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THE AUSTRIAN SOCIAL PARTNERSHIP
AND DEMOCRACY

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AUSTRIA
The Austrian Social Partnership and Democracy

1. Social Partnership - Institutional Foundations

Austria is a democratic, "Western-style" federal republic with about 7.8 million inhabitants. The president as head of state has a largely ceremonial position. Head of government is the prime minister, whose cabinet has to have the confidence of the federal parliament. At present four parties are represented in parliament\(^1\) with the Social Democrats and the Conservatives forming a coalition government.

What distinguishes Austria from other West-European political systems is the scope and influence of a specific form of "social partnership". In contrast to other countries, social partnership in Austria is not restricted to a system of labor-management relations or of wage bargaining, but is a system of institutionalized cooperation between labor, 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 basis by the Austrian Trade Union Federation and the Chambers of Agriculture, of Commerce, and of Labor to control post-war inflation in the early fifties. It then developed into a comprehensive system of influence in the fields of economic and social policy.

The most important formal institution of social partnership is the "Parity Commission for Wages and Prices" as an instrument of macroeconomically oriented incomes policy. The Parity Commission was founded in 1957. Its members are the Chambers of Commerce, Labor and Agriculture, together with the Austrian Trade Union Federation (ÖGB) and the responsible ministers on a voluntary basis. Although the Federal Chancellor acts as chairman, members of the government have no right to vote. All decisions have to be unanimous. The Parity Commission works on a voluntary basis and has no legal authority nor any means of applying direct sanctions. The threat to impose sanctions is left to the government, but has hardly ever been used.

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 ensure of co-operation from these organizations in its economic-policy measures". (H. Suppanz, Robinson, 1972, p 17)

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The Parity Commission has formed sub-committees on prices and wages to handle its task of influencing prices and wages: the Prices Sub-Committee authorizes price increases which have to be justified by substantial cost increases and applied for individual firms or branches. In the late seventies, the Prices SubCommittee 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\(^3\), and import prices are included. Today, coverage is still lower and by and large confined to certain basic foods and energy.

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 industry 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 individual wage claims. 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.

A third permanent Sub-Committee is the Economic and Social Advisory Board, extending the activities of the Commission beyond incomes policies and broadening the scientific basis of economic policy. The Advisory Board is composed of representatives of the social partners and ministries as well as of experts from 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. It is thus a kind of mixture between a "Council of Economic Advisers" and a negotiating body in specific social conflicts.\(^4\)

Besides the Parity Commission there is a huge network of advisory boards, committees, etc., were the social partners are represented. To give but a few examples:

- The Austrian Central Bank has an ownership structure, where only 50% of the shares are owned by the federal government, the rest of the shares is owned directly or indirectly by the big interest groups forming the system of social partnerships. These groups are thus also represented in the governing bodies of the Central Bank. This facilitates the coordination of monetary and incomes policy.

- The social partners dominate the system of social security and have nomination rights for its central management positions.

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\(^3\) Nowotny (1991) p. 138

\(^4\) Thus e.g. the process of reducing the weekly working-time was prepared by common "social partner" studies of this Advisory Board, whereas in Germany and other countries very similar results have been achieved only after long and costly strikes.
- The social partners have a decisive role in the Council for Foreign Labor Policy, which decides about the number of foreign "guest-workers" admitted to Austria.

- The social partners are represented in the decision making bodies of the special credit institutions for government guaranteed export credits or subsidized credits for industrial policy or R & D-investments.

The basis of the system of social partnership in Austria are strong and comprehensive institutionalized interest groups. A specific aspect of these interest groups are the various "chambers", i.e. representative bodies of diverse professional groups with (legally) compulsory membership. Such an official system of interest groups, which historically dates back to the medieval guilds, has survived on this scale only in Austria.5

The chambers are empowered by law to represent the interest of their members in public affairs and in contacts with public authorities. Thus, the chambers must be consulted by the government on economic and financial legislation and policy. The form of the chambers' organization, too, is stipulated by law. Common to all of them is a democratic structure, which requires all positions to be filled through elections.

Austria's independent entrepreneurs are represented in the provincial and federal Chambers of Commerce with the federal central body being composed of six sections comprising industry, commerce, trade, transport, tourism, and finance, credit, and insurance. Representation is primarily organized at the provincial level, followed by a system of indirect elections for the appointment of officials at the federal level.

The Chambers of Agriculture are based in the provinces, where all office holders are elected directly by farmers. Representation at the federal level is provided by a Presidential Conference. Chamber positions are filled through direct elections and activities are financed by compulsory membership fees.

Unlike the chambers, the Trade Union Federation is based on voluntary membership. It represents employees of private as well as public enterprises. The Federation has a total membership of about 1,600,000 and is, in legal terms, a juridical person, while the unions it incorporates are not. Thus, while a union may negotiate a collective agreement, legally, the Federation as such must endorse it. Moreover, it is the federation that decides jurisdictional questions among unions, which are, in the main, organized on an industrial basis. The exception is the Private Employees's Union.

5 There are institutions similar to this in some of the German provinces ("Länder") and in Luxembourg. For detailed descriptions of the chambers and other labour market related institutions see various contributions in Sweeney, Weidenholzer (1988) and Farnleitner, Schmidt (1992)
Based on voluntary membership is also the powerful "Federation of Austrian Industrialists", which in the context of social partnership is in close cooperation with the Federal Economic Chamber.

2. Social Partnership in the Context of the Austrian Political System.

To understand the development and the role of the system of social partnership in Austria some specific characteristics of the Austrian political and economic system have to be borne in mind. Such characteristics are:

- Small Size of Economic Area: This implies heavy dependence on exports and limited room for economic policy action. In terms of economic policy decisions, the small size of the country entails a rather small number of economic policy makers who are in continual contact with each other.

- Historical and political development: Austria between the wars was a country characterized by latent and open civil war. In a rare example of learning from history after World War II, the former enemy parties formed a Grand Coalition of Social Democrats and Conservatives. A sense of economic and social partnership arose in those days inspite of the still differing ideologies of the two camps. Rather unexpectedly, this new approach to economic and social cooperation gained in importance at the end of the Grand Coalition, as the economic interest groups affiliated with the parties had maintained substantial independence from "their" respective party and expanded cooperation in economic and social affairs as a leeway for consensus-oriented, continuous economic policy. Thus, the "risks" of a one-party government could be mitigated for both the governing and the opposition parties. This, in turn, led to multiple "silent coalitions" which are reflected in personnel policies still oriented towards party affiliations, policies which are not limited to the public sector as such, but extend into the directly or indirectly nationalized companies.

The coalition-governments after 1983 (first a coalition between Socialdemocrats and Freedom Party, since 1987 a coalition between Socialdemocrats and Conservatives) lead to a decline in the political impact of the system of social partnership. This was caused by structural effects, but also by an increased "autonomy" of the political sphere versus the systems of social partnership. Both aspects will be discussed later in sections 5 and 6.

- Ownership: Both foreign capital and the public sector hold substantial interests in the Austrian economy. In recent years, there have been developments in the nationalized business sector which

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6 For a detailed analyses of Austria's post war economic policy, see Rudolf Klier (1991)
7 In 1978, there was the following ownership structure in Austrian business corporations in terms of proportional shareholdings: federal-government interest: 26%, provincial- and localgovernment: 10%, banks and savings institutions: 9%; private Austrian interests 25%, foreign holdings 30%. (Ederer/Goldmann/Reitlechner/Reitzner/Wehsely, 1985). Since 1978, federal-government interests have decreased, foreign interests have increased.
impinge directly and indirectly upon the system of economic and social partnership: structural changes in basic industries and specific organizational and managerial problems have reduced the importance of the nationalized industry (the holding being known as "Austrian Industries", formerly OIAG) in the economy as a whole. In the light of these problems, the OIAG Act of 1986 provided for an exclusively commercial and business oriented approach to be pursued by the public business sector and, in 1987, the sale of shares in public-sector companies began. This means that corporate goals such as job security and full employment now rank distinctly lower in the nationalized industry, a development which may have repercussions on corporate behavior in other economic areas.

Fewer employees in the traditionally highly organized labor force of the basic industries may imply a loss in the relative strength of the labor unions. Less willingness to pursue macroeconomic and public-sector goals in price and employment policies and a potentially increasing influence of foreign owners, who are not integrated in the economic and social-partnership system, may encroach on the system's room for maneuvering. The favorable economic development of the last years has helped to prevent any major practical impact of this trend. However, it is difficult to predict what this trend away from the system would mean in times of economic crises.

3. Austria's Social and Economic Development

Austria's transformation from the poor country of the period between the World Wars to one of the richest countries of the world - on per capita basis - is closely connected with and largely caused by, the system of social partnership. 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. In 1979, Austria's GDP per capita was on average about 5% lower than in OECD - Europe and 20% lower than in Germany. In the seventies and early eighties however, Austria's economy improved its relative position significantly. In 1989, Austria's GDP per capita was about 10% higher than in OECD - Europe and 10% lower than Germany's.

In the eighties, the development of the Austrian economy indicates a gradual abandonment of the policy of the seventies. While the hard currency approach (i.e. a fixed exchange-rate towards the DM) and moderate incomes policies has been maintained, fiscal policy has been significantly less expansionary or even contractionary. The "consolidation" of the federal budget has taken precedence over full employment, and the unemployment rate increased from 1.6% in 1980 to 6% in 1991.8

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8 Unemployment rates according to Austrian statistics. Taking OECD-Definitions the standardized unemployment rate is 3.5% (compared to an average total OECD unemployment rate of 5.8% for 1991)
Still Austria’s economic performance is above average relative to OECD/ and EC/ standards (see Table 1). Together with Germany, Switzerland and the Netherlands Austria is a member of the group of European “hard currency-countries”.

With economic integration with the economies of Western Europe rapidly increasing, Austria’s economic developments are, of course, increasingly connected with the general economic trends of Europe. This implies a reduction of the amount of economic independence - irrespective of Austria’s joining the EC (in the case of accession Austria would, however, be able to take part in the EC decision-making process).

This general tendency of increased international economic interdependence does not mean, however, that national economic and social policies become irrelevant. There is still a wide range of policies where economic policy does matter, and thus also the special institutional national arrangements, such as the Austrian system of social partnership. Such policy fields are, for instance, the structure of taxes and subsidies, policies concerning research, and structural change and wage and price developments in the “sheltered”, not internationally exposed sector of the economy.

A characteristic feature of the Austrian systems of social partnership is the consensus of all its participants on the priority of economic growth and full employment. There are no explicit targets concerning income distribution or redistribution. Implicitly, by tying wage increases to productivity growth, the trade unions accept a constant functional distribution of income. Since the seventies trade union leaders and the politicians of the labor movement have emphasized consistently that maintaining full employment is the most effective distributive policy. The priority on employment goals is also reflected in the fact that despite the corporatist institutional setting, which has often been considered an obstacle to flexible market adjustments, nominal and real wage flexibility in Austria is relatively high by international standards. Econometric 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 flexibility has been high (Guger, 1991, pp 14). This employment- and productivity-oriented wage policy is made possible by a centralized structure of trade-unions and employers’ associations and the strong institutionalized position of the interest groups (see section 4). This is also reflected in the low strike rate in Austria, which has to be considered not as a sign of weakness, but of strength of the trade unions and a functioning national consensus on priorities.

9 Austria’s export-ratio of GNP amounts to 42%. About 65% of exports go to the EC. About 11% to EFTA and about 8% to former COMECON countries.
10 The wage ratio (adjusted for changes in employment structures) of national income oscillated about 65% since the sixties - with a tendency to decline last year. The unadjusted wage share increased from 59.9% in 1960 to 70.7% in 1990. For a general discussion, see Flanagan, Sokice, Ulman (1983), G. Tichy (1984).
11 1989: Strike-minutes per worker: 0.5 (US.. 67.6). (ILO Yearbook 1989/90). More than 60% of the strikes in Austria took place in the public sector, where aspects of productivity growth and international competition naturally play a minor role.
## Table 1: AUSTRIA’S ECONOMIC PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>Growth-rate</th>
<th>Inflation-rate</th>
<th>Unemployment-rate (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1991 (forecast):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>3.0%</td>
<td>3.3%</td>
<td>5.3%</td>
</tr>
<tr>
<td>OECD-average</td>
<td>1.1%</td>
<td>6.0%</td>
<td>7.1%</td>
</tr>
<tr>
<td>EC-average (EC 12)</td>
<td>1.5%</td>
<td>5.3%</td>
<td>9.0%</td>
</tr>
<tr>
<td><strong>1990:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>4.9%</td>
<td>3.3%</td>
<td>4.7%</td>
</tr>
<tr>
<td>OECD-average</td>
<td>2.3%</td>
<td>6.3%</td>
<td>6.2%</td>
</tr>
<tr>
<td>EC-average (EC 12)</td>
<td>2.8%</td>
<td>5.7%</td>
<td>8.4%</td>
</tr>
<tr>
<td>EC-average (EC 9)</td>
<td>2.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1980 - 1990:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>2.2%</td>
<td>3.5%</td>
<td>3.8%</td>
</tr>
<tr>
<td>OECD-average</td>
<td>2.9%</td>
<td>6.0%</td>
<td>7.3%</td>
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<tr>
<td>EC-average (EC 12)</td>
<td>2.3%</td>
<td>6.7%</td>
<td>9.4%</td>
</tr>
<tr>
<td>EC-average (EC 9)</td>
<td>2.1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) % of total labour force

Source: WIFO (Austria), OECD
4. Some Theoretical Aspects

There are various theoretical approaches that are relevant for analysing and discussing the structure and effects of the system of social partnership in Austria. Some of the most important of these theoretical aspects are discussed below.12

- Austria as an example of advanced corporatist structures:

The point of departure of discussions about Austrian "corporatism" - discussions which are carried on intensively and primarily by political scientists - is the question of political and economic decision-making processes. A model of pluralistic and market controlled systems (e.g. that of the U.S.) is contrasted with a model of corporatist systems where large organized interest-groups do not only act as competitors for influence on politics and administration, but are also included in governmental decision making and, to a degree, in administrative processes.

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 been discussed more and more as a possible instrument to improve labor-market performance (Katzenstein 1984, Freeman, Calmfors/Drifill 1988, Guger 1990).

The Austrian system of social partnership is of special interest in that, on the one hand, it has given rise to marked corporatist structures and, on the other, it represents an example of an "authoritarian corporatism" ("state corporatism," "corporatist state") developing into a neo-liberal corporatism ("social corporatism") (Talos, 1985,p.27).

Especially from a Keynesian perspective, the effects of corporatist institutions go beyond the labor market. Industrial relations shape the expectations of private investment and growth. The consequences of free bargaining at high-employment levels under adverse political-institutional conditions have been demonstrated by 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 a combination of price stability and full employment in the long run, at least in societies with a strong labor movement.

Public Choice

Central to modern theories of economic policy and public finance is the attempt to explain economic-policy decisions endogenously on the basis of the economic agents' economic interests, with these interests being viewed against the backdrop of the neoclassical paradigm of individual utility maximization. Pivotal is also the analysis of the behavior of interest groups, trade associations and political parties who act as competitive "suppliers" in a system of party competition. Certain groups of voters can enforce their demands by other means than simply the election mechanism on the "political market", viz., by organizing into interest groups and thus obtaining additional clout.

In such cases, the market mechanism may be superseded by direct bargaining between the groups or between interest groups and the public sector (e.g. influencing tax laws, subsidies). The ability to organize of the various groups is the greater the greater the homogeneity of their economic interests is. Their political clout is in connection with to their potential economic threat, e.g. investment freeze, strikes, refusal to donate to parties.

Their organizational ability and their economic might will determine the main thrust of the activities and the lobbying power of the various interest groups. It is argued, for example, that the system of economic and social partnership in Austria is basically organized to benefit the supply side (employers' associations, labor unions), with the interests of the consumers, the ecologists, and the economically non-active being perfunctorily attended to by these producer-oriented associations. To actually enforce their interests such "minorities" depend largely on direct political processes (elections). This may trigger conflicts between the political agents (parties) and the (primarily economic) interest groups or between bargaining processes within the system of economic and social partnership and political decision making.

13 For a survey of these approaches see Nowotny (1990, p.54ff.)
An important issue in public choice theory is the conditions for, and the degree of, agreement between special-interest groups and macroeconomic goals. It has been shown that macroeconomic inefficiencies arise more frequently if "distribution coalitions" (M. Olson, 1982) are narrow-based and regional or sector-specific in nature. All-inclusive interest groups such as those typical of Austria's economic and social partnership suggest higher macroeconomic efficiency than would result from the actions of smaller specific interest groups (lobbies), which are not in the position to take proper account of any macroeconomic repercussions of their actions.

Separation and Coordination Models in Economic Policy

Assessment of the effectiveness and necessity of macroeconomic coordination mechanisms like the system of economic and social partnership in Austria is essentially determined by the underlying assumptions about relevant macroeconomic interdependencies, although it must be admitted that there is a plurality of views on these assumptions in current economic theory. Central is the question to what extent there is a need for macroeconomic coordination between important areas of economic policy and, thus, to what extent there is mutual influencing and interaction among the various agents, which, after all, is a cornerstone of economic and social cooperation. One particular concern is coordination of employment, stabilization and growth policies or - from an institutional point of view - coordination of monetary, fiscal and incomes policies.

From the viewpoint of "new classical macroeconomics" or "supplyside economics" there is no such need for coordination or only to a very limited degree. This results in a "separation model" which, under the wage-influence of the German Bundesbank, bears substantially on the economic-policy discussion in the EC and the OECD. This separation model comprises distinctive emphasis areas: responsibility for employment is assigned to incomes policy and, thus, to the bargaining parties. In this model, monetary policy is limited more or less to ensuring price stability. The government sector has no, or rather limited, opportunities (and responsibilities) in stabilization and employment policies. The public sector's function is primarily statically, but also dynamically, allocative (e.g. technology policy). The model's main thrust is, essentially, that there is no responsibility and no real need for coordination in employment policy for government and central bank.

From a post-Keynesian perspective, the simultaneous attainment of full employment and price stability is not possible without comprehensive economic-policy coordination. The assumption involved is that economic development is a result of a variety of exogenous shocks, changing expectations, etc.. Economic policy is consequently charged with countervailing any instabilities (this task being complicated by the internationalization of businesses and economies). In the event of underemployment of resources in an economy (above all unemployment of labor), specific and

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14 In this regard, Olson (1982, p.92) sees Austria as a positive example in contrast to "partial" distribution coalitions.
concerted monetary and fiscal policy action is required; in the event of full employment or overemployment of resources, incomes policy plays a crucial role. Even if monetary and fiscal policies achieve a level of aggregate demand that ensures full employment, the problem arises that the stronger bargaining position of suppliers of goods and labor leads to higher prices, which, in turn, may necessitate restrictive macroeconomic demand-side policies. Of particular concern are exogenous supply shocks (e.g. increasing key-resource prices): if economic policy tries to counterbalance this supply shock by lowering aggregate demand, lags in accommodation may cause stagflation. Stagflation is normally a transitional phenomenon - as recent experiences in the world economy show - but it may be protracted and painful.

In both scenarios outlined above, incomes policy plays a crucial part in finding a way to achieve price-level stability and employment at the same time. In any case, stabilization crises with the enormous social cost and the risk of overshooting they entail are to be avoided. The specific objectives of any such incomes policy and its finetuning depend on the surrounding macroeconomic circumstances. In the first ("full-employment") case, ex ante regulation will be used to avoid inflationary distribution wars (which, on balance, corresponds to productivity oriented wage and price policy if a constant functional incomes distribution is accepted). In the "cost-push" or "supply shock" case, accommodation to new relative price conditions is subject to social consensus to prevent accelerating cost-push-inflation. In either case, it is important to see that there is always a need for close coordination and interaction of incomes-, monetary- and fiscal-policies if the dual objectives of full employment and price-level stability are to be achieved simultaneously.

A thorough theoretical evaluation of the approaches outlined here is not possible for reasons of time and space. A clear empirical analysis is just as difficult. Yet, it may be concluded that governments who tend to pursue a "coordination approach" (e.g. Austria's) are more likely to combine the objective of full employment with the objective of price-stability (Guger, 1990), while governments who tend to steer a "separation course" are inclined to put up with higher natural unemployment to secure price stability.

However, certain bilateral and reciprocal patterns must be observed in the process. Any coordination strategy presupposes effective economic agents, in particular economic interest groups able to act at the macroeconomic level. If this prerequisite is not met - as is often the case in Anglo-Saxon countries - such strategies do not work. The weaker, for example, incomes-policy agents are, the slimmer the chances for any coordination strategy to succeed, whereas, conversely, a system of incomes policy built upon strong interest groups suggests more opportunities for achieving the dual goals of full employment and price stability. This illustrates that general appraisals of economic-policy control systems such as Austria's economic and social partnership and any recommendations on their international transferability must be made very prudently and carefully, bearing in mind the respective economy's institutional bases.
- Economic stability as a public good

The most sensitive field for a coordination strategy of economic policy is the field of incomes policy. The problems and downright failure of macroeconomic incomes policy help monetarists, for example, to justify their postulate of "enforcing" indispensable stability-oriented behavior through one-sided targets (e.g. monetary targets), even if this causes massive cost in the real sector. In fact, such policy concepts have proven to be rather costly in macroeconomic terms and not efficient, at least macroeconomically.\[15\]

If it is assumed that essential objectives of economic policy cannot be achieved efficiently without allowing for macroeconomic incomes policy, this means that, along with government and central bank, the economic and social partners should participate in macroeconomic decision making, too. Participation, however, cannot be limited to moral suasion, but, much rather, necessitates assuming actual economic-policy responsibility and creating real, institutionalized opportunities for social partners to influence economic policy making. From the perspective of labor unions, integration into the macroeconomically oriented stability policy is only possible in the long run if integration and cooperation take place within the scope of policy participation beyond the plant level, i.e. participation which involves more than wages and working conditions.

Labor unions deem expansion of existing participation to be primarily necessary because this would help them overcome their relatively weaker bargaining power which is due to the fact that wages - in contrast to prices - are contractually agreed. If it possible, however, to expand the contract-based sectors, or, in a wider sense, the bargaining-oriented sectors of the economy, the labor unions' opportunities to co-determine real-wages will increase, at the same time the risk of having to make advance concessions in stabilization policies is lower. Psychologically important is also the fact that expanding the scope of cooperation beyond wage policy and, thus expanding the number of negotiating areas, increases the chance to reach compromises considerably.

Fundamental to the problems discussed above is the fact that economic stability has the characteristics (in the terminology of the theory of public finance) of a pure public good. This implies that economic stability is a condition of the economy which benefits all participants, even though not all of them may have contributed to its existence. This again means that - from an isolated and individual perspective - it is rational for every participant in the system to demand stability-oriented behavior from all the other participants, without complying oneself. This free-rider effect is often reflected in the relationships between local or regional governments, between fiscal and monetary policies. Incentives to employ such behavioral strategies will prevail among "small" economic agents, i.e. agents who

\[15\] From the standpoint of specific social and political interests, the picture may be varied. Thus, the achievements of the ostentatiously non-cooperative style of the Thatcher Government lend themselves to rather ambivalent interpretation from a comprehensive economic perspective, although that policy has, to a high degree, achieved its original goal, viz., the reduction of the degree of organization and the influence of the (often just as non-cooperative) trade unions.
reckon that their nonconforming conduct will remain undetected or, if detected, will not attract negative feedback from the other participants in the system. This is particularly true for the price policy of any individual firm, but also for the wage policy of any single labor union.

In areas which correspond to the common description of public goods, a strategy of "internalization," i.e. centralization and direct allocation of responsibility and decision making, is necessary to reach an agreement which is rational from both the individual and the social perspectives. Austria's economic and social partnership can be viewed as a system which, given the political autonomy of the economic agents, makes allowance for the fact that a decentralized system of individual decision-makers is not able to adequately provide pure public goods such as price stability or fair incomes distribution, even more so if checks and balances and control instruments like price competition are not working or not working effectively.

If centralization in terms of regulations imposed by central government is not desirable and/or not enforceable, the need arises for internalization by heavily centralized and powerful economic interest groups, with the power and authority of such interest groups surviving in the long run only if they are based on broad internal, democratically confirmed consensus. The consequential reduction of the number of major participants in the economic system means that, in contrast to unsanctioned free riding, the provision of a public good must be bargained for, with the small number of participants implying the possibility of sanctions against free riders.

The system of economic and social partnership thus appears to be a suitable instrument of stability and incomes policies, because it is based on a high degree of centralization, with this centralization supporting opportunities to enforce internal discipline in the interest-groups. As a variety of sectors is included, the system shows to the various participants the macroeconomic interrelations and interdependencies of their actions, in particular as regards the interaction of price and wage policies, but also impacts on and from international trade and fiscal and monetary policies.

Another general conclusion which may be derived from the functioning of the Austrian system of economic and social partnership is that any price and incomes policy is only successful if it is based on voluntary cooperation between powerful economic-interest groups and is not subject to any governmental pressure or coercion. In a present-day parliamentarian democracy it is obviously very difficult for any government to get involved in a power struggle in price and incomes policy between employers' or employees' organizations without losing face and common ground with the interest groups. However, it is possible for a government to be included in a comprehensive bargaining system as an "equal partner", thus influencing "social-partnership strongholds" like price and incomes policy in coordination with fiscal and international-trade instruments.

Whereas the Austrian system of social partnership is usually perceived very positively by economists, its evaluation by political scientists tends to be more cautious and sceptical. This criticism is mainly centered on the fear (and/or observation) of "democracy-deficits" of a corporatist social partnership, Austrian style. Such "democracy-deficits" may occur with regard to the general political power structure and with regard to the internal decision-making procedures of the interest groups forming the system of social partnership.

In terms of power sharing in a democratic country, an encompassing system of social partnership means, in effect, that the interest groups represented in the system of social partnership obtain direct influence and responsibility in a number of central fields of economic and social policy. In extreme cases, this may lead to a situation, where effective political decisions are made between the social partners and parliament has only the function of "ratifying" their decisions. Such a tendency is, of course, most likely in a constellation of a "big coalition" between the two leading parties, each of which is closely linked to one side of the social partnership.

And, in fact, there are several fields of policy, as for instance regulations of working conditions (including the regulation of working and closing hours), the social-security system, the admission of foreign workers and - partly - the structure of tax reforms, where the decision making process has been delegated to negotiations between the "social partners" and the results of these negotiations were then enacted by parliament (where many officials of social partnership organization serve as members). Such a tendency of "delegation of power" is increased by the fact that the Austrian parliament as such has only a very limited professional staff so that the political parties to a large extent have to rely on the expertise of the organizations of the social partners. On the other hand the Austrian system of social partnership also has the effect that lobbies and small special-interest groups only play a minor role in the parliamentarian process in Austria, because these interest groups are "internalized" by the umbrella organization of the social partners.

Apart from issues in constitutional law and democratic theory, the strong position of the system of social partnership in the law making process also poses political problems, because the interest groups forming this system, although being encompassing, do not represent the totality of the population. This hold true both with regard to economic and political aspects. Basically, social partnership, Austrian style, is a "growth and stabilization-oriented" coalition of interest groups representing the production side of the economy. Social groups and problem areas that are not central to this "growth coalition" are in danger of a policy of "benign neglect". This holds, for instance, for housewives and other groups not directly integrated into (wage-oriented) production processes, also

Problems of "selective representation" may also arise the other way round. Social partnership means wage and price discipline. Groups that do not take part in the consensus-finding process of the system of social partnership may get a free-ride, by increasing their nominal income above average, whilst, at the same time, profiting from the low inflation rate secured by the system of social partnership. As long as these groups are small enough for the system to "get away" without inflationary reactions by other economic groups such a free-rider strategy will be successful. This applies, for instance, to the "liberal and learned professions" like medical doctors and attorneys, which are by force of law organized in "chambers", but do not take part in the system of social partnership. These self-governing chambers issue binding schedules of fees that have the economic effect of cartelized price lists. And, in fact, it can be shown that the incomes of these "non-cooperating"groups have increased much more rapidly than the incomes of the groups cooperating within the system of social partnership.

From the political perspective the participants of the system of social partnership are closely connected with specific political groups: trade unions are closely connected with the Social Democrats, Employers' associations are closely connected with the "business and the agricultural arms" of the Conservative Party\textsuperscript{17}. This connection is so close that, in fact, large fields of economic and social policy (e.g. tax policy, social security) are "delegated" to the "corresponding" interest groups by the parties. Negotiations on such issues are executed by representatives of the social-partnership interest groups, who act "for" the political parties and usually are also members of parliament or even of the cabinet appointed by and for the political parties.\textsuperscript{18} This system means that various political groups are excluded from decision making in important fields, e.g. politicians of the two big parties who are not affiliated with one of the big interest groups. This is relevant, for instance, for the employees organization of the Conservative Party, because in economic-policy negotiations, the Conservative Party has the exclusive role as an "umbrella" for organized business and agricultural interests. The same applies to farmers or entrepreneurs within the Socialdemocratic Party.

Exclusion is even more of a problem for parties with no direct affiliation to the system of social partnership, such as the Freedom Party and the Green Parties. The latter parties are, therefore, very critical of the system of social partnership and its political influence. It has to be noted that the problem of "exclusion", respectively exclusivity, does not refer to all fields of politics. There are, as a matter of fact, "spheres" dominated by the system of social partnership and other political fields, such as

\textsuperscript{17} The Conservative Party consists of three autonomous "federations" representing entrepreneurs, agriculture and employees (mainly public servants).

\textsuperscript{18} The negotiations about the last, far reaching tax reform in Austria were the first where the chairman of the parliamentarian finance committee (the author of this paper by the way) took part as a member of the small - and thus really decisive - negotiating committee. Previously, major changes of the tax code were negotiated between the minister of finance and representatives of the social partners and then pushed through parliamentary procedures without major changes and further consultations.
education, foreign policy, civil law etc., where decision making rests "directly" with the political parties and parliamentary negotiations. Also it has to be noted, that this structure holds, to its full extent, only in constellations where either one of the big parties has an absolute majority in parliament or where there is a coalition government between the two big parties. In a constellation of a "small coalition", such as a coalition between the Socialdemocrats and the Freedom Party political processes tend to become very difficult, because in "social partnership areas" now a "dual consensus" between the social partners and between the partners of the coalition government is needed. This complex situation may explain why, since World War II, there has been only one example of such a "small coalition", which was not very effective.

Apart from democracy aspects on the national level, another interesting point is the democratic structures within the organizations of the social-partnership system. As far as the "chambers" are concerned each of them is based on a special law, regulating the organization, financing and election procedures. All of the "chambers" are organized on a provincial basis and have a central body on the federal level consisting of representatives of the provincial chambers. Elections are held on the basis of a direct vote of the members of the different chambers along party lines. According to the political structure shown above the chambers of agriculture and of commerce have always been dominated by the Conservative Party, in the chamber of labor the Socialdemocrats have an absolute majority in the chamber diet, the top governing body 19 Where one group has been ruling with absolute majority for a very long time problems with autocratic behaviour and insufficient public control may result. This has caused discussions about a reform of the legal structure of the chambers. New laws for the different chambers will bring a stronger position for the minority groups, stricter control and will bring the chambers under the jurisdiction of the independent "General Accounting Office".

Whereas the chambers are public-law entities, the Austrian Trade Union is a association incorporated under private law with voluntary membership. About 60% of all employees are members of the Trade Union. In international comparisons, this is a high degree of organization20. The Austrian Federation of Trade Unions is divided into 15 specialized unions, basically organized along industry lines, one exception to this organizational principle being the Union of Private Employees. The Federation of Trade Unions is rarely directly involved in wage bargaining and concluding collective agreements (e.g. the Universal Collective Agreement on the introduction of a 40-hour working week). Wage bargaining is done by the individual unions in the name of the Federation with certain sub-organizations of the Federal Chamber of Commerce.

In contrast to other countries (and to the inter-war situation) there exists only one trade union organization for each individual industry. The dominant fraction is the Social Democratic group, only.

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19 In the two westernmost, alpine provinces of Austria the employee-wing of the Conservative Party is the majority group. This is mainly due to the fact, that in the provinces economically based on small businesses and tourism, - many employees are family members of the owners and tend to vote for Conservatives.

20 By way of comparison: Trade union members as a percentage of labor force: Germany: 45%, Great Britain 43%, Italy 33%, France 23%, Denmark 70%, Sweden 85%. 
the trade union of the civil servants has a Conservative majority. The executive boards of the industrial trade unions are elected at congresses of shop stewards, who themselves are elected directly on the plant level. The federal executive board is elected at a federal convention by delegates from the various industrial unions. At the federal trade union congress of 1991, this election was the first time held by secret ballot; previously the election was de facto the acclamation of a board, selected by the chairmen of the biggest trade unions, considering also specific "minority rights" (one of the vice presidents has to be a woman, one has to belong to the minority (=Conservative-party) group).

The fact that even the "free" organizations have a high degree of organization, that they are directly and closely connected to one or another of the political parties, and that they are heavily centralized in terms of practical economic-policy attitude is fundamental to understanding the institutional setting of Austrian economic policy. This applies in particular to the Federation of Austrian Industrialists and for the relationship of the 15 specialized trade unions with the Federation of Trade Union, with the latter being the only body having corporate status, the individual unions being unincorporated associations. As "headquarters," the Federation of Trade Unions has sole authority over financial and personnel-related matters. The broad spectrum of members in all sectors of the economy and the relatively strong position of the leadership of the unions facilitate its gatekeeper function even within the individual unions, i.e., the internal coordination of differing standpoints.

The last years have brought about substantial changes in the democratic structure and the political power of the system of social partnership. Within the organizations of the social partnership, institutional reforms have been taking place, aiming at more openness and more direct control by the members and the public. Changes have taken place also with regard to the attitudes of the members. In the chambers of commerce there are groups of new entrepreneurs who are increasingly unwilling to adhere to "group discipline". In the labor-oriented organizations, the number of independent or "Green" members and shop-stewards is increasing who are critical of the close ties with the big political parties. The right-wing Freedom Party has embarked on a campaign against obligatory membership in the chambers. Without obligatory membership, the chambers would, in effect, be reduced substantially in their organizational and financial structure and would thus be unable to play the macroeconomic role they are playing now. Thus the whole system of social partnership would be substantially cut down. The campaign against obligatory membership did not meet with substantial public support, but it put the chambers in a rather defensive position and paved the way for internal reforms discussed above.

One basic and politically inspired objection has always been against the trend towards centralizing economic policy making which is inherent in the system of economic and social partnership. The specific interests of the leaderships of the various organizations may imply that certain problem areas where they see little opportunity for gaining influence are left out of consideration in practical economic policy. One such area would be, for example, worker participation, which ranks lower on the Austrian Federation of Trade Union's list of priorities than, say, on the German's. The same holds for
the regulation of working conditions or for the problem of participation of capital formation, where centralized solutions (like the Swedish wage earner's funds) do not meet with the employers' consent, while decentralized solutions cannot rely on support by the trade unions.

Labor movement politicians also have often shown concern over the fact that conflict solving patterns on a central level isolated from "direct factory life" may weaken the readiness of the workforce for industrial action, especially strikes and thus may weaken the "potential threat" of the central trade union body. In addition, it is pointed out that the intensive cooperation of (central) employees' organizations in various bodies above the plant level does not necessarily involve a strengthening of employees' interests, but could, conversely, entail reciprocal "codetermination" where it is the various bodies and organizations themselves that influence the representatives of the interest groups and their policies. In extreme cases, interest-group representatives would no longer stand for the interests of their respective organization but for the institutional interests of individual important bodies.

A detailed empirical assessment of the various objections raised against the system of social partnership is not possible in this paper, but it should be pointed out that the high degree of centralized relations between the economic and social partners has created one essential prerequisite for an economic policy efficient in terms of the economy as a whole. Weighing the pros of greater effectiveness of economic-policy making with the cons of centralization will, in the final analysis, result in normative judgments. It is, at any rate, important to consider the fact that there are sectors where decentralized decision making causes externalities, the result being tradeoffs between either higher efficiency in achieving macroeconomic goals or more corporate autonomy or worker participation.

In general politics, the influence of the system of social partnership and of its organizations has been declining over the last years. This is due mainly to three developments:

- The political weight of groups and interests that are not (directly) represented or integrated in the system of social partnership has substantially increased. This holds especially for ecological questions and the Green Party, which since 1986 has been represented in the federal parliament. Ecological problems are deemed to be a top priority by Austrian voters. In situations where the priorities of the "growth-oriented" system of social partnership collide with ecological priorities, the mass media usually enthusiastically side with ecologists and ecological priorities will win. This was the case, for instance, in a referendum on atomic power plants. Although all institutions forming the system of social partnership (and also the government) advocated the installation of a nuclear power plant in Austria, this proposition was turned down in a referendum with the effect that nuclear power plants are now forbidden in Austria. A similar situation resulted with regard to a hydroelectric power plant planned in a region which was later declared a national park. These - and similar - events show that increasing groups of the population tend to value safety and environmental interests higher than employment and income interests. This has to be seen against the background of an

21 In the theory of economic regulation this problem is discussed as the problem of "capturing" the regulators.
economic situation in Austria that is characterized by low unemployment and substantial increases in real incomes. It is thus an illustration of the situation, which Josef Schumpeter (1942) discussed in "Socialism, Capitalism and Democracy", where the success of a social system undermines its very foundations because this success leads to new problems and aspirations.

In reaction to this trend, which is especially strong in the German speaking countries of Europe, the big political parties became more ecologically minded. Thus they have managed to regain their political power base and to roll back the "Green parties", who were not be able to offer convincing economic-policy alternatives. It also meant that the strong influence of the "production-oriented" interest groups on the political parties declined and the political parties increasingly "emancipate" themselves from that groups.

- In connection with the developments described above, ongoing changes in the structure of voters and party members are to be observed. The traditional blocks of solid socio-economic groups loyal to a specific party (farmers, blue-collar workers, small shop owners) are declining. Voter attitudes are to a lesser degree organized along clear, economic lines. Thus the social partnership organizations representing these interests are losing influence within "their" respective parties. Thus, the willingness of the parties to delegate central issues of politics to the system of social partnership is declining. Like many other countries, Austria is entering an area of "post-modernist" politics, where simple and stable party loyalties decline and the numbers of independent voters increase. This tendency will be strengthened by a proposed change of the system of elections, giving more weight to individual candidates against party lists of candidates.

- As a small open economy, Austria has rapidly increased its economic (and also cultural) internationalization. This means an increased role of external influences that cannot be controlled by internal (Austrian) policies and thus also not by the system of social partnership. The trend towards internationalization would, of course, further accelerate in the case of Austria joining the EC (see section 6). Also the developments in Eastern Europe pose new problems for the social-partnership system. A wave of immigrant workers from poor Eastern countries to neighboring Austria increases the supply of cheap labor and thus tends to weaken the position of Austrian workers on the labor market (especially of less qualified ones). This has led the trade-unions to advocate a restrictive policy towards immigration from the East, whereas business (and parts of the public opinion) demand a liberal labor market policy. Given the geographical and political situation of Austria it has to be expected (and this is already occurring) that the legal or illegal influx of foreign workers will increase substantially. This will weaken especially the blue collar trade unions and may influence the delicate balance of the Austrian system of social partnership.
Issues crucial to the future of the economic and social partnership result from the following interrelated questions:

- the prospective development and power of the organizations involved in the system,
- the development of the surrounding macroeconomic circumstances affecting the Austrian economy,
- changes in social and political structures and values.

As mentioned before, the power of the system of economic and social partnership to shape its future depends on the power and the internal cohesion of the economic interest groups supporting the system. Changes in the structure of production - decrease in basic industries, increase in services - and in production methods ("flexible specialization instead of mass production," Sabel, 1982) tend to boost the importance of small and medium-scale enterprises. Both the employers' and the employees' organizations face the problem that such enterprises are more difficult to integrate in their interest groups and to subject to macroeconomic discipline. The groups concerned might thus be encouraged to act as social free riders, a behavior pattern that is already characteristic of some of the learned and liberal professions. Above-average increases in income achieved by such strategies may, however, jeopardize consensus in the Parity Commission.

The speed of innovation, the rapid progress of structural change and consequential changes in quality requirements and training patterns necessitate and facilitate more flexibility on the labor markets. Collective contractual obligations as provided by the system of economic and social partnership are getting more difficult to achieve. On the part of the employees, "headquarters'" authority may be weakened by minor groups who possess great "potential for interference" by occupying technological key positions and who, due to educational and sociological background, may be less willing to show solidarity on a "supra-professional" or "supra-occupational" level than traditional trade union members.

This, combined with a greater diversity of private life-styles, may be indicative of a trend towards "going it alone" with its obviously negative impact on the unity and the bargaining power of large interest groups.

At the very least, this trend means the necessity to shift responsibilities within the interest groups from headquarters to the plant level (e.g. as regards working hours and work patterns). Greater diversity of employer and employee interests also implies that the number of "outsiders" will increase, who have or perceive no interest in a comprehensive system of interest groups involving compulsory membership. However, it is this system of mandatory representation that forms an essential organizational and financial basis of economic and social partnership.

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22 There is greater willingness to resort to industrial action in "corporatist" states like Austria and Sweden among professions with above-average skills and incomes, e.g. air traffic controllers, bank employees, certain groups of university graduates, etc.
As regards the surrounding macroeconomic circumstances affecting the Austrian economy, the trend towards internationalization is a determining factor for the future of economic and social partnership. In this respect, Austria would face its greatest challenge in the wake of accession to the EC. The importance of macro-economic incomes policy would then tend to increase as other alternative instruments such as foreign-exchange and interest-rate policies would be available only on a very limited scale. Concurrently, the implementation of such macroeconomic incomes policies would be more difficult, because many areas of economic policy which are currently influenced by the system of economic and social partnership would then have largely lost their significance (e.g. subsidies) or would have been delegated to supranational authorities (e.g. agricultural-market regulation). The more limited scope for social-partnership action would, however, mean fewer tradeoffs and fewer opportunities for enforcing interest-group discipline and thus some loss of “contractual capacity.”

Even in the event that Austria does not become a member of EC, it has to be assumed that the trend towards greater factor mobility will continue. In terms of labor, mobility may mean that there may be a drain of highly skilled labor and an influx of less qualified labor (especially from Eastern Europe). This would create more diversified wage structures and complicate working out uniform trade-union strategies. The increasing liberalization of international capital flows and generally higher factor mobility of capital may produce a shift in economic power away from labor to capital, thus affecting the balance of power in the system of economic and social partnership.

With economic structures, ideologies and philosophies changing worldwide, Austria will see a reevaluation of, and shift in, social-policy objectives. Growth-orientation, the basic consensus, economic and social partnership is built on, is losing ground. On the one hand, losses in income growth and a diversified economic development aggravate distribution issues. On the other, additional economic and social conflicts are arising (e.g. environmental issues, women's issues, "new poverty" in the nonproduction-related sector) which exceed the terms of reference of the system of economic and social partnership. The political parties are therefore gaining ground in economic policy making as are the media and special-interest groups representing individual interests. Another increasingly important factor in Austrian economic policy making is a judiciary branch taking a more active part in economic and social policy.

In tandem with these trends the need on the part of the economic interest groups to justify their existence towards their members is growing, as the latter, due to social reforms, are better educated

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23 The “hard currency” approach (fixed exchange rates between the schilling and the DM) practically implies already now non-use of monetary policy instruments and reliance on a functioning economic and social policy.

24 An attempt at extending the economic and social partnership into an "eco-partnership" would only be successful if there were a special organized representative body of "ecological interest" with comprehensive and comparable membership structures, internal discipline and thus, bargaining power and contractual capacity besides the existing "producer organizations". There is, however, no indication of any such trend towards a centralized "ecological interest group" (and this may not even be desirable) so that any conflicts in the area will have to be solved in the political and not in an "expanded" social partnership forum.
and informed and have highly diversified needs. This requires more commitment and flexibility on the part of the economic interest groups and a willingness to criticize and accept criticism in terms of internal decision-making, personnel skilling and remuneration, while the members' "traditional ties" and "automatic loyalty" to group-specific organizations (and parties) are diminishing - as is class consciousness, while individualism is increasing in every walk of life.

It is impossible to draw a uniform picture of the future development of economic and social partnership. Expectations are, however, that the clout of economic and social partnership as a specific conflict-solving system, which takes account of macroeconomic and social criteria, will decrease as market-oriented control mechanisms are gaining ground. There is historical and international evidence that such a development may imply more social and regional disparity, while the impact on economic growth is not clearly predictable.

At the same time, fundamental issues of macroeconomic coordination remain, in particular in terms of incomes policy. Economic and social partnership, which has evolved into an effective problem-solving mechanism in these areas, will stay in place as a macroeconomic control system in incomes policy. The system and its underlying concept of macroeconomic balance of power seem to rely on broad social acceptance and legitimization by the Austrian population.

In addition to the "traditional" macroeconomic responsibilities of economic and social partnership, the system may be faced with new challenges in that the economic and social partnership and the interest groups involved will have to represent Austrian economic interests as a whole - as an all-Austrian lobby - before the EC. Given the massive presence of interest groups and lobbies (particularly on the employers' side) at the European supranational organizations, there is the danger of power imbalance for the firms and (above all) for the workers of a small country, which can only be countervailed or at least mitigated by a concerted action. Rapid economic structural change will, at the same time, highlight the necessity of developing and/or intensifying socially acceptable mechanisms of coping with structural changes. The system of economic and social partnership is offering a multitude of long-run possibilities for this task, e.g. in labor-market policy, education, foreign worker employment, with the social partners themselves and general political conditions shaping the future of the system.

All considered, a partial dismantling of this Austrian "peculiarity" of economic and social policy making does not mean that specific historical, political and social facts of this country are going to lose their influence in economic policy making totally. From the perspective of the author the end of economic and social partnership in Austria is not near, but there will certainly be changes in the structures of the interest groups involved and in the emphasis areas of their activities towards intensified concentration.

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25 A study conducted by the "Sozialwissenschaftlichen Studiengesellschaft" (Society for Social-Science Studies) shows that, in June 1990, 63% of the respondents (1983:69%) considered the system of economic and social partnership to be "by and large an advantage for Austria." Among Socialist voters, acceptance was highest (77%), followed by Conservative voters (69%); acceptance was lowest among Green voters (48%), Freedom Party voters (45%) and Communist voters (30%).
on "core areas" of economic and social policy and less involvement in general issues of social policy (and the political parties). Like every other social institution, the system of economic and social partnership is subject to new challenges and structural change. The functioning system of economic and social partnership is doubtless an international advantage for Austria, which will not only be maintained but expanded in light of the increasing internationalization of the economy.

Are there any internationally valid lessons to be learned from the experiences of the Austrian system of social partnership? As has been shown in this paper, there are, of course, many historical and institutional Austrian peculiarities that warn against any generalizations. On the other hand, the idea of a "social partnership" is gaining ground in discussions about future decision-making structures in the EC, has been advocated at the last congress of the British trade unions and is of special interest to the new democracies in Eastern Europe. Many of these countries (like Czechoslovakia and Hungary) have close traditional ties with Austria, are of comparable size and see themselves in a political and economic situation very similar to that of Austria in the 1950s, when the institutions of social partnership were developed.

Especially from a democracy point of view this Eastern European discussion is of special interest when confronted with Austria's experiences. In many of these Eastern European countries we find a heated debate between advocates of an "Austrain" or "Swedish" variant of a corporatist approach and those who are guided by a deep mistrust against encompassing economic and social organizations (even under a democratic system) and aim at a "pure" market economy, "invisible-hand"-style.26 To this kind of discussion I would like to contribute two mains results from the Austrian experience:

1) A policy that is based on J. K. Galbraith's (1967) concept of "countervailing powers" and on an "interventionist market economy" seems to be better able to combine economic growth, structural change and social stability than an "invisible-hand" approach.

2) An interventionist model, as the system of social partnership, can only be successful if it is based on the voluntary cooperation of strong, encompassing social and economic organizations. This necessarily means powerstructures different from a democracy model that is based on a strict separation of politics and economics. In my view, such a "separation-model" is not realistic. The Austrian system of close, but open connections between politics and economics can be seen as more balanced and democratically controlled than the alternative of a political system heavily influenced by uncontrolled and single-issue-oriented special-interest groups and political action committees. On the other hand big, all-inclusive "social partnership organizations" necessarily mean creation and concentration of power. Therefore it is essential to see such a system of social partnership as a subsystem of a general concept of dividing political and economic powers, a

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26 In Czechoslovakia, leading figures of such a discussion are for instance Prof. Komarek and most of the collaborators of the famous "Prognosis-Institute", on the one hand, and finance minister and chairman of the liberal-conservative group, Vaclav Klaus, on the other hand.
subsystem characterized by concepts of checks and balances. As the Austrian experience shows, the distribution of powers within such a system is not stable but will have to change, according to the historical, social and economic developments of a country. The more "open" and adaptable a system of social partnership proves itself, the better it can perform both with regard to democratic standards and to economic and social efficiency.
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