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Social Partnership Challenged

Abstract

Austria's Social Partnership is about 50 years old and experiences a sort of a midlife crisis. Challenged by institutional shocks such as internationalization and EU-membership, the decline of Keynesian demand management, new individualism of a post modern society, Social Partners respond in a pragmatic way. They agree that the best times are over. They are afraid of declining potency, especially in light of internationalization and globalization. And they take a flight forward by hoping for problems to be solved in Brussels. The paper shows that Social Partnership is only possible if the forces of labour, capital and the state are balanced. This is not the case at the EU level at all. Furthermore, this balance of forces is recently threatened in Austria as well. More effort should be put on restoring this equilibrium of forces at a national level in order to safeguard Austria's institutional comparative advantage of stability and peace.

Vienna, February 1997

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Introduction

Since the late seventies considerable changes have affected the economic, political and social conditions of social partnership action. Growing uncertainties resulting from an ever-more interdependent world economy, the end of high growth rates, increased unemployment, the erosion of homogenous interests, etc. have given new fuel to the question as to the decline of corporatism for some time now. Most recently, incisive external changes in social partnership are being underscored along with watchwords such as "internationalization" and "globalization". Along with internal undermining tendencies of the system, e.g., the calling into question of the existence of chambers and the declining degree of the organization of labour unions, the question arises as to what survival potential and what future social partnership will have.

Austria's Social Partnership is now some fifty years old. It is undergoing a sort of **Midlife Crisis** which can be characterized in the following way:

- a) the best times are over (one boasts of the past),
- b) widespread fears of faltering potency (in view of progressing internationalization one perceives one's own impotence),
- c) these fears are glossed over by a flight forward (leaving the family and finding someone younger in Brussels).

The aim of these paper is to highlight the reasons behind this Midlife Crises and to try to predict whether the flight to Brussels will eventually lead to the breakup of the partnership or perhaps, as some like to hope, to its rejuvenation at a higher level. I begin with a short of the specific Austrian social partnership, then I list the changes in environmental conditions and the new challenges it faces. Finally I will examine one specific challenge, namely the European Integration, and its likely consequences for neocorporatist arrangements.

I. The Institutions of Austria's Socialpartnership

Austrian social partnership was founded after the war. Some date its foundation in 1947, when the "wage-price agreement" was established. Others refer to 1957, when the Joint Commission (die Paritätische Kommission für Lohn- und Preisfragen), which is the core institution of social partnership, was founded. It was formed on a voluntary and informal basis by the Austrian Trade Union Federation and the Chambers of Agriculture, Commerce and Labour in order to control postwar inflation (see Nowotny 1991). Inflation was controlled through three channels: first, by controlling wage increases, second, by controlling price increases, and third, by watching the business cycle and fluctuations in demand. To this purpose, the Joint Commission formed three subcommittees. The Wages Subcommittee exercises its control by approving or refusing the opening of wage negotiations. To start wage negotiations, individual trade unions have to apply through their peak association, the Österreichische Gewerkschaftsbund (ÖGB, Trade Union Federation). The second subcommittee was formerly the Prices Subcommittee and authorized price increases which had to be legitimized by entrepreneurs with cost increases. It was, thus, not possible for a large part of Austrian entrepreneurs to increase prices at free will. This subcommittee lost its influence and in the early 1990s it was transformed into a Subcommittee of Competition (Unterausschuß für Wettbewerbsfragen), mainly occupied with watching the competition and performance in diverse sectors. The third subcommittee is the Economic and Social Advisory Board (Beirat für Wirtschafts- und Sozialfragen). This Committee consists of "experts" who are representatives of the social partners and ministries as well as of experts from Research Institutes and Universities. Its task is to prepare scientific basis for policy recommendations of the social partners to the government. As Nowotny (1991) puts it, the Economic and Social Advisory Board is thus a kind of mixture between a "Council of Economic Advisors" and a negotiating body in specific social conflicts.¹

¹ To give an example: the "Sparpaket" indicating severe budget cuts for a large part of the Austrian population in order to fulfill the Maastricht criteria for joining a Monetary Union, was first prepared by the Beirat für Wirtschafts- und Sozialfragen and only then presented to government. This made the acceptance of very unpopular measures much higher in Austria than in other countries. Remember the

Besides the Joint Commission there is a huge network of advisory boards and committees where the social partners are represented. They own part of the Austrian Central Bank, they dominate the Social Security and nominate top management positions, they own banks, they determine nominations of university professors and they send ministers into government. It is for example an unwritten law in Austria that the minister of Social Affairs is a former Trade Union leader. Basically, the four social partners, i.e. the 2 representatives of Labour and the two representatives of Capital (Agriculture and Commerce) are involved in all kinds of decision making in the fields of economic and social policy.

The Austrian social partnership consists of voluntary organizations, such as the Trade Unions, and of "Chambers", i.e. representative bodies of diverse professional groups with compulsory membership. This "Chamber" system which dates back to the medieval guilds has only survived in Austria at this scale. As Nowotny (1991) shows, in some German Länder and in Luxembourg similar institutions can be found. The "Chambers" are empowered by law to represent the interest of their members in public affairs and must be consulted by the government on issues concerning legislation and policy.

In contrast to other Western European countries, the Austrian Social Partnership is not restricted to wage bargaining alone but is a comprehensive system of institutionalized cooperation between labour, business and government. Almost any economic policy decision is hence the compromise outcome of negotiations between the social partners and the state.

II. Changed Conditions of Action Based on Social Partnership - The best times are over

II.1. Changed Environmental Conditions

I have reported in depth on the changed economic, social and political conditions of action based on social partnership in the eighties in Kurswechsel (1990), together with Karl

strikes in Germany and France that accompanied the budget cuts, whereas in Austria the cuts passed less controversial.

Hinrichs. The most important factors which we listed as contributing to the weakening of the labour side included:

- 1.) Growing internationalization.
- 2.) Greater uncertainty given the increased tempo of transactions.
- 3.) Instability in the structure of branches, which makes collective bargaining agreements more difficult.
- 4.) The "end of mass production" making the markets more susceptible to fluctuations (cf. Salbel 1982) and increased flexibility demands directed to the employees.
- 5.) New, quickly changing technologies, which make planning of qualification demands and adequate formal training patterns ever more difficult.
- 6.) Heterogenous manpower, which makes a (unified) labour union lobby and the orientation to an "abstract" employee (without professional and company identity) ever more difficult (cf. on this Streeck 1989, p. 26ff.).
- 7.) Weakening of the labour associations. Since business associations have always had a more heterogenous composition than labour associations (see Traxler 1987), and in many countries assume only a consulting function in the elaboration of collective wage agreements (Van Waarden 1992), they are relatively less affected by recent developments.
- 8.) Markedly lower growth rates which aggravate distribution conflicts, for which status quo oriented arrangements of partnership are less suited.
- 9.) The departure from Keynesian economic policy - in part due to the emerging structural weaknesses of a purely demand-oriented policy - represents a clear paradigm shift in the economic political scene. (Scharpf 1989)
- 10.) The departure from an offensive employment policy and the resulting growing unemployment.
- 11.) The "dissolution of the socio-moral milieu" and the "individualization of life states and life stories".
- 12.) The growing fragmentation of the labour market in a "core" of employees sitting on "secure" labour and an increasing number of working persons whose employment stability and continuity is seriously endangered, has significantly contributed to a more "focused" definition of collective interest. (For more detailed considerations on this see Hinrichs and Unger 1990, pp. 7-10.)

For Austria specifically the following items should be added to the list:

13.) The decrease in employment in nationalized industry, where companies traditionally had strong labour unions, has contributed to a lower degree of organization in labour unions.

14.) The weakening of the two large parties and the emergence of a third large party can be interpreted as an institutional shock "from within". Social partnership was traditionally conceived for two parties - a big coalition - with the party members having strong ties to their camp. Through the dissolution of ties to a particular political camp and the emergence of a third large party such traditional patterns of negotiation are being shaken. It is no coincidence that precisely this third party tries to saw away at the columns of social partnership, as the recent demands by the Austrian Freedom Party (*Freiheitliche Partei Österreichs*) for the abolishment of obligatory membership in Chambers show.

II.2. Institutional Shocks - the new Challenges of the Nineties

In the nineties the type of shocks with which social partnership systems are confronted has significantly changed. Whereas in the seventies and eighties mainly the demand shocks (e.g., fluctuations in demand due to fluctuations in purchasing power) and the supply shocks (e.g., oil shocks) dominated, the social partners today are confronted with structural, organizational and institutional shocks. The creation of the European domestic market, the fall of the Berlin Wall along with the opening up of Eastern Europe, the restructuring of companies from national to international firms and corporations, the liberalization of the capital markets and the resulting increase in speculation in the financial markets, are only a few examples. The growing importance of these new kinds of shocks represents a great challenge for existing institutional arrangements. Arrangements of social partnership are traditionally geared to absorbing demand shocks and have reluctantly gone from "demand side corporatism" to "supply side corporatism" (see Traxler 1996, p. 25). In this sense they have already ensured great adjustments. As Prisching (1996, p. 212) put it aptly, the myth of the "political deficit of lobbies" is a myth since what social partnership has performed in the past decades "borders on the nconceivable". Recently social partnership in Austria has been mainly confronted with two institutional shocks, one "from without" and one "from within". The institutional threat "from without" can be grasped with the watchword "globalization", the one

"from within" with the "compulsory membership of the chambers". A special aspect of the "globalization" threat is EU membership.

II.3. The Debate about joining the EU - widespread fear of faltering potency

The spillover of conservative ideology has not hit only Austria but many other European countries. In this sense no country can evade "globalization" through the media and international policy. Nevertheless, the way problems are perceived and the unanimous reaction of all interest associations are unique in Austria.

The fact that, given internationalization and globalization, (almost) nothing can be done on a national level any longer, seems to be undisputed. Almost every interview with a politician, expert or journalist contains, in numerous ways, the explanation that under the sway of internationalization nothing can be done. Regardless from which party he or she (what is less often) being questioned comes, regardless of what political camp he or she (which almost borders on the inconceivable) comes from, the arguments are almost identical. A sense of impotence among fifty-year olds has become rampant in the Austrian debate.

EU membership was discussed along the same lines: as an undisputed necessity under the sway of internationalization. Since intransparency prevails in social partnership arrangements, since a certain autonomy for the leadership of the association from the members must exist to enable them to negotiate autonomously - that is to say, only a few basic democratic elements are included -, since only a little experience with discourse and no willingness to enter into a conflict exist, the institutional shock of the debate of the EU-membership and internationalization had to be processed as inconspicuously as possible. The facts that in Austria there was no counter-position to the EU on the part of labour, no fear of real wages being reduced or of traditional collective bargaining areas being dissolved, that the population was not informed about potential disadvantages of the EU and, as one could say, that there was a perfect EU-monologue of the large parties and interest associations, are unique in international comparison. As Weissel (1996) put it critically: "The great EU-phemism, the Austrian masterpiece of manipulation".

This is to be explained on the one hand by the fact that when a line has been decided on this, it had to be doggedly adhered to. Why social partnership decided for the uncompromising recognition of the conditions of capital can be explained by the Midlife Crisis sense of impotence. The accepted "constraints" were presented to scientists, heads of staff councils, members, media, etc. in the following manner: We are a small country that does not want to be economically bypassed by Hungary. Provide us with arguments in favor of the EU. Alternative positions will not be taken note of, reports on the social consequences will be locked up, EU-opponents will no longer be invited to discuss. Scientists can only think within the given framework, that is pro-EU, pro-budget consolidation, etc. Of course, the scope of action is very limited under such premises. Of course, it is also not very stimulating intellectually when the results of thinking are already given. But it is a proof of the fact that Austria ranks top as a corporatist nation in international comparison. The institutional shock resulting from the preparation for the consequences of joining the EU has been assimilated in an exemplary way: unanimity and agreement among the social partners, stability, almost no conflict, just as if nothing had happened.

Globalization was seen as a given constraint. It was probably not analyzed how much globalization and internationalization were now different from earlier years. That with the unanimous agreement to join the EU and the currency union basic changes would take place in the equilibrium of forces, was not acknowledged or addressed. With the issue of internationalization and globalization the language of capital was also imported to Austria: efficiency instead of solidarity, economic state instead of welfare state, inefficiency of the public sector instead of important businesses and ancillary suppliers for the private sector, to elaborate a savings package instead of fighting unemployment. It was thus an ideology and not constraints that became rampant in the nineties.

III. The Position of the Social Partners: Flight forward, i.e., Brussels

The Austrian argumentation can be formulated as follows in exaggerated terms.²

² For a very appropriate account of the position taken by the Austrian social partners, in particular of the position of the labour associations which differs substantially compared to other European countries, see Chaloupek (1995). On the other hand, the discussion in Norway and the opposition of

1.) We³ became a member of the EU because we were actually already part of it. On the one hand, we have for a long time followed EU-guidelines, now we are able to help design them. On the other hand, international competition limits us this way or the other (see Chaloupek 1995, p. 26).

2.) We will join the European monetary union, since we are already part of it anyway and since the EMU really means no more than exclusion of the two policy options - high state deficit and devaluation of currency - that the Austrian government and social partners never considered to apply. It would thus make no sense to speak of a "loss of autonomy" through joining the EU and the monetary union (see Chaloupek 1995, p. 26).⁴ But in a monetary union there are no possibilities to employ the exchange rate or the fear of devaluation as disciplinary instruments. Fiscal policy is also weaker. That is, all of adjustment rests on wage policy!

3.) From the perspective of social partnership, there is unanimity with regard to the inventory and outline of its future prospects: the future of Austrian social partnership lies in Brussels. In a more "modest" vein, the social partners are envisioned "as an extended arm of Austria, an interest group representative of Austria in Brussels" (see Nowotny 1991 and 1994). In a more "bold" vein, it is hoped that participating in the "social dialogue" will allow Austria to influence the rest of the world in the direction of solutions based on social partnership (see e.g., Chaloupek 1995, p. 27). Austria's social partnership as an emissary of the welfare state!⁵ The assessment of future by the Austrian social partners thus seems to have something in common with what Sigmund Freud referred to as the Austrian psyche: a fluctuation between a minority complex and megalomania.

Norwegian labour unions, in comparison to the EU-monologue conducted in Austria, demonstrate that various discourse options exist even within social partnership arrangements.

³ Here the fraternizing "we" stands for "Austria" in compliance with the Austrian diction which reflects a desire for consensus.

⁴ Sometimes this point is also legitimized in a different way: the monetary union changes nothing, since we already have something of a kind by the hard currency policy with Germany. Note this false confusion of a fixed exchange currency system with a monetary union - a confusion which seems to exist almost only in Austria, but there even among experts such as Breuss (1992). For various options of action in a monetary union and in a fixed exchange rate system or a hard currency policy see Unger (1995).

⁵ In an "omnipotent" form, some even toy with the idea of a "Eurocorporatism", that is an application of the Austrian model of social partnership to the rest of Europe (see Marterbauer, no year).

Such argumentation remains weak when it comes to explaining how this strong influence of the social partners whose position is weakened within the country is to be exerted on the EU-level. Hochreiter and Handler (1996), for instance, argue that a sort of adjusted model of social partnership could be deployed on the EU-level based on the Austrian version, if adequate institutional conditions could be founded (see Hochreiter and Handler 1996, p. 16). Chaloupek (1995, p. 27) places his hopes in the likelihood of a "development of the presently existing particularist lobbyism at least in the direction of a certain centralization."

Is the future of social partnership in Brussels only a wishful thinking? The Position paper on selected issues related to the government conference 1996, presented by the Advisory board for economic and social issues and dealing with perspectives of social partnership on the European level, surely contains a long list of wishes - but addressed to whom?

First it is stated how limited the possibilities for participating in the social dialogue actually are. Since it is only possible to contribute to very concrete issues, it is not possible to put together larger packages of measures. A "scambio politico" (see Schmitter 1974), a political exchange is thus not possible! The social dialogue would have to include issues related not only to labour, but also to social and economic policy, the internal strengthening of the European associations, the development of an autonomous political profile of the social partners vis-a-vis the EU-organs, and the creation of strong central associations. In order to make the argument of false hope for Brussels more transparent, I will focus on the structural conditions of social partnership arrangements.

IV. The Threatened Structural Conditions of Neo-corporatist Systems in General and of the Austrian Social Partnership in Brussels and in Austria in Particular

IV.1.) Social Partnership is a Compromise Between Three Actors

Neo-corporatist arrangements are typically the result of conflicts of interests and crises in which none of the ideas of the actors can gain acceptance.⁶ Neo-corporatism is always a compromise between three actors: the state which actually wants to regulate in an authoritarian way, the representatives of enterprises who really prefer an allocation through the market, and the representatives of employees who really want a redistribution of wealth. In neo-corporatism the state cedes certain government powers to the associations, the entrepreneurs are more strongly regulated than in the market, and the workers accept a small share of the wealth. But seen in terms of the entire economy, this compromise solution can be superior to market, given the fact that there are less strikes and that long-term, predictable planning (see Traxler and Unger 1994) is possible.

The future of social partnership should not, with some restrictions, lie in Brussels, but in Austria. This presupposes that institutional changes for Austria are taken note of. In Austria, this compromise has become more difficult. In particular, the axis of state employee associations has become weaker.⁷ However, the compromise is still possible, as the joint tying of the "savings package" on budget consolidation demonstrated. This package, which involved great financial losses for the employees above all, would have hardly been possible without the social partners. In spite of the fact that the package was put together by the social partners, the largest public demonstration of the post-war period took place with over 50,000 participants.

In Brussels, this compromise would not be possible, since even if it had been clear who the actors were, none of the three actors would have been willing to or capable of compromising (see balance conditions under item 4).

IV.2.) Social partnership is a repeated game of negotiations

⁶ "Normally they began as second-best compromises which no one really wanted or openly defended. Thus their general intransparency, their unequal distribution and their precarious legitimacy" (Schmitter 1985, p. 27).

⁷ This is visible, for instance, in the fact that the government under Franz Vranitzky made declarations without consultations with the labour unions, what would have been inconceivable in the Kreisky era. Also the ties between SPÖ (Austrian Socialist Party) and labour unions are less intensive than in the past.

”Since neo-corporatism does not meet any of the actors’ preferences, but contains elements of all, it depends on explicit and repeated inter-organizational negotiations.” (Schmitter 1985, p. 37) In game theory terms, social partnership can be seen as a way out of the prisoner’s dilemma via repeated play. The suboptimal result of a non-cooperative, no-win game can be improved either through cooperation or through repetition of the game. A typical prisoner’s dilemma are class struggles where either high wages and low profits and growth or low salaries and high profits and growth can be obtained. In a one-shot game, each player would want to get a maximum for himself. In a repeated game, a higher output could be an advantage for both (for a game theoretical interpretation of the political events of the nineties, see Matzner 1996).

To maintain the willingness of all participants to negotiate, negotiations have to take place more often. However, the conditions of negotiations change drastically, especially in times of great uncertainty. In game theoretical terms, the states of the world change, which makes a repetition of the same game impossible. The uncertainty whether negotiations will be repeated in the future is much greater in Brussels than in Austria, where alone the personal continuity of negotiation partners serves to reduce uncertainty.

IV. 3.) Social partnership maintains the status quo

”Neo-corporatism is both conservative by reflecting the existing ownership and power relationships and transformative by exposing them to explicit and repeated repetitions.” (Schmitter 1985, p. 137) The conservative, status quo maintaining character of neocorporatist arrangements has often come under attack from both the left and the right. The left criticize that social partnership in the interest of capital lulls the workers and does not have enough of a class struggle element. The right mainly criticize that it does not respond flexibly enough to market demands and that its effect is ”structure petrifying”.

If Austrian social partnership would continue to succeed in maintaining the status quo, it would have an important future task of securing stability and absorbing international shocks. However, the position of the workers would be weakened, if there were suddenly no increase in income to be distributed with high growth rates, but rather constant income, if there were

no increases in public subsidies but rather cuts to be distributed, as for instance in the case of the savings package.

The status quo in Brussels with regard to average income and social security lies below that of Austria. Austrian social partnership claims that it will maintain the country's standard in Brussels. How? On these problems see 4.

IV. 4.) Social partnership only functions when there is a certain balance of power relations among the three actors

Compromises between the three actors are only possible when a certain balance of power relations exists.⁸ But the balance of power relations has shifted in recent years in Austria clearly to the detriment of workers and in favor of capital. In Brussels this imbalance is even more evident.

The state should neither be too strong nor too weak

If the state were strong and autonomous, it would not need the associations to "ease the burden of the state", as e.g., its information and implementation capacities. Instead of a system based on social partnership, a "budgetary" one would emerge, as we can see, for instance, in France. If the state, by contrast, is not autonomous enough due to the hegemony of capitalist interests, instead of social partnership arrangements market forces and entrepreneurial interests would prevail. The United States and Great Britain are typical examples of countries with a strong lobbyist orientation. Neither in budgetary nor in market economy countries are market relationships between organized class interests and the state apparatus well balanced enough to enable neo-corporatism.

Historically the Austrian state has fulfilled this condition. As a small, neutral country, Austria is predestined to delegating state activity to associations. It is not by chance that it

⁸ "Labour and capital must mutually back each other, each strong enough to uphold the other, through organized collective action, from asserting one's own interests directly through social control and/or economic exploitation and each too weak to assert his own interests indirectly through the state through one-sided manipulation of state authorities." (Schmitter 1985, p.36)

ranks top in neo-corporatism. (see Schmitter 1975) Brussels, by contrast, does not fulfill this condition. The Europarliament, even if its value is to be enhanced, is lacking the "European" citizens (Bogdandy 1993). The EU budget is much too low to take care of "state activities". As Schmitter (1992) stated, Europe will become a political construct that never existed historically. In any cases, it is a structure without a central "head". It is thus no state which the associations whose function was to "ease the burden of the state" could appeal to.

Labour must be strongly and well organized

For the labour to be accepted by business associations and the state as a partner in negotiations, it must be structured adequately. This implies that labour has a monopoly of representatives, a high degree of organization and centralization, effective possibilities of sanctions for disciplining their members and a certain autonomy vis-a-vis their members.

The Austrian labour unions have had to accept a marked reduction in the degree of organization over the last decades. Whereas in 1970 (adjusted in terms of persons entering retirement) around 62% of the workers were organized in labour unions, in 1990 it was only 46% (see table 4). The unadjusted degree of organization in labour unions is higher, but at the same time it also shows a clearly downward trend.

Table 1:

Degree of organization in labour unions

	1970	1980	1990	1995
adjusted *	62.2%	56.2%	46.2%	...
unadjusted	63.6%	59.6%	56.2%	51.6%

Sources: adjusted, see Traxler 1994. Also, ÖGB-members statistics, Economic and Social Statistical Manual, various years and the author's calculations.

*) Percentage of labour union members to labour, adjusted for non-working members such as retired persons, etc.

See also the graph showing that more than 50 percent of labour is organized in trade unions in 1995. Though the degree of organization was much higher in the 1960s and 1970s,

Austria is still very high in international comparison. Thus in 1988 the (adjusted) degree of organization in Austria was 58.2%, whereas in the largest EU countries (GB, F, D and I) it was only 40%, and a sum total of 51.6% in the EU-average (c.f. Traxler 1995, p. 171). On the European level, a strong organization of the heterogenous labour wage agreements is considerably less probable. (see Keller 1995)

Graph

Capital must be weak and amenable to negotiations

The interests of the business are much more heterogenous than that of labour which is mainly interested in higher salaries and employment. Even though each enterprise seeks to maximize profits, a large construction firm has other ways to achieve this goal than a small shoemaker (for a contrary view see Offe and Wiesenthal 1979). Firms differ in terms of size, product range, sales markets, capital intensity, internal organization and decision-making. Their interests can even be diametrically opposed (van Waardeb 1992b, p. 526).⁹

It is thus considerably more difficult to organize a heterogenous management and to find it willing to negotiate than it is with labour. In Austria the historically conditioned lack of big capital and the related weak capital side was a significant reason for organizing small and large companies in associations, and for the willingness of the workers to negotiate (see Traxler 1988).

Business is considerably stronger elsewhere in Europe, given the existing big capital more than Austria. Big corporations regulate their work relationships themselves. On the European level labour unions often lack the business side for negotiations! (see Schmitter 1992, Traxler and Schmitter 1995). For this reason the idea of a "Eurocommunism" is naive.

⁹ For instance, a construction firm will be for low import duties on steel, which is a cost factor for it, whereas a steel firm, by contrast, will be for high duties and prices on imported steel which is a competition product for it.

Social partnership is most likely to be found under the following conditions (see Schmitter 1985, p. 45f)

Macrocorporatism is to be found wherever class hegemony is no longer a realistic option (e.g., in countries where social democratic parties are strong), where there is no strong rift within the classes (e.g., where interest groups are not split by religious, ethnic or ideological conflicts), where the state is not very strong, i.e., in small, neutral countries or in large ones that were defeated, and in countries exposed to strong pressure from the outside, e.g., a high degree of openness of the economy.

Whereas Austria fulfills all the conditions of macrocorporatism, none of these criteria is met in the EU. In labour and management the EU shows religious differences (as strong Protestant countries as the Netherlands and strong Catholic countries such as Austria), a strong North-South divide, it is not a small neutral country and is a more closed economy than Austria.¹⁰

Table 2

Degree of openness of the economy and trade relations in the EU average 1990-1993, (Exports + Imports)/2

	in percentage of GDP		in percentage of total trade of a country		
Austria	26.9	48.4	54.4	14.7	30.9
France	18.0	23.5	35.5	26.3	38.2
Germany	22.6	26.4	39.2	21.1	39.7
Netherlands	42.7	37.0	55.7	17.6	26.7
GROUP 1	22.9	28.6	41.8	21.6	36.6
Belgium-Lux.	54.5	41.7	59.9	16.8	23.3
Denmark	24.9	28.6	50.9	16.4	32.7

¹⁰¹⁰ The degree of openness (measured as one half of the sum of exports and imports in percent of the gross domestic product) was an average of 27% per year between 1990 and 1993 in Austria, and only 22% in the EU-15. 64% of EU-trade was within the EU itself, with about half of the trade concentrated on the key countries (group 1 and 2) (cf. table 2). The EU-peripheral countries (Greece, Italy, Portugal, Spain and Great Britain) are, in terms of trade, in a "less integrated" position than the rest of the world. Only some 20% of the EU-15 trade takes place with them. The common "outside threat", the feeling of "sitting in the same boat" by capital and labour, which Katzenstein (1985) saw as being so crucial for corporatist countries, is lacking for developing a sense of "we" in Europe.

Finland	21.1	21.7	44.7	16.3	39.0
Ireland	51.0	18.4	30.1	41.8	28.1
Sweden	22.8	23.3	45.9	16.6	37.5
GROUP 2	34.0	32.0	51.5	19.0	29.5
Greece	20.9	29.7	41.8	23.5	34.7
Italy	15.5	37.3	49.0	12.6	38.4
Portugal	29.6	30.1	45.2	33.3	21.5
Spain	14.7	33.7	44.8	22.5	32.7
UK	20.2	24.6	46.6	9.7	43.7
GROUP 3	17.5	31.0	47.0	14.2	38.8
Total EU-15	21.9	29.9	44.7	19.4	35.9

Source : IMF, Direction of Trade Statistics OECD, Arrowsmith 1995, p. 88.

Group 1 includes those countries which form the core of the monetary union. Group 2 includes those countries which rank middle, group 3 the peripheral countries. The last 2 columns add up, rounded off, to 100 percent.

V. Austrian Social Partnership's Main Threat: The Disequilibrium of Forces

The main problem of Austrian social partnership lies in the shift of power relationships between capital and labour. Whereas capital is strengthened by "internationalization" and a politically conservative turn, the labour side is weakened by internationalization and a decline of members. A package which is well-balanced in the sense of social partnership can only be negotiated when negotiation partners with an equally strong threatening potential sit face to face.

V.1. Capital becomes "stronger"

Capital has become "too strong" and labour "too weak" through liberalization of the capital markets and through political changes. Austrian entrepreneurs are suddenly toying with international capital. The fear of workers becoming radicalized has decreased since the fall of the Berlin wall and the opening of the East. Thus now once again business is making more massive demands. For instance, entrepreneurs have recently demanded an extension (!) of (week) work hours to 45 hours. Hairdressers refused to conclude collective agreements (interview Legner, 7.25.1996). Recently one of the most potent labour unions, the metal workers, being the wage leaders in Austria, faced similar problems. It is in any case striking

that conflicts on the lower level are no longer resolved internally but rather in public, and that the chamber of commerce is adopting a policy of wait and see.

It is also striking that entrepreneurs pay less taxes in spite of increased income. As Otto Farny (1996) aptly showed, Austria is already a paradise of low tax rates.¹¹ Whereas between 1988 and 1996, the undistributed profits of corporations rose by 95%, the enterprise taxes on earnings and property have only risen by 38%. In comparison, the level of wage tax rose in this period by almost 50% in spite of numerous tax reductions (Farny 1996, p. 82). It is obvious that the capital side is becoming more flexible in evading potential financial burdens, that the political side is giving capital more forthcoming treatment, and that this is to the detriment of the workers. In the discussion that keeps flaring up in Austria on taxing the 13th and 14th wage month (in the meantime this has calmed down again) it should be taken into account that the 13th and 14th wage month were historically conceived of as compensation for a more flexible tax structure of enterprises for workers. The tax structuring for enterprises has become more flexible in the nineties than ever before. Capital no longer fulfills its tax obligations.

V.2. Labour becomes weaker

Labour has not become weaker only due to the ever-stronger capital side and the drastically reduced number of members. Institutional changes have also been detrimental to labour. Austria's labour unions were once the only ones in the world which could bargain not only the nominal wage, but also the real wage. The wages were controlled by the wage subcommittee, and in the price subcommittee prices were set down. For price increases in a number of products the entrepreneurs had to submit an application to the price subcommittee.

¹¹ With the 1988 tax reform, American principles of tax rate reduction were also strived for in Austria with the introduction of the assessment basis (by eliminating tax benefits). The corporation tax rate was reduced from 55 % to 30% (later raised to 34% again). Thus companies are taxed less than in the United States (New York 39,9%), the Netherlands (35%) or Belgium (39%). With the 1993 tax reform, the trade tax, inheritance tax, and the special tax of banks was abolished altogether (Farny, 1996 p. 61 and p. 72). With regard to taxing of property, Austria thus falls below the level of Turkey to the lowest rank of the OECD (see Farny 1996, p. 74). The already low tax burden is complemented by tax evasions and tax debts. The evasion of sales tax and invested income tax is estimated at about 40 billion shillings by Farny. The still open tax debts amounted to about 54 billion shillings in September of 1995, with 24 billion still being recoverable and the remaining amount irrecoverable (Farny, p. 80f).

As Nowotny et al. (1978) stated, already in the late seventies a marked weakening of price regulation competence took place in the wake of increased imported goods for which an application was not obligatory. The study found that market prices lay well below the prices approved which could be explained by evasions by means of discounts, etc. Rosner (1983) argued that the price subcommittee never had a price control function. Nevertheless, the price subcommittee was a central part of Austria's economic and social partnership. It was abolished at the beginning of the nineties and remodelled as a "price and competition committee", which did not process any applications for prices. Now there were only branch-related consultations on sales development, future prosperity, import shares, price development, etc. of the branch. The competition committee meets about once a month, whereas the price subcommittee convened weekly (interview Kovarik, 7.18.1996). Some of the functions of the early price subcommittee are now assumed by an independent arbitration committee which is located in the ministry of the economy. In the past, so-called *Gleitklauseln* (flexible clauses) according to which companies with public clients could raise prices in the case of wage increases, were approved by the price subcommittee, and passed on to the parity commission when an agreement could not be achieved. The independent arbitration commission now assumes such tasks. In this commission the ministries have stronger leverage than in the joint commission.

Given the fact that the committee convenes considerably less often, it can be assumed that communication between the social partners is substantially reduced. With regard to the price control, the unions suffered considerable losses in influence. First, a reduced effectivity of price application approvals through import goods and discounts, then the abolishment of the obligation of having to submit an application for price changes. Thus the unions can no longer set down the real wages. This means substantial inroads into their scope of action since the seventies. The high real wage flexibility in Austria could be controlled to a much greater extent through control of nominal wages and prices than in the case that there was only an instrument - the wages. The Austrian unions have oriented themselves on average productivity and inflation rate in wage negotiations, they have also actively given shape to them. Both from the aspect of cost pressure, given moderate wage demands, and the aspect of demand, given moderate approvals of price increases, as well as from the monetary aspect given the possibility of having a say in the committees of the central bank.

Here it must be stated that the planned economic and monetary union means one further step in the direction of weakened unions. The task of the fixed exchange rate system and the transition to a unified currency means that the exchange rate is no longer available as a potential instrument for averting crises. Even if none of the social partners in Austria wish devaluation, the exchange rate can still serve as a potential threat and a fill-in for crises. A threatening devaluation is a disciplinary instrument both for labour with its fear of inflation and real wage losses and for business with its fear of profit losses. In an economic and monetary union the exchange rate policy is no longer necessary. The budget consolidation demanded by Maastricht paralyzes a second presently existing instrument for warding off crises: fiscal policy. Thus there only remains a third instrument for absorbing shocks: wage policy. The entire burden of adjustment is placed on wage policy in a monetary union. A monetary union thus represents a significant institutional shock and should be accepted as such by the social partners, and not played down (see Unger 1995). The monetary union moves wage policy more to the fore than ever before. But also wage policy will change dramatically. For, as Schubert and Wehinger (1996) stated, the entire wage bargaining process will thus change. At present, unions orient themselves on the Austrian inflation rate. But what economic objective should serve as orientation for a monetary union? The average EU-inflation rate which will be markedly higher than the Austrian one? The resulting wage agreements could be disadvantageous in competition for Austria which has now become a region, and lead to a further increase in unemployment. Or should the unions orient themselves according to the amount of money targeted by the EU instead of following an inflation goal? Or should they continue orienting themselves according to the Austrian inflation rate even though it cannot be controlled nationally, having become a sort of regional inflation? In the future one will have to consider what dimension nominal wage demands should be oriented according to, and what this means for real wage flexibility.

A further "debilitating element" of labour is the increase in illegal workers. In Holland one uses bread consumption to estimate the number of illegal workers, which is markedly higher than that of legal workers. In Austria the increase in accident statistics on the second day of working shows that entrepreneurs increasingly tend to employ illegal labour. If an illegal worker has an accident then he is retrospectively registered by one day (not on the same

day, for this could result in checks). In accident statistics this has led to a marked increase in accidents on the second day of work (interview Kovarik 1996). Precarious and illegal employment conditions evade collective bargaining agreements and increase the danger of wage dumping.

VI. Social partnership is in a Midlife Crisis, but will survive

In spite of the shift in power relationships it is a myth to speak of the "death of social partnership". Institutions are robust and fairly enduring when it comes to survival. This is also true for Austrian social partnership. Recently they were radically threatened "from within" by the calling into question of obligatory membership in the chambers. For "the Austrian chamber system is a central piece of social partnership" (Prisching, 1996, p. 95 and Traxler 1987) and without obligatory membership there are no chambers. Every worker is a member of the workers' chamber, every free-lance person a member of the chamber of commerce. To abolish this would amount to the end of the Austrian model of finding consensus. This existential threat of both systems came mainly from those political forces which had hardly been represented in it before and see themselves as belonging to a new "opposition culture" (cf. Pelinka 1989 and Prisching 1996 p. 115).

In the spring of this year the members of the chamber of commerce and the chamber of labour were asked whether they support the maintenance of their respective chamber. The results clearly show that the foundations of Austrian social partnership are not so easily shaken.

The chamber of commerce directed the following question to its members in February of 1996: "Are you for the maintenance of the chamber of commerces with their guilds, committees, trade groups and professional associations as a common legal interest group for all entrepreneurs." The participation of 36 % in the poll corresponded to the the normal participation in elections in the chamber of commerces. Of the 116,800 valid votes, 81,7% voted for maintaining the chamber. (see table 3)

The members of the workers' chamber were asked a similar question in the first half of this year. In May and June of 1996 the members of the workers' chamber were asked: "Are you for the workers' chamber continuing to exist as a legal representation of all workers?" The poll was a considerably more delicate matter, since the work done by the experts of this chamber for the members is less transparent. In particular the questioning of the workers' chamber clearly shows the system-maintaining characteristics of Austrian social partnership. Whereas the questioning of entrepreneurs involved the normal (low) participation of members, the participation on the part of the workers' chamber was clearly above normal. The participation in the vote of the AK in 1994 was 29% in 1994, whereas in the poll in 1996 it was almost twice as high, at 57,7%.

The realization of the poll in the chamber of labour shows that considerable forces were mobilized for it.¹² In comparison to the chamber of labour elections it is striking that a large part of this poll took part in companies. This could also be proof that business was also interested in a high participation in the poll. Business, above all smaller companies, know that they need the chamber of labour for their concerns. Without the chamber of labour there is also no chamber of commerce. Business must have thus been interested in a positive outcome of the chamber of labour poll!

Table 3

Poll results regarding the maintenance of the chambers 1996

	eligible to vote	votes casts	% participatio n	valid votes	YES votes	% YES votes
<i>Chamber of commerce</i>						
Austria	322.090	117.290	36.42	116.800	95.460	81.7
of this	69.816	15.146	21.69	15.110	12.730	84.2

¹² In Vienna, for instance, the following activities took place. From May 6 to June 15, 1996 about 1,100 Members of the chamber of labour visited Viennese companies and polls were carried out in the companies. In companies with 50 workers up, the poll was supported by the staff councils and staff representatives. In addition, so-called "flying" commissions were active in smaller businesses with 3 and more employees, distributing ballots and ballot boxes. About 13% of the 57,7% participation in Vienna took place through the "flying" commission. Whoever did not take part in this first phase of the poll received a poll card in the mail which he or she could also send back to the chamber of labour.

Vienna						
<i>Chamber of labour</i>						
Austria	2,318.862	1,544.670	66.60	1,529.467	1,385.815	90.6
of this	599.993	346.333	57.70	343.232	302.300	88.1
Vienna						

Source: Press source of the Vienna Chamber of commerce and the author's calculations and approximations.

Conclusions

The future of Austrian social partnership is not to be found in Brussels, but in Austria. Social partnership is a national arrangement and national realms of action should be used more in the future. On the supranational level, the disequilibrium of forces is too large for social partnership arrangements. As an "emissary of the welfare state" they certainly have an important moral function in Brussels, but their political function is limited.

Social partnership should primarily remain related to Austria. With growing uncertainty, a package of measures is more promising than single measures (see Unger 1990). Thus the perception of social partnership functions on a macro, meso and micro level (e.g., through company agreements) and the interlocking of levels is assuming greater importance.

On the macro level, the demands have become greater. In particular with regard to internationalization, the status-quo maintaining and petrifying effects of social partnership, however, take on a new meaning for a small country. An upward movement in the internationalization wave means growing uncertainty, greater fluctuations in output and employment, quicker reactions and more intense overreactions of the economic subjects, given the greater mobility of financial capital, real capital and labour. This, however, also means that crises can appear too quickly and too drastically, what entails in particular high social costs. Social partnership can have a buffer effect on these excessively high and too quick fluctuations. Social partnership structures thus become all the more important for a small country in view of growing internationalization, so as to protect it against extreme external shocks.

The stability-ensuring function through absorption of international shocks which is becoming increasingly important for small countries must thus take place on the macro level and on the meso level. On the macro level, it is still important to reduce short-term fluctuations in output and employment by creating a climate of "trust" and of "consensus". That this will become more difficult in the future is undisputed. However, as the chamber poll showed, institutions prove to be considerably more stable than economic processes. This means that at least on a mid-term basis the macroeconomic, crisis-absorbing, stabilizing function of social partnership will be maintained. As compared to less, or not at all, corporatist countries, at least Austria's relative advantageous position remains in terms of a stable climate.

The orientation of wage policy will assume strategic importance in the future. The wage policy of the ÖGB was oriented on average productivity. As Schreckeneder (1994) studied, the change in real wage between 1968 and 1993 at 2.75% was very close to the change in total economic labour productivity at 2,64%. A high real wage flexibility will be even more important in the future, but at the same time more difficult. In a monetary union, wage policy will have to bear the whole burden of adjustment to international shocks (Unger 1995). The question as to which target wage policy should be oriented will thus assume central meaning also in terms of real wage flexibility.

On a meso level, sector-specific demands will also be important in the future. In addition to wage political aspects, mainly structural demands will be decisive. As a comparative study on steel, car and tool machine industry showed, corporatist structures have the advantage that they facilitate orientation after long-term calculuses of action. They can create conditions for economic action through short-term adaptation processes, which, in the long run, prove to be suboptimal for structural change, less "awarding" and thus more unlikely (for instance, in the realm of education or of research and development, there can be an undersupply through the market) (see Traxler/Unger 1990).

On a micro level new demands arise given growing destandardization and heterogenous labour interests. With the "end of mass-production", orientation after an "abstract worker" (without professional and company identity) has become increasingly

problematic, since production-related labour interests move to the foreground and since these can be very ununiform in companies (see Hinrichs/Unger 1990). The heterogeneity of interests can only be found on a micro level. At the same time feedback with the central office is to be reinforced, total union goals are still to be reached and the threatening potential of a centralized organization is still to remain.

The main issue should remain how Austria can continue to follow its "Austrian way." A high level of employment (e.g., maximum 2% rate of unemployment), a satisfactory distribution of income, ecologically acceptable businesses should be a point of departure for offensive considerations. Instead of defensively chasing after the alleged constraint of internationalization (i.e., the interests of capital), offensive strategies of breaking away from undesired effects of internationalization should be considered. EU-measures should not be as restrictive as to not allow any national field of action. In issues related to the social realm, the national autonomy of tax and expenditure structures of the budget, national fields of action remain even within a monetary union. As long as perfect capital and labour markets do not exist, as long as we have an economy of imperfections and adjustment delays, adequate margins for a social economic policy remain.

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