Flexicurity and the reform of the Austrian severance-pay system

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By Gerald Klee

Introduction

The notion of ‘flexicurity’ is encountered in all current European proposals for labour law reform geared to achieving the goals of the EU Lisbon Strategy and, especially, creating more and better jobs. The term refers to a balanced combination between flexibility on the labour market and an appropriate degree of security for workers.

In the context of the flexicurity debate, both flexibility and security must be viewed in a broad context. External flexibility refers to an easier shift from one job to another, from the standpoint of both employers (shedding labour) and employees (voluntarily changing job). Such flexibility can be enhanced by, for example, reducing notice periods or the levels of compensation (‘severance pay’) that employers are required to pay to workers made redundant, or alternately by removing legal prohibitions on making workers redundant. A further frequent impediment to mobility, on the company level, is the design of many occupational pension schemes.

Internal flexibility, meanwhile, focuses on flexible working time arrangements, and on flexibility in relation to workers’ individual tasks and job descriptions within the workplace.

The concept of job security – whereby employed workers enjoy security in relation to the prospect of remaining in their current job – is increasingly under attack and has been explicitly rejected by the European Commission in its recent Green Paper on labour law modernisation discussed below. The Commission argues instead for employment security, by which it means provisions to ensure that workers in a transition process will be enabled to enter a new employment relationship as soon as possible.

Alongside this concept, proposals refer also to financial security, meaning the provision of sufficient disposable income, during the process of job change, to bridge the gap between two employment relationships.

In the Green Paper ‘Modernising labour law to meet the challenges of the 21st century’, in the chapter on employment transition the Commission states (p.10):

‘Examples of labour law measures supportive of employment transitions which have been developed through a process of social dialogue at national level include the Dutch Flexibility & Security Act 1999, the Austrian Severance Act (Abfertigungsrecht) 2002 and the June 2006 Spanish decree […]. The Austrian reform provides an interesting example of a radical shift away from a system based on the traditional employment relationship between one worker and one firm to one based on a broader employee benefit provision fund operated at national level. The link was cut between being laid off by an employer and the payment of a one-off severance award. The new rules allow workers to leave when they find alternative employment rather than stay in a particular job for fear of losing the accompanying severance payment. The reform removed the threat to a firm’s existence which could be posed by the sudden cost of redundancies, while the employer’s contribution to the individual savings fund can be spread over time. From the employee’s perspective, the new system reduces the cost of job mobility since workers no longer lose all
of their entitlement to severance payments when taking a new job.  

Against this background, this Policy Brief examines the new Austrian severance-pay system in some detail, before considering wider implications for the European flexicurity debate.

The Austrian severance-pay system

The ‘old’ Austrian Severance Payment was originally introduced in 1920 for white-collar workers. It provided for a direct one-off payment by the employer to a worker made redundant. Grounds for the dismissal did not have to be supplied, but payment of the severance allowance was compulsory. By contrast, a worker dismissed ‘with just cause’ – on grounds of misconduct such as theft, disobedience, etc. – had no entitlement to severance pay.

The payment offered financial security to bridge the transition period between one job and another (transition budget). The basic features of this ‘old’ system had not changed since its introduction.

The amount of the payment depended on the last gross monthly salary and the years of continuous employment with that employer (see Table 1). The payment had to be made as a lump sum directly out of the employer’s cash flow. To smoothen the expenditure pattern over the years, liabilities had to be built up progressively in the balance sheets during the employment relationship (book reserve scheme). The yearly allocations to this position in the balance sheets reduced the taxable income of the company.

Premium for long employment

In the 1970s two significant reforms took place. Firstly, severance pay also became payable to an employee who left the company voluntarily – after having worked there for at least ten years – to enter retirement. Secondly, similar rights to statutory severance pay were granted to blue-collar workers.

An employee who remained with the same employer became entitled to the severance allowance at the time of retirement. As such, the purpose respectively the effect of the measure shifted from penalising redundancies by offering income security – a ‘transition budget’ – to the victims of redundancy. From

Table 1

<table>
<thead>
<tr>
<th>Years of continuous service in one company</th>
<th>Amount of severance pay to which employees were entitled in case of dismissal on grounds of redundancy (calculated from final salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 years</td>
<td>No entitlement</td>
</tr>
<tr>
<td>From 3 to 5 years</td>
<td>2 months’ pay</td>
</tr>
<tr>
<td>From 5 to 10 years</td>
<td>3 months’ pay</td>
</tr>
<tr>
<td>From 10 to 15 years</td>
<td>4 months’ pay</td>
</tr>
<tr>
<td>From 15 to 20 years</td>
<td>6 months’ pay</td>
</tr>
<tr>
<td>From 20 to 25 years</td>
<td>9 months’ pay</td>
</tr>
<tr>
<td>25 years or more</td>
<td>12 months’ pay</td>
</tr>
</tbody>
</table>

3 European Commission; GREEN PAPER Modernising labour law to meet the challenges of the 21st century, p.10

4 The system was not capital funded. However, part of the liability had to be held by the employer in the form of financial assets. In case of a bankruptcy of an employer, unsatisfied claims by employees to severance pay were met through a legal fund, but only up to a certain threshold.
then on it figured rather as a kind of loyalty premium, and the job security effect was loosened, as keeping an employee until retirement did not liberate employers from the payment.

Even so, severance pay resulted, to a certain extent, in the provision of some degree of job security, insofar as employers faced immediate one-off costs if they chose to make staff redundant. As such, they were often inclined to avoid taking such a step, especially when there were liquidity bottlenecks.

**No entitlement when leaving voluntarily**

Employees who terminated their employment relationship voluntarily were entitled to no kind of severance payment (except in the case of retirement, see above). This obviously had the effect of reducing external mobility from the employee’s perspective. Even those who could have found better wages or working conditions elsewhere frequently remained in a job so as not to forfeit their entitlement to severance pay or the prospect of a substantial payment on retirement. The longer an employee remained with the same employer, the more s/he became tied to the job in this way.

**Low coverage of the old system**

The old system was an elitist arrangement whereby about one third of the workforce enjoyed entitlement to – sometimes very high – severance payments. The rest of the workforce was excluded from such benefits, especially those on short-term contracts and seasonal workers, for, as can be see from Table 1, the precondition for qualifying for severance pay was a minimum of three years of continuous employment with the same employer.

Data from the Austrian AMS (public employment service) show the duration of working relationships terminated during the year 2005 (see Table 2). Out of 1.47 million working relationships that were terminated, only 173,000 – or 11.8% – had lasted 3 years or longer. Under the old system all those having worked for shorter periods would have been left without any severance pay. Among employment relationships that did last longer than 3 years, the number of beneficiaries would have depended on the way the contract was terminated, i.e. which side gave notice. Clearly, in any case, the proportion of dismissed workers who would have received severance pay was very low.

<table>
<thead>
<tr>
<th>Duration of employment</th>
<th>Women</th>
<th>Men</th>
<th>Total w+m</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 7 days</td>
<td>54,712</td>
<td>69,517</td>
<td>124,229</td>
<td>8.5</td>
</tr>
<tr>
<td>8 to 14 days</td>
<td>24,579</td>
<td>32,262</td>
<td>56,841</td>
<td>3.9</td>
</tr>
<tr>
<td>14 to 28 days</td>
<td>57,555</td>
<td>76,397</td>
<td>133,952</td>
<td>9.1</td>
</tr>
<tr>
<td>29 to 62 days</td>
<td>95,625</td>
<td>127,547</td>
<td>223,172</td>
<td>15.2</td>
</tr>
<tr>
<td>63 to 92 days</td>
<td>44,324</td>
<td>63,855</td>
<td>108,179</td>
<td>7.4</td>
</tr>
<tr>
<td>93 to 196 days</td>
<td>109,255</td>
<td>144,604</td>
<td>253,859</td>
<td>17.3</td>
</tr>
<tr>
<td>197 to 366 days</td>
<td>70,782</td>
<td>150,805</td>
<td>221,587</td>
<td>15.1</td>
</tr>
<tr>
<td>367 to 731 days</td>
<td>51,668</td>
<td>61,444</td>
<td>113,112</td>
<td>7.7</td>
</tr>
<tr>
<td>&gt;2 to &lt;= 3 years</td>
<td>28,500</td>
<td>29,272</td>
<td>57,772</td>
<td>3.9</td>
</tr>
<tr>
<td>&gt;3 to &lt;= 5 years</td>
<td>30,989</td>
<td>32,282</td>
<td>63,271</td>
<td>4.3</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>51,842</td>
<td>57,990</td>
<td>109,832</td>
<td>7.5</td>
</tr>
</tbody>
</table>
Incentive for short working relationships

The barrier represented by the three years required to acquire entitlement to severance pay constituted an incentive for employers to terminate contracts before three years had elapsed. Recourse to this practice was particularly common in low-skilled jobs. In this sense, a clear element of *external flexibility* was intrinsic to the old system.

Similarly, the thresholds in the levels of severance pay after 5, 10, 15, 20 and 25 years of service also constituted an incentive for making an employee redundant before s/he reached the next threshold.

The debate on reform

In the 1990s demands for a wide-ranging reform were spreading. The Austrian Federation of Trade Unions (ÖGB) called for an end to the loss of acquired rights in the event of voluntary resignation. It also called for workers who had not worked the minimum of three years of continuous service in one company to be brought into the system.

Certain policy-makers were in favour of abolishing severance pay and turning it into regular pay or into company pensions. In the course of the discussion the idea was launched of establishing a system under which employers would pay regular contributions into dedicated funds.

In 1999 the then ruling coalition partners SPÖ (Social Democrats) and ÖVP (Conservative Peoples Party) brought their respective reform proposals before parliament. Both parties voted for a shift to external financing based on regular contributions to be paid by the employer. There was, however, no time to adopt a reform before the parliamentary elections in autumn 1999.

In 2000, reform of the severance-pay system was included by the newly formed centre-right coalition of ÖVP and FPÖ (Freedom Party) as a main item in its work programme. Internal disagreements between the governing parties on details of how the reform should be structured subsequently led to an invitation to the social partners to handle the reform. To the great surprise of many observers, the social partners found a compromise, which has subsequently enjoyed the support of both sides (except regarding the level of contributions – see below).

Main reform objectives of the social partners

**Trade unions:**
- The trade unions were in favour of an entitlement to severance pay for all employees. This meant, in practice, that employees in employment relationships of less than three years should no longer be excluded from severance pay.
- Furthermore, the unions were against the loss of acquired rights to severance pay when employees left their job of their own accord. Self-chosen mobility on the part of an employee should no longer be punished.
- To prevent unexpected changes and possible disadvantages for those already in an employment relationship, the new system should be applied only to new employment contracts. For ‘old’ employment contracts a transfer into the new system should be possible only if it entailed no losses for the employee and subject to his/her agreement.

**Employers’ organisations:**
- Employers were keen to achieve a reduction in non-wage labour costs. Companies with a high proportion of employment relationships of long duration were particularly adamant in relation to this claim as they had to pay out large sums under the ‘old’ severance-pay system.
- Furthermore, employers wished to achieve greater external flexibility by having fewer restrictions placed on termination of an employment contract.
• Possible cash-flow difficulties for SMEs should be avoided by removing high lump-sum payments at the end of an employment relationship.

• The liabilities in the balance sheets represented by probable future severance-pay obligations were particularly undesirable in companies with international relations, insofar as such practices were highly unusual in other countries. Employers thus wished to introduce a different form of severance pay that would reduce liabilities and increase the percentage of equity in relation to liabilities in the balance sheets.

A goal supported by both sides was to reduce the amount of litigation that occurred in relation to severance pay disputes. Insofar as ‘just cause’ dismissals – on grounds of, for example, theft or disobedience – released the employer from the obligation to pay a severance allowance, workers who had suffered dismissal on such grounds frequently took the matter to court.

The system reform

The old system was changed as from 01/01/2003 by the Betriebliches Mitarbeitervorsorgegesetz – also known as the ‘new severance pay law’ (‘Abfertigung Neu’) – which abolished the direct payment from employer to employee on termination of the employment relationship and, instead, required employers to make monthly contributions of 1.53% of employees’ gross salary into specially created employee provision funds (‘Mitarbeitervorsorgekassen’).

The setting of the contribution rate at 1.53% was the result of a calculation intended to achieve severance pay equivalent to 12 months’ pay after 37.5 years of contributions. In order to calculate the necessary rate of contribution, a rate of net-return on investment of 6% and a rate of annual pay increase of 3% were built into this calculation. As these assumptions have in the meantime turned out to be over optimistic, the ÖGB and the Austrian Federal Chamber of Labour are now demanding a higher contribution rate.

The contributions start in the second month of an employment relationship and end with its termination. There is no age limit. For certain periods of interruption of an employment relationship (periods of receipt of state childcare benefits, military and civil service) the contributions are paid through ‘third parties’.5

Application only to new employment contracts

The new law regulates all employment relationships that commenced on or after 1 January 2003. Employment contracts already in place on that date remain, in principle, unaffected by the new legislation and continue to be governed by the old provisions until the end of the employment relationship.

However, these old contracts may, under certain conditions stipulated in the law, be transferred into the new severance pay system. Both employee and employer must agree to the transfer and sign an individual agreement to that effect. In actual fact, rather few ‘old’ contracts were transferred to the new severance pay legislation, one of the shortcomings of the new legislation being the unsatisfactory nature of its provisions regarding such transfer.

Employee provision funds

Nine privately managed companies were established under the rules of the new law to collect the monthly contributions, invest them on the capital market and make severance payments to employees who became eligible. The funds work on a ‘for-profit’ basis and are allowed to charge operating fees. They are joint stock companies owned mainly by banks, insurance companies and pension funds.

5 The child benefit fund in the case of child care.
The system follows the principle of ‘one employer one fund’. The fund has to be selected in agreement between the employer and the works council.

Two employee representatives nominated by the Austrian Trade Union Federation ÖGB are incorporated into the supervisory board (Aufsichtsrat) of each fund to secure supervision and information rights for the beneficiaries. However, the owners of the employee provision fund have a majority with four representatives on the supervisory board.

The fund has to treat all its contractual partners equally. Therefore, employees in smaller enterprises suffer no cost/fee disadvantage in comparison with those of big enterprises. However, different funds may apply different administration fees, within certain legal limits stipulated in the law.

**Monthly contributions**

The employer pays monthly contributions into the fund, amounting to 1.53% of gross monthly salary. The first month of employment is free of contributions. However, repeated short temporary contracts with the same employer are included.6

Every employee has his/her individual account in the fund. Every year a written statement is sent to the employee to provide information on the contributions paid into the account and the capital accumulated.

Collection of the severance-pay contribution is carried out by the public sickness-insurance fund, which also collects and verifies other social security contributions. The sickness-insurance fund transfers the money to the relevant employee provision fund, charging a very small handling fee (0.3% of contributions). In this way, a relatively cheap form of collecting the contributions was established by the law, very much in favour of the beneficiaries.

**Entitlement to severance pay**

Employees are entitled to the capital accumulated in their individual account (severance pay) which becomes payable on termination of an employment relationship, provided that two criteria are met: contributions must have been paid for at least three years (by one employer or by different employers) and the termination of the employment relationship must not be as a result of voluntary resignation on the part of the employee.

If one or both of these criteria is/are not met, accumulated severance-pay capital stays in the fund and can neither be withdrawn nor transferred at that moment. The beneficiary gains access to the money only on termination of another employment relationship in the future (again excluding voluntary resignation) or at the latest at the time of retirement. The capital is in no circumstances returned to the employer.

Five years after withdrawal of the beneficiary from the Austrian labour market – for example, if a worker leaves to go abroad, becomes self-employed, or decides to leave the labour marked for childcare purposes, etc. – s/he is entitled to claim the money.

**Calculation of severance pay**

The amount of severance pay received results from the accumulated contributions paid into an individual’s account. The rate of return on investment is added on and administration costs are deducted. The funds have to guarantee severance pay at least at the nominal level of contributions paid in. However, contrary to the old system, no specific value is envisaged or guaranteed.

**Options for the workers**

When workers become entitled to a payout of severance pay in relation to their most recent job, they may also claim any other

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6 In the case of a new contract concluded within 12 months with the same employer, contributions must be paid from the first day on.
credit previously left in one of the employee provision funds. Capital is left on the individual account of a fund mainly in the case of a voluntary resignation. As different employers may have different provision funds as contractual partners, job-hoppers may find themselves with capital in various funds to which they have no access.

As an alternative to a payout, employees may also choose to leave the money in the fund as a form of investment. Due to rather poor rates of return in comparison with other investment forms, this option is scarcely ever chosen. Other options are transfer to the fund used by the new employer, or transfer to an old-age pension fund.

**Tax treatment**

Severance payouts are taxed at a 6% flat rate. Contributions to the funds are tax-free, and capital gains accruing in the funds also remain untaxed. If beneficiaries choose to transfer the capital value to an old-age pension fund, such transfers are also tax-free.

**Impacts of the new system**

**More mobility for the employees**

Due to the fact that to leave a job voluntarily no longer implies loss of severance pay, the external mobility of employees is definitely enhanced. At the same time, insofar as a payout is not allowed in cases where workers leave a job voluntarily, there is no immediate increased financial security aspect during a transition period.

**Universal coverage**

Under the new system, almost all employment relationships are covered, the sole exception being employment relationships of less than one month.

An initiative pending in the Austrian legislative process in 2007 seeks to include also the so-called ‘Freie Dienstnehmer’ in the new model. This is a hybrid status between employed and self-employed, marked by less social protection and therefore attractive to employers, as there are fewer social security contributions. ‘Freie Dienstnehmer’ constitute an increasing group in the Austrian labour market. Austrian trade unions are trying to get more social protection for these ‘outsiders’ in order to make this form of employment less favourable for employers.

**Less mobbing**

As companies sought to avoid the severance payment, the working conditions of ‘unwanted’ workers sometimes ‘deteriorated’ in the hope that they would leave ‘voluntarily’.

In other cases reasons were sought (and often found) to dismiss workers ‘with just cause’ on grounds such as disobedience on the part of the employee, verbally insulting the employer, repeated late arrival at the workplace, etc. In such cases, where the employee was deemed to be at fault, the employer was not required to severance pay.

Labour courts were often called upon to issue a judgement as to the manner in which the employment relationship was terminated (‘just cause’ dismissal or redundancy). In many cases, the sole purpose of the court case was to ascertain whether redundancy pay was due or not. Such litigation has been declining ever since, so the labour law courts are ‘winners’ from the system change in that they can now use their capacities for other matters.

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7 This option seems attractive, if the fund of the new employer performs better.
8 Pension funds have shown higher rates of return, also due to a longer investment horizon. Due to the possibility of payouts, employee provision funds cannot place a high percentage of the capital in long-term investment schemes, thereby limiting potential yields.
9 This tax advantage of a transfer to an old-age pension fund forms part of the strategy of the government in power in 2002, which wished to turn the severance pay into a sort of occupational pension, a step heavily opposed by unions.
Enhanced external flexibility

Clearly, from the worker’s point of view, external flexibility is greatly enhanced, as the entitlement to severance pay is no longer lost when workers leave their jobs voluntarily. Self-chosen (external) mobility on the part of an employee is no longer punished.

For the employers the situation is less clear-cut. The old severance payment was not exactly a barrier to making workers redundant. If the employee never left the job voluntarily, the employer had to provide him/her with severance pay at some point, at the latest at the moment of retirement. Assuming that an employee was intending to stay until retirement, the employer had little financial incentive to make him/her redundant at an earlier date. Therefore, from the employer’s point of view, the reform does not really mean an increase in external flexibility. It should be recalled at this point that the old law still applies to all working contracts started before 01/01/2003 (except where the employer and the individual workers have signed a contract to switch to the new legislation). Therefore, many employees (predominantly older ones) are still covered by the old severance pay legislation, and in those working contracts there was therefore no change in flexibility, neither on the worker’s nor on the employer’s side. No rights have been taken away from those employed by 01/01/2003.

For those employees falling under the new legislation, however, job security in long-lasting employment relationships is reduced insofar as there is no more extra cost (immediate large scale payment) for the employer at the moment of the termination of an employment relationship, the full cost of the redundancy pay having already been transferred to the employee provision fund in the course of the employment relationship.

Under the old system, a certain form of barrier, to external flexibility especially, came into play in the case of serious liquidity problems on the part of the employer. If a firm was ailing, redundancies would entail costly immediate outlays on severance pay, aggravating the financial situation even more. This adverse effect increased with the number of workers shed. Under the new system, all obligations for severance pay have already been met through the monthly payments to the fund, so redundancies do not result in any extra cash-flow for severance pay.

Security and integration of ‘outsiders’

The system change meant the inclusion of ‘outsiders’ (inclusion of all employees). As a result of the new provisions, many more employees now receive some extra pay if they lose their job. In particular, employees in atypical jobs (short-term employment, etc.) are now also entitled to severance pay.

However, for employees made redundant and who would have been entitled to severance pay under the old system, financial security during the transition process is actually reduced, as the amount of severance pay is normally less than would have been the case under the old law.

Though workers who voluntarily leave their jobs no longer forfeit their entitlement, they are not entitled to a payout during their job search. As such, they do not actually gain increased financial security, at least not in the form of liquid assets at the time the employment relationship ceases.

It is no longer advantageous to an employer, in terms of cost, to employ staff on repeated short-term contracts. From the standpoint of the cost of severance pay to the employer, different types of employment are no longer treated differently. This reduces discrimina-

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10 The only incentive was the increments of severance pay in terms of monthly salaries after 5, 10, 15, 20 and 25 years.
tion and indirectly increases job security by reducing the incentive for employers to use ‘revolving’ contracts.

Social Dialogue
The successful reform of the severance-pay system is evidence of a solid and well functioning social dialogue in Austria. Both the trade unions and their negotiating partner, the Federal Chamber of Commerce, had to withdraw some of their initial claims but, in the end, a viable compromise was reached. The concept tabled by the social partners was converted into law and has never since been called into question. The only bone of contention relates to the contribution rate, in relation to which unions are now claiming a higher percentage of the gross salary.

Table 3: Winners and losers of the reform

<table>
<thead>
<tr>
<th>Winners from the reform</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• All those frequently employed in short employment relationships</td>
<td></td>
</tr>
<tr>
<td>o Under the old system they were never entitled to a severance payment due to the 3 years of employment required. This group of beneficiaries includes, for example, seasonal workers, many retail sales agents, etc.</td>
<td></td>
</tr>
<tr>
<td>• Mobile / dissatisfied employees</td>
<td></td>
</tr>
<tr>
<td>o All those employees in new employment relationships having started after 01/01/2003 who want to change their jobs can now do so without losing their entitlement to severance pay.</td>
<td></td>
</tr>
<tr>
<td>• Companies can more easily project the costs of severance pay and no longer incur high one-off payouts likely to cause liquidity bottlenecks.</td>
<td></td>
</tr>
<tr>
<td>• Companies do not any more have high severance pay liabilities in their balance sheets. Especially for internationally operating and listed companies this is attractive, as the relation of equity to liabilities changes in their favour.</td>
<td></td>
</tr>
<tr>
<td>• Some specific enterprises / sectors of the economy, where a great deal of severance pay was traditionally paid, now enjoy cost advantages in comparison with the old system. This applies to sectors with long-term employment relationships or with satisfied employees who do not leave voluntarily.</td>
<td></td>
</tr>
<tr>
<td>• The labour law courts</td>
<td></td>
</tr>
<tr>
<td>o Dismissals for ‘just cause’ (for example, theft, disobedience, insulting the employer, etc.) did not entitle a worker to severance payment. Many law suits initiated to determine whether or not a ‘just cause’ dismissal was applicable had, as central focal point, the question of whether a severance allowance was payable.</td>
<td></td>
</tr>
<tr>
<td>• The capital market and the owners of the employee-provision funds</td>
<td></td>
</tr>
<tr>
<td>o The Austrian system is a ‘for profit’ system. The break-even point has been reached in the employee provision funds which now generate profits for their owners.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Losers from the reform</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Satisfied employees in stable employment</td>
<td></td>
</tr>
<tr>
<td>o All those employees in new employment relationships having started after 01/01/2003 that do not want to change their jobs would have been entitled to a higher severance pay under the old system. With the reform, they will receive severance payments lower than those of their predecessors.</td>
<td></td>
</tr>
<tr>
<td>o Some specific enterprises / sectors of the economy, where severance pay was seldom paid (less stable employment relationships, high turnover rates, seasonal employment, employees leaving after a certain time due to unattractive working conditions). These sectors / enterprises suffer cost disadvantages in comparison with the old system.</td>
<td></td>
</tr>
</tbody>
</table>

Such a reform, including, on the one hand, redistribution between groups of employed – a summary is provided in Table 3 – and, on the other hand, between sectors of employers, is probably possible only in an environment of social partnership with such a high degree of centralisation and representation as exists in Austria: on the employee side there is the ÖGB (with sectoral unions as sub-organisations) backed by a strong Austrian Federal Chamber of Labour (with compulsory membership of all employees); on the employers’ side there is the Federal Chamber of Commerce with compulsory membership of all employers in different sections of the chamber.
Conclusion

The severance-pay system is a peculiarly Austrian model, established long ago and having few counterparts in the rest of Europe. Changes in employment habits over decades had made reform of the system inevitable, in particular because the numbers of outsiders not covered by the old legislation were steadily increasing. The impetus for reform thus came neither from the European ‘flexicurity debate’, nor from any specific intention to increase flexibility on the labour market, but from a consensus between unions and employer organisations that the system’s coverage should be extended and undesirable effects of the old system abolished.

Even though the reform does contain features that caused the European Commission to refer to it specifically in the Green Paper on Modernising Labour Law, it is clearly not an exemplar of greater flexibility on the labour market, nor does it really serve to enhance the security element in the transition process.