMASK 2010: 300). From the social partner perspective, short-time working is particular attractive since it helps to retain qualified staff and avoid unemployment, while most of the costs are covered by government. No wonder the social partners quickly agreed to a reform, making it easier for companies to apply for short-time working and improving support (Hermann 2011).

The reform was based on two amendments of the existing regulations. The main improvements concerned an extension of the short-time working period, first to 18 and then to 24 months. At the same time, the proportion of short-time working was extended to any number of hours between 10 and 90 per cent of regular working time (BMASK 2010: 293–94). The reform also introduced a rebate for employer social security contributions after six months of short-time working and special financial incentives for companies which combine short-time working with training or further education (ibid.).

Further details of the introduction of short-time working were regulated in an inter-sectoral framework agreement negotiated between the Chamber of Economy and the Trade Union Federation (Allinger and Flecker 2010; Hermann 2011). Austrian companies also need a company agreement signed by a works council and a trade union representative if they want to switch to short-time working. The two main unions representing workers in the industrial sector (PROGE and GPA-DJP) agreed that they would sign company agreements only if the affected workers receive 90 per cent of
their regular wages, regardless of how many hours they were working. Since about 60 per cent of wages was covered by the Labour Market Service (the rate for unemployment benefit), the rest had to be paid by the companies. Except in a number of small and medium-sized companies the unions were mostly successful in obtaining the 90 per cent replacement rate. While the social partner negotiations on the short-time working reform ran fairly smoothly, introduction on the company level occasionally sparked conflicts (Hermann 2011).

Short-time working is widely considered a success. It was used mainly in automobile production and by auto suppliers, as well as in engineering and the metal sector more generally. At the peak of development in April 2009, more than 300 companies had introduced short-time working affecting more than 37,000 workers (BMASK 2010: 300).

Figure 1 Development of short-time working in Austria, 2007–2010

The Federal Ministry of Employment, Social Affairs and Consumer Protection estimates that short-time working saved approximately 30,000 jobs (BMASK 2010: 304). Alfred Stiglbauer (2010: 35), however, estimates that the effect was much lower. Assuming that 26 per cent of the 26,000 employees on short-time working would have lost their jobs – 26 per cent was the average reduction of time in short-time schemes – he
calculates an employment effect of just under 6,800 or 0.2 per cent of total employment. Stiglbauer (ibid.) argues that short-time working made up only a small part of the total reduction in working hours during the crisis.

Interestingly, companies actually introduced short-time hours for only 64 per cent of those workers who were pre-registered with the Labour Market Service for short-time working (the authorities had to be informed six weeks before the introduction of short-time working and four weeks before an extension). Hence in the end the measure was less widespread than expected by the government. Of the 220 million euros reserved for short-time working slightly more than half was actually needed (BMASK 2010: 300). Taking into account the different sizes of the two countries, short-time working was less frequently used in Austria than in Germany (Bock-Schappelwein, Mahringer and Rückert 2011: 45). However, some argue that the very availability of short-time working had a positive effect on the stabilisation of employment during the crisis (Wagner-Pinter 2011: 8).

While short-time working is considered a success, the combination of short-time working and further education was largely a failure. Only 20 per cent of workers on short-time working used the opportunity to improve their skills (ibid.). One reason may be that the additional incentives were targeted towards companies instead of workers (many of whom already received 90 per cent of their regular wages). Another reason is that qualifications typically need long-term planning, whereas the crisis required ad hoc action. Perhaps the gloomy economic outlook was also not very encouraging when it came to investing in a job that may no longer exist after the crisis (Bock-Schappelwein, Mahringer and Rückert 2011). In any case, while workers were reluctant to combine short-time working with further education, many took the opportunity and went on educational leave: 6,900 workers were on educational leave at the peak of development in November 2009. This was six times more than in November 2007 (BMASK 2010: 302).

3.3 Wage policy

For a number of years real wages have increased only very moderately in Austria, clearly lagging behind productivity growth. Even at the height of the recent expansion in 2007 a nominal wage hike of 2.5 per
cent turned into a real wage increase of 0.3 per cent. Interestingly, the crisis year became a major exception in this long-term development. In 2009, real wages soared by an astonishing 2.9 per cent, which was as much as in the preceding eight years put together. Of course, the main reason for the boost in real wages was the fall in inflation (from 3.2 per cent in 2008 to 0.5 per cent in 2009), but even in nominal terms wages increased more during the crisis year than during the preceding boom (Hermann 2011). In terms of both nominal and real wage growth Austria was among the leading countries in Europe, ranked above countries such as Sweden and Germany. In fact, 2009 was the only year for a long time when wage growth actually exceeded the combined growth in average prices and productivity (Schulten 2010: 198). The growth in real wages was instrumental in sustaining demand during the crisis and together with the tax cuts compensated for the dramatic fall in exports.

However, with the exception of the public sector where the government agreed to an exceptionally high wage increase to maintain purchasing power (3.55 per cent nominally and 3.5 per cent in real terms in 2009), the growth in (real) wages was not necessarily the result of social partner consent and a common strategy to confront the crisis (ibid). In several cases the negotiations were particularly tense and temporarily broke down, especially in the spring 2009 bargaining round. The unions repeatedly had to mobilise works council representatives and members to increase pressure on employers to accept wage increases despite the accumulating economic difficulties (as a first step to a possible industrial dispute unions usually organise a national works council meeting and then hold so-called consultation meetings with members in major companies).

The substantial real wage growth was a combination of several factors. First of all, Austrian trade unions traditionally base their wage demands on the development of the past twelve months rather than future projections and the numbers for 2007–2008 showed particularly high growth and high inflation (most agreements are negotiated on a yearly base); second, due to a split in the autumn and spring bargaining rounds it was only the spring 2009 bargaining round which was fully affected by the crisis, whereas in autumn 2008 and autumn 2009 the situation was gradually deteriorating or already improving; third, the crisis was relatively short (ibid.). Because of the short duration the very moderate 2010 wage increases gave the whole policy an anti-cyclical
effect. A nominal wage increase of 1.4 per cent in 2010 turned out to be a real wage loss of 0.3 per cent. This would have been a major blow to demand-led growth if the crisis had continued. Given the return to fairly moderate wage agreements it looks as if 2009 was an exception rather than a turning point in Austrian wage policy (ibid.).

3.4 Working time

Austria has among the longest contractual and actual working hours in Western Europe. Working hours fell significantly during the crisis but many workers continued to work overtime. According to Labour Market Survey data, average weekly overtime hours fell from two hours in 2008 to 1.7 hours in 2007. Both capital and labour referred to the experience of the crisis and called for changes in working hours. However, while the employers’ organisation advocated further flexibilisation – including an extension of the averaging period from one to two years and a topping-up of overtime accounts to a maximum of 150 hours – the trade unions argued for a reduction of working time and the distribution of work among a larger number of workers (Allinger 2010; Hermann 2011). It was the employers who started the discussion in the autumn 2009 bargaining round with the effect that a wage agreement could be reached only after the employers agreed to separate negotiations on working time to be held in spring 2010. In autumn 2010 it was the unions that took the initiative and demanded shorter hours at the beginning of the negotiation process. In both cases the negotiations were terminated without an agreement (ibid). The positive aspect is that working time reductions were at least temporarily on the political agenda and there were few other countries in Europe where this was the case. The negative aspect is that the social partners could not reach an agreement and that working hours, as a result, remained long.

4. From crisis to recovery

After the contraction in 2009, the Austrian economy started to grow again in 2010. GDP grew by 2 per cent in 2010 and the Austrian Institute for Economic Research expects a 2.5 per cent growth in 2011 (Eder 2011: 220). The growth was driven by a strong recovery of export industry, mainly fuelled by the German recovery and by growing
exports to the newly industrialising countries, especially China. Production in the industrial sector increased by 6.7 per cent in 2010 and is expected to grow another 7 per cent in 2011, after falling by 14.3 per cent in 2009 (ibid. 226). However, employment in the production sector has further fallen by 1.3 per cent in 2010, indicating that companies rely on overtime and agency workers rather than hiring additional permanent staff (Scheiblecker et al. 2011: 256). After a prolonged period of stagnation, investment in production has picked up again in 2011. While the export sector has largely recovered, the construction industry is still struggling with sluggish demand (Eder 2011: 227). Real terms growth in household demand, which partly compensated for the loss in exports, fell back to 1 per cent in 2010 (after increasing 1.6 per cent in 2009). Unemployment fell to 6.9 per cent in 2010 and is expected to reach 6.4 per cent in 2012 (Eurostat: 4.4 per cent and 4.1 per cent, respectively) (ibid. 229; Scheiblecker et al. 2011: 278 and 293).

While the manufacturing sector has weathered the crisis at least temporarily, public spending during the crisis was compensated by the adoption of a first austerity package in late 2010. The austerity measures are supposed to save 15.5 billion euros by 2014 (Schratzenstaller 2011). The cuts in welfare state spending, including care benefits and cuts in research, education and culture may have some negative effects on public employment, but nowhere near the negative effects of the austerity packages adopted in the United Kingdom, Ireland or Greece.

5. **Long-term effects and unsolved problems**

Austria has weathered the crisis relatively well. The recession was deep but short and growth resumed mainly thanks to the recovery of demand for exports, especially to Germany (whereas the construction industry continues to struggle). Austria has done fairly well also because of the adoption of a number of crisis measures which temporarily broke with what can broadly be described as mainstream neoliberal policy. In the wake of the crisis the government adopted two economic stimulus and two labour market packages, promoting demand-led growth and subsidising the preservation of employment. The government even went as far as nationalising two failing banks, one of them among the six largest financial institutions – even though, of course, this was more
of an emergency measure than a policy change. Demand was also fuelled by a series of extraordinary real wage increases adopted in the midst of the crisis after years of very moderate real wage growth. Together the growth of household consumption partly set off the export losses. Social partnership played a major role in developing the policy response and mitigating the crisis: the social partners not only negotiated extraordinary wage increases, but were also heavily involved in negotiating the short-time working reform and adopting short-time working on the company level. To some extent the crisis led to a revival of Austrian social partnership.

However, most of these measures ended as soon as growth started to pick up again and Austria quickly returned to the pre-crisis paradigm. The stimulus was followed by an austerity package adopted in 2011, while real wages fell by 0.3 per cent in the same year. Both had a negative impact on household consumption. After the nationalisation of failing banks, conservative politicians called for the privatisation or sale of the remaining state assets in what previously were public companies (especially the lucrative electricity companies). The recovery rendered the Austrian economy even more dependent on German growth. If anything, the crisis has reinforced pre-existing trends which made Austria increasingly vulnerable to external shocks. The situation in Central and Eastern Europe is calm for the moment, but given the economic imbalances in Europe, which are far from being solved, the situation can change at any moment, putting the Austrian banking system and Austrian finances at risk.

Given the nature of the stimulus and austerity packages there is very little hope of a revitalisation and extension of the welfare state in order to counter the continuing discrimination against women and low-income earners built into the conservative welfare state model. When demand picked up again employers in manufacturing relied heavily on temporary agency workers. It is also likely that they will further increase the number of part-time workers, while at the same time demanding more working time flexibility. The welfare cuts have aggravated rather than solved some of the most pressing social problems, including the organisation of long-term care or the labour market integration of disabled workers. Continuous austerity, furthermore, undermines any vision of an active and supportive public sector promoting equality and well-being.
Overall, the particular political handling of the aftermath of the crisis had the effect of reinforcing those tendencies that had already changed the Austrian model quite considerably before 2008. Again, the institutions of social partnership not only helped the country to face the recession, but by integrating labour’s interest representatives in policy-making they also turned out to be conducive to implementing austerity measures after the crisis. The grand coalition government has blocked attempts to increase taxes on capital and private wealth, for example on so-called private foundations that enjoy particularly low tax rates. Given the comparatively very low property taxes, even the OECD recommends a ‘review of capital taxation’ (OECD 2011: 26). Because of the one-sided tax system, it has not been possible to spread the costs of the crisis more evenly and to raise funds for overdue investments in education, research and care. While Austrian institutions have been helpful in rapidly developing and implementing anti-crisis measures, in doing so they followed path-dependencies and failed to adopt future-oriented measures. Nothing noteworthy has been achieved in either research funding or energy saving. Problem-solving capacities were thus limited to the short term and seem unable to cope with the major challenges of today. As in other countries, what caused the problems in the first place are still being called for or actually used as remedies: austerity, privatisation and protection of financial assets. The increased public debt and the determination to reduce it make it unlikely that Austria will get off as lightly in the event of a new recession.

Bibliography


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