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Labor Relations and Industrial Policy
in Austria and their Influence on
Macroeconomic Activity.

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1. Recent Economic Development of Austria

Economic development of Austria can be described as a slow but successful process of catching up with other industrial nations. After the World War II and the following occupation period Gross National Product per inhabitant was less than half of the United States (Austria 1955 = 100, USA = 236) and also by one third smaller than in Germany (Germany 1955: 157), today GNP in the US is only 37 %, that of Germany about 36 %, higher than in Austria. The gap is even smaller if we compare GNP per inhabitant by means of purchasing power parities (Austria: 100 in 1980, Germany 112).

During this period of catching up the Austrian inflation rate as well as the unemployment rate usually was lower than in most other countries. During the most recent years the unemployment rate has shown a rising tendency, but still remains below 5 %. The share of young people (under 25 years) among in total unemployment is about one quarter and therefore lower than in most other countries.

2. The Specific Structure of Austrian Industrial Relations

The single most interesting feature of the Austrian social and economic scenery is the "social partnership" of the organisations of the employers and of employees.

The "social partnership" consists of the voluntary cooperation of two employers' organisations (the Chamber of Commerce, and the Chamber of Agriculture) and two employees' organisations (Trade Union, Chamber of Labor). Cooperation started already in the fifties on an informal basis, by now it has its own rules but still no legal basis and no written laws, no office building, no secretariat or whatever else normally characterizes an institution. The main concern of the social partnership is the regulation of wages and prices, but actually the social partners, if they agree, can influence nearly any economic issue. If government wants to act on an economic issue on its own initiative it usually asks the social partners for their opinion. If these do not agree government puts forward its own proposal but then negotiates with the dissenting social partner. These negotiations usually do not necessarily go so far that both partners can support the issue, but at least so far that the dissenting one can live with it.¹⁾

One result of the social partnership is that most economic policy acts are compromises and that economic policy does not take as sharp turns as governments (or macroeconomists) are used to take. This means that, the economic framework under which consumers and entrepreneurs live is much more stable in Austria than in other countries. The other side of the coin is that economic reforms take much more time and are usually less effective (as seen from their own objectives).

1) For an extensive analysis of the social partnership see B. Marin: Die Paritätische Kommission. Internationale Publikationen, Wien, 1982

Approximately one fourth of Austrian industry is directly or indirectly (via nationalized banks) owned by government of public authorities. Most of these firms produce basic goods (mining, steel, non-ferrous metals). A little more than one fifth is owned by foreign firms. The remaining 40 % are mainly small and medium sized enterprises. There are very few large private domestic enterprises (only 30 firms have more than 1000 employees), many of them producing traditional consumer goods or less sophisticated investment goods. In special contrast to Switzerland one type of enterprise is completely absent in Austria, namely multinational companies with Austria as their homeland.

The sectoral distribution of industrial branches seems unfavorable from the point of view of the international division of labor. The basic sector (producing relatively homogeneous product, with low unit value and high energy consumption per output) and less sophisticated consumer products (which depend on cheap labor, like textiles, clothing, etc) are overrepresented, chemicals and the know-how intensive engineering industries are underrepresented. Austria has a favorable trade balance with basic goods, a deficit in high technology goods. The unit value of our exports is lower than that of our imports.

Nevertheless industrial production is rising in Austria at a slightly faster rate than in most other countries. This tendency is supported by a high investment rate, fed by a

relatively comfortable cash flow, extensive tax incentives and large investment subsidies by government. A still existing gap in the productivity of labor as well as capital (e.g. as compared to Germany), shows that rapid growth in less favourable branches has its price as far as the consumption of resources is concerned.

3. Social Partnership and Structural Change

"High growth" in existing firms and traditional branches is directly connected with the system of social partnership and its influence on all economic issues.

An extensive system of tax incentives for investment (initial allowance, accelerated depreciation, tax credit) is combined with an enormous variety of direct subsidies (cheap loans, export guarantees etc). Both systems are either constructed or actually handled in a way that eventually already existing firms and especially those in traditional sectors obtain the lion's share of the subsidies/incentives. Any attempt to favor more sophisticated industries is thwarted by the common interests of the social partners, who feel stronger responsibility for traditional branches. A tentative sociological interpretation suggests, that this may be due to the recruitment process of the employers' organization respectively due to the strength and degree of organization of the trade union in the basic sector and in traditional large enterprises.

M A I N E C O N O M I C I N D I C A T O R S

	Real Growth		Inflation		Unemployment Rate		Taxes in % of RIP		Share of Youth (below 25) Unemployment 1981/82	BIP per Inhabitant (US-dollar exchange value)	
	1960 to 1973	1974 to 1981	1960 to 1973	1974 to 1981	1960 to 1973	1974 to 1981	1960	1980		1955 Austria = 100	1981 Austria = 100
Austria	4.9	2.4	4.2	5.9	2.6	2.0	30.5	41.3	26.4	2444	100
Italy	5.2	2.2	4.7	16.6	5.4	7.0	34.4	32.4	61.6	1560	73
Germany	4.4	2.2	3.3	4.6	1.0	4.3	31.3	37.4	29.9	3375	157
United Kingdom	3.1	0.8	5.0	15.4	2.2	5.6	28.5	36.1	37.6	2712	126
France	5.6	2.4	4.6	11.0	-	5.0	-	42.6	40.1	2916	136
USA	4.2	2.7	3.2	9.2	4.9	6.9	26.6	30.7	41.2	5053	236
Japan	10.4	4.6	6.1	7.0	1.3	2.0	18.2	26.1	23.7	1080	50

Source: WIFO-Data Bank

M A I N S O C I A L I N D I C A T O R S

	Cars per 1000 Inhabitants	TV per 1000 Inhabitants	Finished Flats per 1000 Inhabitants	Public expenditures for Education in % GNP	Lost Work Days through Strikes per 1000 Employees 1970-1980	RIP per Inhabitant (Purchase Parities)	
						1955 Austria = 100	1981 Austria = 100
Austria	271	262	6.9	5.7	10	1022	9150
Italy	291	220	2.6	5.0	4469	936	7835
Germany	346	311	6.7	5.2	50	1317	10290
United Kingdom	258	317	5.8	6.2	567	1565	8440
France	333	372	8.5	4.7	198	1212	9860
USA	505	571	7.8	6.0	498	2420	12540
Japan	184	408	13.2	5.5	124	567	9450

Source: Wirtschafts- und Sozialstatistisches Taschenbuch. Arbeiterkammer. Vienna 1983
WIFO-Data Bank

The system has a strong tendency to support existing firms, and/or to guarantee their existence in critical situations, thereby implicitly making it harder for new firms to emerge. This has advantages in terms of existing infrastructure or from the point of view of regional policies (new firms often do not emerge in exactly those regions where an old larger one goes bankrupt), but it lowers efficiency and mobility. Since new firms are small, since neither entrepreneurs-to-be as well as employe to-be are members of any chamber of commerce or of labor, while existing firms have employers and employees which can (jointly) mobilize government bureaucracy and public opinion, this bias towards existing firms is not very surprising.

A series of special activities exists supporting traditional industries fighting against foreign competition, pollution problems or facing new technological developments (e.g. paper and pulp), but up to now there is no action supporting promising activities like the electronic industry, biochemical or communications industry. This again coincides with the influence of the social partners and - as the other side of the coin - with the absence of any industrial policy promoted by government. Government heavily relies on initiatives from the social partners, with very few exceptions (e.g. subsidies for subsidiaries of multinational enterprises). There is no institution like the Japanese MITI, which tries to influence the technological development and promotes the installation of new techniques or encourages the production of new products. The responsibility for research and development is concentrated in a government department traditionally dealing with university problems.

Another feature of social partnership has been revealed to be detrimental for structural change, at least since the beginning of the oil crises. The main reason for any price rise to be allowed by the joint price and wage commission (of the social partners) are cost increases. This principle stems from the implicitly agreed objective to keep income distribution constant. In the seventies, however, the increasing price of oil and other raw materials was a signal that some branches were no longer competitive in industrialized countries. In Austria the high prices of raw materials resulted in a steep price increase, even in increased profits of basic industries, which was definitely a wrong signal for some enterprises. On the other hand the social partnership guarantees low wage increases in branches, where demand is low and import competition is strong. This guarantees the existence of firms in critical branches. The standard deviation of wages as well as that of profits is larger in Austria than in most other countries, thereby diminishing the pressure for structural change.

The neoclassical economist would ask why mobility of labor and/or capital does not diminish this differences in wages and profits. From the view of the employees there are many frictions like regional, cultural and educational ones, but above all wages and fringe benefits strongly depend on the duration of employment in the same firm. From the view of the firm, the cash flow is relatively comfortable, but consists mainly of parts which cannot easily be transferred from company to company. The largest part of the cash flow consists of hidden reserves stemming from accelerated depreciation of from feeding

provisions and reserves. The Austrian law and practice - again not independent from the influence of social partnership - guarantees a comfortable self-financing possibility and the use of cash flow for investment and social purposes, but not for private consumption by entrepreneurs or for investment in new companies. Raising capital on the stock market is nearly impossible, venture capital companies virtually do not exist. A by-product of the absence of a need as well as a possibility to raise capital from outside is that the firms are not interested to demonstrate their (high) profitability, they much rather complain about the cost increases they are confronted with, since cost increases are arguments for higher prices (and profits).

4. The Specific Role of Small and Medium - Sized Enterprises in Austria

The absence of large enterprises has traditionally been considered a structural problem of Austrian Manufacturing. Specially in a period of international integration, shifting power towards new industrialized countries, growing importance of research and development, and increasing power of multinational companies, the nearly complete absence of large enterprises was anticipated to become a serious problem.

Actually, in the past the performance of small and medium sized enterprises proved superior to that of the very large enterprises, and there are tendencies which show that optimal

efficiency and profitability even declined-reaching its optimum in the sixties for enterprises between 500 - 1000 employees, in the seventies in the class of between 100 and 500 employees.

Among the indicators available we want to show the share of cash flow in percent of value added and the development of employment. The cash flow share amounted to 20 % in the companies with less than 500 employees (\emptyset 1978/1979), 16 % for medium-sized companies and 13 % for enterprises with more than 1000 employees.

Between 1964 and 1976 (two years for which the data are strictly comparable) the number of employees in the industrial sector increased by 1 %. The only decrease occurred in enterprises with more than 1000 employees (- 6 %). All other categories of small and medium sized firms(0-99,100-499,500-1000) increased their employees (+ 2 %, + 4 %, + 7 %).These tendencies remain if we correct for the fact that different sizes of firms are unequally distributed over the specific branches.

Two exceptions to the tendency of lower profits for larger enterprises are notable. First as, large enterprises which consists of many plants are at least as profitable as their smaller competitors and secondly, those enterprises which are working in cartellized branches can maintain their profitability. This shows that decentralized production and/or political or organizational efforts can counter the tendency of smaller profits for larger firms.

EMPLOYMENT TREND IN AUSTRIA IN DIFFERENT SIZES
OF FIRMS (in 1000)

	Total Economy		Manufacturing	
	1976	1964=100	1976	1964=100
1964	1756	111	850.996	101
All	923	115	344.009	102
less than 100	420	114	239.670	104
100 - 499	155	114	96.959	107
500 - 999	258	95	181.920	94
1000 and more				

VALUE ADDED IN AUSTRIA IN DIFFERENT SIZES
OF FIRMS (in billions of AS)

	Total Economy		Manufacturing	
	1976	1964=100	1976	1964=100
1964	415,0	246	37,2	34,5
All	204,0	250	11,8	352
less than 100	107,4	273	10,5	349
100 - 499	36,1	233	4,5	367
500 - 999	67,5	208	10,4	324
1000 and more				

Source: K. AIGINGER, G. Tichy: Entwicklungschancen von Klein- und Mittelbetrieben in Österreich,
München 1982

CASH FLOW AND RETURN ON INVESTMENT IN

AUSTRIAN MANUFACTURING 1973-1979

	Cash Flow in % of Value Added			Return on Investment		
	less than 500	500 to 999 employees	1000 and more	less than 500	500 to 999 employees	1000 and more
1973	25.38	20.43	17.78	10.7	10.8	8.1
1974	24.36	21.33	19.24	13.0	11.2	9.5
1975	20.57	16.20	14.45	10.0	9.0	6.8
1976	20.99	18.80	15.86	10.9	10.1	7.5
1977	17.36	18.20	13.37	9.2	9.4	5.6
1978	19.02	15.43	11.60	8.7	7.7	5.1
1979	21.29	17.30	14.26	11.2	8.7	6.7
1973/74	24.87	20.88	18.51	11.8	11.0	8.8
1978/79	20.20	16.37	12.93	10.0	8.2	5.9
1973/79	21.28	18.24	15.22	10.5	9.6	7.0

Source: Österreichische Nationalbank, K. AIGINGER, G. TICHY a.a.O.

What is the explanation for the dominant tendency of higher profitability of the smaller or medium sized firms? Some tentative hypotheses are:

- o Economic development and especially the role of industrialized nations leads to a decline of homogeneous product and to an increasing demand for special goods, and a need to follow consumers' specifications. Smaller firms are better suited to this trend of specialisation.
- o Larger companies have advantages in the late phases of the product cycle, where capital intensive production and marketing outlays are the most important factors of production. Small and medium sized industries have advantages in the earlier, know-how intensive stages with small lot size and dominant influence of qualification and motivation of employees.
- o Technical developments in recent years (e.g. microprocessors) have allowed small units to take the same advantage of sophisticated techniques as larger ones. In earlier phases of development it was easier to apply electronic technique to larger units.
- o Business administration literature shows that efficiency and profitability is higher for divisionalized enterprises (where there is a direct link between effort and result). Though this link can be created in large enterprises (divisionalization, profit centers etc.) it is easier to organize it in small and medium sized firms.

- o In a rapidly changing environment the motivation of the employees gains ever more importance. This seems easier in smaller companies (where on average job satisfaction is higher).
- o Smaller companies are more flexible in increasing their production if there is a selling chance. Increasing uncertainty leads to more sporadic demand, smaller firms can make use of these opportunities. In terms of the micro-economic theory of the firm under uncertainty production is an ex ante control for large firms (meaning that they must decide on their production level before they know about demand), while it is at least partly an ex post control for smaller firms.

The enumeration of these hypotheses does not imply that everything can be done better by small firms, and that nothing can change the dooming perspective for large firms. One disadvantage of small firms, which concerns the individual employee is that the macroeconomic success of these firms (their on average better performance) is connected to (if not even caused by) a greater uncertainty for the individual firm, the individual worker and the individual labor relations. The chance for bankruptcy higher for small firms, the intimate cooperation of owner and employee in small firms makes job satisfaction depend on personal relations (job satisfaction which is on average greater but will also show greater variance), guaranteed wages and labor union control of working conditions is less in small firms. On the other hand, large firms can

succeed in creating motivation, can succeed in using the enthusiasm of their employees under certain circumstances (as is seen in some firms in the USA and probable in most large enterprises in Japan). In the Austrian climate of job guarantees, preference for existing firms and low mobility, the small and medium sized firms seem to constitute the flexible and mobile complement in an environment of changing division of labor, technical developments and demand shifts.

5. Macroeconomic Policy in Austria

Macroeconomic policy all over the industrialized world made a turn (or was forced to make a turn) from expansionist Keynesian types of policies to restrictive "monetarist" policies somewhere in the seventies. This turn did not happen in Austria (at least not to a degree comparable with other nations). Nevertheless the federal deficit - though rising at considerable speed - is lower in Austria than in most other countries, inflation has been lower all over the seventies (and is lower this year again). Social partnership may have been one of the factors which prevented such a turn in Austria.

First, macroeconomic policy had never been as expansionary as in other countries. In the beginning of the seventies Austria's federal budget had a surplus during some years (though the surplus itself was an unintended one, stemming from the high revenue due to unexpected growth). The strong effort

to stabilize private demand through federal deficits in the mid seventies was able to start from a position of low liabilities.

Moderate wage increases and slow inflation made it unnecessary for monetary authorities to apply the brakes as strong as in other countries. Interest rates never rose as high as in the USA, and their moderate increase was accompanied by additional subsidies for investment credits in manufacturing.

The economic agents' belief that the social partners would stabilize macroeconomic conditions, prevented any cumulative downward movement of investment, income and consumption and prevented public deficits from rising due to decreasing revenues.

The strong position of the social partners itself prevents inflationary as well as a restrictive policy. Since most prices increases have to be decided (allowed) by the joint commission, the partner felt obliged to moderate them. Any restrictive policy which would have generated massive unemployment would have been prevented by the trade unions on the one hand. On the other hand, the strongly centralized organisations of the employers are well aware of the fact that any massive cuts in public spending or in employment decreases simultaneously macro-economic demand. The fear that public expenditure could crowd out private demand (via high interest rates) is completely negligible if the social partners are strong enough to guarantee cheap loans and subsidies to their members.

It is always hard to say where a circle starts. We do not know if Austrian policy is of a moderate Keynesian type because of Austrian economists (and because of the ideology of the experts of the social partners) or if Austria's economists are moderate Keynesians because Austria's policy does not take extreme turns. A survey of the leading economists and experts in Switzerland, Austria and Germany indeed shows significant differences in opinions. Asked if monetary policy should primarily try to stabilize money supply (instead of interest rates) only 27.5 % of Austrian economists agreed to this credo of monetarism, in comparison with 41 % of German and 63 % of Swiss economists. The expansionary effect of budget deficits in an economy working below its capacity limit is acknowledged by 52 % of Austria, but only by 31 % of German and 42 % of Swiss economists. Many other questions surveyed by B. Frey¹⁾ et al. 1983 showed the same differences in assessment by economists.

6. Tentative Conclusion and Recent Developments

- 1) Social partnership succeeded in stabilizing the economic conditions in Austria. International developments as well as political or ideological opinions are prevented from influencing economic conditions directly and rapidly.
- 2) Social partnership has been extremely successful in solving the question of functional income distribution. There are nearly no strikes, nor even heavy political discussions about distributional questions. Cost increases are the main

1) B. Frey, W. W. Pommerene, Friedrich Schneider: Quot homines, tot sententiae? EMPIRICA 1/1983

WHAT ECONOMISTS THINK ABOUT MAIN ISSUES

	USA			Austria			Germany			Swizz		
	Yes	=	No	Yes	=	No	Yes	=	No	Yes	=	No
The money supply is a more important target than interest rates for monetary policy	48	23	29	28	40	30	41	35	21	63	26	10
Fiscal policy has a significant stimulative impact on a less than fully employed economy	65	27	8	52	36	7	31	51	12	42	41	12
A minimum wage increases unemployment among young and unskilled workers	68	22	10	30	34	36	44	25	30	36	31	32
The federal budget should be balanced over the business cycle rather than yearly	53	30	17	70	19	9	50	29	20	65	26	8
In the short run, unemployment can be reduced by increasing the rate of inflation	31	33	36	36	36	25	28	33	39	33	27	28

Yes Generally agree
 = Agree with provisions
 No Disagree

Source: J. R. KEARL, C. L. POPE, G.C. WHITING, L.T. WIMMER: A Confusion of Economists, AER, PP, Vol. 69/2, 1969 S 28-42 (USA), resp. FREY et. al.: Quot homines, tot sententiae. Forthcoming:
 EMPERICAL 1/1002

justification for price increases, not questions of justice or demand trends. Since the same organizations decide about wages and prices the connection of these variables is obvious, as well as the connection between wages, government outlays and demand for business.

- 3) Social partnership did not succeed or even intend to promote mobility and structural changes. It favors existing companies, traditional branches and subsidization of firms facing declining demand. Considerations of branch specific problems in the negotiations lead to a large variance of wages as well as profits in the individual branches and to a lower pressure to follow changing industrial structure. Mobility of capital as well as mobility of labor is hampered, since wages depend on the years spend in the same company and cash flow is mainly available from internal sources. The near absence of a capital market and/or of a venture capital market prevents capital mobility and the emergence of new firms.
- 4) The strength of the social partners partly consists of their unlimited authority within their own members. This authority allows them to give macroeconomic consequences at least the same weight as individual interests, but strife for authority often forces them to follow indiscriminating strategies. The trade union congress feels forced to prevent the closing of all and any plant or to subsidize branches without concepts how to make them profitable again, the chamber of commerce feels forced to lobby for undifferentiated and general investment

incentives without any regard to future expected profitability. Austria has many subsidies for specific branches which face problems, but no special action promoting promising industries (microelectronics, biochemistry). The generality of policy prevents the centralized organisations from internal discussion which could undermine their authority.

- 5) There is no central agency dealing with industrial or technological policy in Austria like Japan's MITI. Economic activities - if not performed by the social partners - are decentralized over several departments. There is no strategy for long-run industrial policy available as well as no plan or even forecast of development of individual branches. Industrial policy - if it exists - does not follow any long run strategy plan or even a forecast of sectoral developments.
- 6) Austria in general lacks large enterprises, especially multinational enterprises with Austria as their homeland. Originally this was considered a big disadvantage. But experience has shown that the small and medium sized firms in general are more flexible and more profitable. This tendency has been reported in the sixties and is known for some other countries, but the tendency seems to be stronger in the seventies and more pronounced in Austria than in other countries. Technical developments, the need for structural change and flexibility in a period of uncertainty seem to have favoured this tendency, while the immobility of capital and labour and the absence of differentiating policy by government and social partners may be responsible for the greater advantage of smaller firms in Austria.

- 7) Macroeconomic policy in Austria fought inflation at the beginning of the seventies and unemployment since the mid seventies, without need of extreme turns from Keynesian to monetaristic or restrictive policy. The lack of these extreme turns, together with the stabilizing power of the social partners leads to higher growth, slower inflation and a smaller budget deficit in Austria. These tendencies seem to outweigh the tendencies of slower structural change and the lack of an industrial and technological strategy. Lower productivity of labor as well as capital, a higher share of taxes (and contributions to social security) a low mobility of the society and prevailing large differences in wages and profits are the other side of this development.
- 8) The increasing public awareness of the comparatively poor performance of very large enterprises (usually connected with a cry for public subsidies) has lead very recently to attempts to reorganize large enterprises. Usually one of the trends is to divisionalize them or even to create separate firms or at least distinct profit lines. This is an attempt to increase efficiency of large firms by making use of advantages of smaller units, like the close connection between effort and result.
- 9) No tendencies can be seen to increase participation of labor as a means to increase profitability, neither tendencies can be seen that employees want to (or are invited to) become shareholders in the company in which they are working. The very few efforts of employees to

become owner of their own bankrupt company are usually prevented by the joint effort of trade unions and employer's federation.

- 10) The overall responsibility of the social partners seems to have weakened a little bit (partly voluntarily) in the most recent time. A good example for this is the issue of reducing weekly working hours. The employer's federation and the trade unions try to moderate plans for cutting work hours (of course to a different degree). On the level of the individual firms there is a tendency for agreements which aim at a shortening of the working hours at the expense a lower wage increases or cuts in fringe benefits. The social partners do not like such agreements but the forces at the company level are too strong to be prevented for long. One of the strategies of the trade unions is to propose that shorter work hours should be negotiated at the branch level.
- 11) It is repeatedly proposed by the employers to allow more "flexibility" in the working time on the level of the individual enterprise. Flexibility of working time had not been very controversial as long as decided upon by the employee according to his personal need (though it was not really backed by the unions due to the negotiating position of the firm's delegate instead of that of the union). But present proposes are seen as changing working hours due to the firm's demand, varying with seasonal and cyclical fluctuations and is thus opposed heavily by the unions. It seems to be that this demand for more flexibility is backed by "public opinion", including the workers themselves, despite the reduction in

their personal convenience associated with this change.

- 12) In very recent time seems to have occurred a small change of initiative from the overwhelming importance of the social partners to a larger role of government. This shift is due to the increasing awareness that structural changes should occur faster, while the social partners can do nothing about this need (or are not willing to back any discriminating policy). The second cause is the increasing need for efficiency in public spending, which makes global (and therefore expensive) new actions impossible. The third factor is the recent change in the Austrian government, which now consists of a coalition of the socialist party with a nationalist-liberal party, which has no roots in the social partnership. Government's action will now have to be a double compromise first with the coalition partner and second with the social partners.