THE AUSTRIAN „ALPENMODEL" – BACK TO BISMARCK?

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Abstract

Following Esping-Andersen (1990 and 1996), Austria together with Belgium, the Netherlands, France, Germany and Italy is labelled as a continental, „Bismarckian", conservative or Christian democratic welfare state. In the last three decades all continental welfare states had to be reformed, restructured, retrenched or renegotiated. Austria was the *laggard to international adjustments among all continental welfare states. Lately, however reforms of social policy and the labour market indicate that the international trend towards cutting back the state and also the welfare state has finally also reached Austria. Whether its adjustment goes more back to the traditional conservative Bismarckian welfare state, as is typical for Alpine countries (with the exception of liberal Switzerland), or in direction of a liberal welfare state of the Anglo-Saxon style, will be discussed. The authors claim that both tendencies can be perceived but that the Alps are still a solid basis for the Austrian model.*

THE AUSTRIAN „ALPENMODEL" – BACK TO BISMARCK?

Following Esping-Andersen (1990 and 1996), Austria together with Belgium, the Netherlands, France, Germany and Italy is labelled as a continental, „Bismarckian", conservative or Christian democratic welfare state. The idea to establish a welfare state in order to guarantee the smooth frictionless functioning of (male) workers is expressed in the Bismarckian principle of industrial insurance against occupational risks, financed by ear-marked payroll contributions from employers and workers. Employment-related social security programmes revolve around income replacement and are targeted at the (male) breadwinner in order to safeguard traditional family patterns. The system is highly transfer-oriented. Social insurance typically excludes non-working wives of breadwinners and special family allowances encourage motherhood and full-time housewives. Strongly committed to traditional family relations, there is, in contrast to the Nordic model, a distinct underdevelopment of public social services.

A functioning labour market with full employment was essential for the smooth functioning of the modern continental welfare states, since its financing depends crucially on ear-marked contributions of employers and employees. Increasing internationalisation, more intense and rapid spillovers of international shocks and the demographic trend towards more elderly people threatened Continental welfare states from two sides. First, full employment was much more difficult to reach under the new international premises and second, more and more people had to be financed from less and less workers. The emancipation and higher education of women increased the labour supply and added to the labour market problems of increasing internationalisation.

In general, continental welfare states attempted to keep unemployment low by providing more or less attractive options to exit the labour market, e.g. by means of generous provisions for early retirement and motherhood. This strategy however becomes problematic if unemployment increases and/or if the workforce shrinks.

The employment/population rate in these countries is relatively low. In contrast to the strong emphasis on active labour market policy of the Nordic welfare states, the continental welfare states have placed ‘welfare before work’. Public sector employment and part-time work are also traditionally low compared to the Nordic countries. Only the Netherlands experienced some really dramatic changes in the last decade. Continental labour markets are highly regulated with a relatively high degree of protection.

In the last three decades all continental welfare states had to be reformed, restructured, retrenched or renegotiated (see Hemerijck/Unger/Visser 2000). There were basically three options: 1. To resist internationalisation and maintain the high level of social protection and eventually run high public debts, more unequal income distribution or lack of international competition. 2. To go back to Bismarck’s original design of a welfare state based on welfare to work, employment creation and women as mothers and 3. to retrench the welfare state by choosing a liberal route by cutting benefits and making welfare dependent on low income and poverty.

As will be shown in the following, Austria tried the first strategy in a quite remarkable way for a long time. Part 1 shows the Austrian Alpenmodel and its 1970s performance, part 2 describes the adjustments of different policy areas in order to keep unemployment rates low till the 1990s and part 3 analyses the major characteristics of this adjustment path. Austria was t h e laggard to international adjustments among all continental welfare states. Lately, however reforms of social policy and the labour market indicate that the international trend towards cutting back the state and also the welfare state has finally also reached Austria. Whether its adjustment goes more back to the traditional conservative Bismarckian welfare state, as is typical for Alpine countries (with the exception of liberal Switzerland), or in direction of a liberal welfare state of the Anglo-Saxon style, will be discussed. The authors claim that both tendencies can be perceived but that the Alps are still a solid basis for the Austrian model.

1. THE ALPENMODEL: DESCRIPTION AND SIGNIFICANCE

1.1 Atypical features

Austria does not perfectly fit the picture of continental welfare states. It displays the following atypical features with regard to employment:

1. Public sector employment is relatively important (26%, in a narrower definition of the public sector 11% as opposed to 6% in the Netherlands). The public sector increased employment and compensated for job losses in the private sector till 1995, a strategy which only France also pursued (see Scharpf and Schmidt 2000).
2. The activity rate is relatively high (72.9% compared to 67.7% EU-average). Even the Dutch miracle of activity rates increasing to 69.9% has not reached Austria's level. The high activity rate holds both for men (81.8% compared to an average of 78% in the EU) and women (64% compared to an average of 57.4% in the EU) (see Hofer and Pichelmann 1998, p.5).
3. The employment ratio of Austria is relatively high for continental European standards (68% and 52% when corrected for working hours). Notwithstanding, only the Scandinavian countries and the UK come close to the US employment ratio of 75% (see Schludi et al. 1998).
4. Women's full time participation rate in the labour market is relatively high and continuous over life, a pattern that Austria shares with the continental welfare state France. The pattern of women's labour market participation suggests that

women are less perceived as ‘mothers’ but rather as ‘workers’, contrary to continental welfare states (e.g. Belgium or the Netherlands).

1.2 Reasons for the Atypical Features of the Austrian Alpenmodel

The high public sector employment is a historical relic. After World War II most large firms got nationalised. Big Austrian capital was not available and the government tried to save the industries from confiscation by the Soviets. This reason accounts for the comparatively large amount of nationalised industries in Austria. Up until the 1980s, some 20% of the Austrian workforce was employed by nationalised industries and thus the public sector. A major employer was the steel industry where about one third of nationalised industry workers were employed. Labour hoarding of the nationalised industries was an important employment strategy till the mid 1980s.

But public sector employment increased even in the 1990s, when most countries (except France) reversed their policies. Here the municipalities and chambers increased their staff quite substantially, while the central government had already stopped hiring. This peculiarity is due to Austria’s institutional strength of neo-corporatism with compulsory membership in chambers (the economic chamber and the chamber of labour). In Austria, the involvement of labour and capital representatives in public policy making was extremely high. The social partners were involved in basically all policy decisions until recently (see Unger 1998). They had a common understanding that growth was necessary for full employment to prevail.

Full employment was for a long time the predominant economic policy goal. The fact that the social democrats (SPÖ) were in power over the last thirty years (either with absolute majority till 1983 or in a big coalition till 1999) supported the social partners’ orientation towards full employment and public sector engagement. Compromise between the partners implied that economic policy should include both supply and demand side elements. It included export promotion, subsidies and tax releases for firms, and government expenditures for workers and consumers.

Macroeconomic policy – which was typically Keynesian demand management in most European countries in the 1960s and 1970s – consisted of an atypical mixture of supply and demand side elements, labelled „Austro-Keynesianism".

„Austro-Keynesianism", influenced by the Swedish social democratic model, consisted of five pillars, two being traditional Keynesian, two „Austro" supplements with a monetarist touch and one a post war historical relic being used as a buffer

1. Keynesian deficit spending to stimulate demand in case of crisis
2. Keynesian low interest rate monetary policy to stimulate private investment
3. Austro hard currency policy vis a vis the DM to import price stability
4. Austro moderate wage policy to prevent domestic cost push inflation
5. Austro employment in nationalised industries to hoard labour during employment crisis.

The post-war Alpenmodel can be seen as a successful combination of co-ordinated macroeconomic policy, tax policy, industrial policy, social policy, labour market policy and wage policy. „Austro-Keynesianism" provided quite a variety of tools for the crisis to come. Its supply and demand side elements made the model very adaptive to external pressure. The budget surplus with which Austria entered the 1970s was a buffer for future crisis, which other countries like Belgium did not have.

Tax policy increased tax rates and introduced new taxes and exemptions. Tax policy in the post-war period was very much growth oriented. The idea to promote investment through indirect subsidies by means of tax releases was and still is predominant in Austria. The Alpenmodel is based on relatively high tax rates.

Industrial policy concentrated on nationalised industries and on big projects. The idea of creating big industries in the Swedish style was one of the declared goals of social democrats.

Labour market policy was mainly passive as is typical for continental welfare states. Furthermore, it aimed at a reduction of working hours. In the 1970s the Austrian labour market policy consisted first mainly of a reduction of the weekly working time to 40 hours in 1975 (the 8 hours working day was already introduced in 1920, see Bruckmueller 1985, p.462), then annual working time cuts were made. In 1977 the minimum number of vacation weeks increased from three to four, while for those with 20 years of employment it increased to five weeks (see Hauth, 1989, p.19).

Social policy was highly developed and oriented towards bread winning. In line with the definition of the continental welfare state model, the Austrian welfare state comprises a system of social security, which relies heavily on gainful employment and joint family coverage (see Esping-Andersen 1996, p.2). About 5% of social expenditures consists of means and needs tested welfare benefits. The remaining 95% protect people against the risks related to work, such as illness and accidents, unemployment, disability and old age, and offers benefits based on the needs of families. Health insurance, pension insurance, unemployment insurance and a system of family benefits figure prominently in Austria's social policy. Many provisions were introduced already before the war. One characteristic of the Austrian social security system is the high expenditure for families (see Genser and Holzmann 1997). Subsidised housing, the educational system, public services as well as a sophisticated public transport system add to the social dimension (see Unger 1998).

Wage policy is characterised by Austria’s top position in neo-corporatism. The union density ratio is 46 percent. But unions do not only bargain for their members: the coverage rate of employees by collective agreements is 96%. Austrian employers are also very well organised (Traxler 1996). Austria's collective bargaining is highly centrally co-ordinated but takes place at a sectoral level (see Traxler et al. 1996). Sub-organisations of the Austrian trade union (*ÖGB*) and the employers association (*WKÖ*) bargain over the wage level for each industry. From the very beginning of the post-war wage policy, ÖGB president Böhm tried to prevent competition between the individual trade unions. Gradually the metalworkers' union, one of the most powerful unions and the first to start the wage bargaining process, acquired unofficial wage leadership in the 1980s. The remarkable result of wage policy is that Austria's real wages show one of the highest flexibilities in Europe (Hofer and Pichelmann 1998), a fact that gives the Alpenmodel a supply side support in times of labour market tensions.

The overall economic performance of the Alpenmodel has been outstanding. The combination of supply and demand side policy allowed for keeping both unemployment and inflation below EU – average. Between 1970 and 1999 average unemployment rates were almost 6.4% in Europe and only 3.3% in Austria. Inflation rates were 6.9% in Europe and only 4.1% in Austria. The good performance looks a little bit less outstanding if one includes income distribution and external balance. Income equality was never a declared economic policy goal in Austria. The Gini coefficient indicates less equal distribution of income in Austria (31.6) than in the EU (28.3) (see Unger 1998). Also the current account was slightly in deficit (-0.8% of GDP) whereas it was balanced in the EU. Altogether, the Alpenmodel performed better than most other countries between 1970 and 1999. With regard to unemployment and inflation, Austria ranks number 3 in Europe (EU plus former EFTA countries), only after Switzerland and Germany, whose overall good performance was only interrupted in the 1990s. Including all four goals it ranks number 5 after Germany, Switzerland, Norway and the Netherlands. It has one of the highest per capita incomes in Europe, almost no strikes, one of the lowest crime rates and social peace.

This raises the question how the Alpenmodel managed the turmoils of the 1980s and 1990s.

2. THE ADJUSTMENT PATH OF AUSTRIAN ECONOMIC POLICY

2.1. The two oil shocks in the 1970s

As Scharpf (2000, Ch1) pointed out, countries operated in the early 1970s almost like closed economies. International trade and financial mobility were far below the level before World War I. Monetary controls, price regulations, and import restrictions were common. Trade agreements such as GATT and WTO only emerged gradually, internationalisation was still moderate in „the golden age". The first oil shock set an end to the period of high growth and full employment in many countries. The Alpenmodel, however, with its broad repertoire of supply and demand side instruments, managed this shock better than most other countries.

The first OPEC oil crisis of 1973 hit Austria unexpected. However, a highly co-ordinated **macroeconomic policy** was able to absorb it. For the first time parliament passed two bills that allowed the budget deficit to increase from 1.5% to 4.5% of GDP. An increase in the luxury value added tax was meant to dampen the imports of cars and ease the current account deficit. An agreement of the social partners to moderate wage claims in order to keep inflation low and an appreciation of the Schilling by 3%, together with setting interest rates below the German level, helped to fight stagflation. In addition to these macroeconomic tools, export subsidies were increased in order to compensate private firms for the loss of demand and the appreciation of the Schilling. Moreover, labour hoarding by the nationalised industries was the most important industrial policy instrument.

Labour market policy used foreigners as a buffer. In 1975, the foreign workers' employment law (*Ausländerbeschäftigungsgesetz*) legitimised the Social Partners to control the labour supply of foreign workers. A drastic reduction of working permits in 1975 resulted in a reduction of foreign workers (by 52.000 between 1973 and 1976).

Between 1973 and 1978 the number of foreign workers was reduced by 20%, which amounted to a reduction of 2% of the labour force (see Scharpf 1991, p.58). The reduction of the working time to 40 hours a week helped also to ease the employment problem.

Austria absorbed the first oil shock quite well. By using macroeconomic demand stimulating policy combined with the supply side elements of export subsidies, moderate wages, a hard currency and the use of foreigners and nationalised industries as an employment buffer, the actors of the Alpenmodel managed the first oil shock better than other continental welfare states, like Belgium, which got already into deep troubles.

The second oil shock of 1978/79 hit Austria much harder, because it went almost parallel with high interest rates in the US, which spilled over to Europe. The Austro-Keynesian strategy of repeating the remedies used during the first oil shock, by diving through the crisis with low interest rates and high budget deficits, failed. The National Bank lost almost one third of its reserves and had to increase the interest rate to the German level. The „end of active nominal interest rate policy" (Winckler 1980) was due to the increased importance of financial markets. As Scharpf (2000 Ch1) stressed, the first oil shock had left its imprints not only by creating stagflation in Europe, but also by creating large offshore financial markets for petrodollars. Eventually, Central Banks lost control over the money supply. The capital liberalisation that followed was basically a legal establishment of a *fait accompli*. In Austria the regulation of financial markets has been very strict and capital exports needed the permission of the Central bank. Only in 1987 were capital markets deregulated in Austria, much later than in other countries. But the sanctions of financial markets had hit the country already in 1981, when speculation against the Schilling forced the Central Bank to give up its interest rate policy. Unemployment rates were still kept low, however at a high price: a budget deficit of –3.5%, a forced increase in the interest rate, massive reserve losses, and a depreciation of the Schilling by 2.3%. Macroeconomic policy gradually lost its power, and – by means of special allowances for elderly workers and early retirement – labour market problems were shifted to social policy rather than solved. The fact that employment problems could be loaded on the budget and on the pension funds helped to postpone reforms. The second oil shock had been absorbed with macroeconomic policy tools that had become weaker in the wake of globalisation. Labour market policy consisted, apart from working time reductions, of **passive labour market measures**: Young and unemployed people were supported in their search for jobs (based on the *Arbeitsmarktförderungsgesetz* of 1969), and unemployed were provided with unemployment benefit (today based on the *Arbeitslosenversicherungsgesetz* 1977).

Altogether, Austria managed the 1970s far better than all other continental welfare states – measured in terms of unemployment rates (see Table 1).

INSERT TABLE 1

2.2. Domestic and financial shocks in the 1980s

Among the many political changes in the mid 1980s the **breakdown of the nationalised industries** was certainly the most dramatic event. In 1985 about one fifth of Austrian industry was still nationalised, one third of which was the steel sector. The nationalised industries employed more than 100.000 people in Austria, i.e. 18.4% of the total industrial labour force. It accounted for 31.6% of the turnover of the total industrial sector, for 21.5% of its exports and for 19.2% of its investments (see Aiginger 1986, p.495). The nationalised steel industry was heavily subsidised, and planned to massively reduce personnel by 1990, a trend that had already been started in other countries (e.g. in Belgium it had halved, in Germany it fell by -34%; see Aiginger 1986, p.494). Again, Austria tried to maintain employment levels longer than other countries, and reacted later with restructuring. This time the SPÖ was no longer willing to support the nationalised industries. The trade unions followed hesitantly, since the ÖGB was, indeed, squeezed between the increasing claims of the sheltered sector and the increasingly unstable private sector, which was becoming less willing to finance the growing deficits of the nationalised industries. The **privatisation programme** for 1987 included a gradual and partial-privatisation of up to 49% private ownership.

Sacrificing the nationalised industries – the most densely organised companies and the most stable voters of the SPÖ – led to a decrease in both ÖGB and SPÖ membership. The workers, frustrated by the threat of job losses in these industries, became the ideal clientele for Haider's increasingly right wing populist freedom’s party, the FPÖ.

Macroeconomic policy by then had shifted from full employment to „budget consolidation”. The high interest rates of the early 1980s burdened the budget. In combination with low growth rates, the public debt grew faster than the GDP. The debt-output ratio increased, and more and more budget expenditures had to be devoted to interest rate payments. The budget problems in Europe were a consequence of financial markets becoming more powerful, leading to a spill-over of high US interest rates to Europe. The shift from low interest and high budget deficit policy to high interest and low budget deficit policy meant an abandonment of macroeconomic policy as an employment tool. The tax reform 1988 was introduced to adjust the Austrian tax system to international standards. Its goals were to broaden the tax base and to lower tax rates. As Farny (1996) aptly shows, from 1988 onwards Austria slowly became a paradise of low tax rates. With the 1993 tax reform, the tax on handicraft enterprises (*Gewerbesteuer*), the inheritance tax, and the special tax on banks were abolished altogether (Farny 1996, p.61 and p.72). With regard to taxing property, Austria has fallen below the level of Turkey to the lowest rank of the OECD and far below the EU-level (Farny 1996, p.74).

The shift from macroeconomic policy to industrial policy, consisting mainly of privatisation, the promotion of small and medium enterprises, and tax competition, was the first step on the route to neo-liberalism. Budget consolidation in Austria was mainly done through the sales of public enterprises and through tax increases in the sheltered parts, such as indirect taxes and taxes on labour.

Employment problems were still solved through early retirement and passive labour market policy. However, this first strategy, together with the demographic trend of longer life expectancy, increased the pension financing problems. The 1980s and 1990s saw the Austrian welfare state transformed into a „**state of pensioners**": in 1993, 2.2 times more transfers were spent on the old than on the young. Only Italy beats Austria in this aspect (3.5 times more). The Netherlands and the Scandinavian countries give young people preferential treatment (0.7), Germany lies in the middle (1.7) (see Esping Andersen 1996, p.4).

Between 1975 and 1985 the number of older workers fell drastically. While in 1975 97.6% men (and 47% women) aged between 55-59 were part of the labour force, in 1985 only 70.1% (29.6% of women) participated on the labour market. The participation rate of males aged 60-64 fell from 1975: 37.5% to 1985: 17.7%, the corresponding figures for females show a decrease from 12.9% to 7.5% (see Walterskirchen 1997).

The **pension reform** of 1985 included for the first time cuts in benefits[i]. They were justified by financing problems of the pension insurance. The effects of the reform did not suffice, though. This led to a further revision in 1987, consisting of cuts in services. The base for benefit calculations was extended to another five years from 10 to 15 years of contribution payments. School and university years no longer counted as contribution equivalents.

By the late 1980s, macroeconomic policy instruments for employment had been abandoned and the industrial policy of labour hoarding had been given up. Early retirement and a moderate wage policy were the major employment stimulating instruments. Social policy and wage policy had to carry the burden of increasing internationalisation.

2.3. Political and Economic Shocks of the 1990s

The challenges of the 1990s were the political and economic changes in Europe. A labour supply shock hit Austria in 1990/1991, where Austria's labour market problems were enhanced by migration from the traditional immigrant countries Yugoslavia and Turkey. The political crisis in former Yugoslavia affected Austria’s labour market more than the opening of borders to Central and Eastern Europe (only one fourth of the new wave of migrants came from there; see Hofer and Pichelmann 1998).

Astonishingly, the labour market was well able to absorb an increase of about 7% of the Austrian labour force in 1991. Between 1987 and 1996 total employment increased by 7%, roughly three quarters of which were additional foreign workers. Again, **public employment** was an important instrument for improving the employment situation. The public sector (including education and health services) contributed to the easing of the labour market situation by creating 140.000 additional jobs for Austrians. This comprised two thirds of the total employment increase (see Walterskirchen 1997, p.7). Foreign employment increased in particular in the construction industry, in wholesale, and in hotels and restaurants.

The break down and privatisation of the nationalised industries were the big events of the 1980s. The 1990s were dominated by **the EU-referendum** in 1994 and membership in 1995 as well as EMU membership in 1999. Again, in a pattern of good old compromise, all the Austrian social partners „went Europe“. In 1992 an agreement was made in which they codified the switch from a closed to an open economy. Once the line was set, no counter arguments were heard. The referendum result was impressive. 66% of Austrians voted in favour of EU-membership, without, however, being aware that the next budget cuts were already waiting.

Austria became a member of the European Union on 1st of January 1995 and of the European Monetary Union in 1999. Especially the latter included further restrictions to employment oriented macroeconomic policy. The Maastricht criteria put restrictions on budget deficits for countries wanting to join the European Monetary Union. Net lending was not allowed to exceed 3% of GDP. For countries that had managed to join the Euro, even stricter budget criteria applied. The stabilisation pact of Dublin 1997 requires a zero budget deficit over the business cycle. This means that a Keynesian employment oriented policy of deficit spending was not feasible even in the short to medium term. Monetary policy was delegated to the European Central Bank and tax reforms aimed to reduce labour costs. Supply side elements gained in importance, the neoliberal wave had hit Austria, though ten to fifteen years later than other countries. Industrial policy aimed at further privatisation, this time beyond 50% of state ownership, at increasing Austria’s chronically low Research and Development activities and at deregulating artisanship. The promotion a good location for foreign enterprises and the prevention of firms moving abroad became important policy goals (*Standortsicherung*). In the mid 1990s macroeconomic and industrial policy were hardly used anymore for employment provision.

2.4. Social Policy and Labour Market Policy – the last agendas to be changed

The expenditure budget consolidation process started in 1995, when Austria's net deficit reached its post war peak with -5% of GDP. From 1995 onwards Austria followed a strict budget consolidation policy in order to fulfil the Maastricht criteria of 3% public net lending in order to qualify for the European Monetary Union, a goal that it reached in 1997 (-2.9%). As to government revenues, the total outlays of the government increased continuously till the mid 1990s and reached 53.2% of GDP in 1995, while they decreased in other continental welfare states, like Belgium and the Netherlands from 1993 onwards. The big switch in Austrian economic policy making towards expenditure cuts in 1995 was pushed forward by the government. The first budget consolidation package (*Sparpaket I*) was, for the first time in Austria’s postwar history, proposed by the social democratic government without asking the consent of the social partners and, therefore, was doomed to fail. It was followed by a second Structural Adjustment Act (*Sparpaket II*) in 1996 designed by the social partners.

The suggestions for a Sparpaket II exceeded by far the cuts of the spring 1995 Sparpaket I but on this occasion they came under the umbrella of the social partners. The social partners went much further in their cuts than the government would ever have dared (Tálos, Interview September 1998). It planned budget expenditure cuts of 34.5 billions of Schillings and included reductions in the family assistance scheme, cuts in the birth assistance allowance, income dependency of transfer payments, no increase of health care money and stricter regulations for unemployment benefits. Furthermore, the number of contributions and insurance months required for early retirement were raised, disability pensions were subjected to stricter provisions, and special early retirement schemes (*Sonderunterstützungen*) were abandoned.

As Alber (1998) shows, the majority of measures and cuts concerned pensions and not so much unemployment or health care. However, the unemployment benefits that had been linked to gross wages were linked to net wages with an earnings replacement rate of 57.9% in 1993 and down to 56% in 1995. Benefit abuse of unemployment insurance and emergency relief benefit were more heavily controlled. The extended benefits for older workers or workers in crisis regions, that had been introduced in 1990, were abandoned in 1993.

Social policy experienced major cuts in the early 1990s. It followed a restrictive course in the 1990s. The only extensions since that time, are

1. The introduction of a care allowance (*Pflegegeld*) for the sick or disabled, due to the personal engagement of a minister on the issue. On July 1, 1993 the care allowance with seven brackets, depending on the degree of need for care, and independent of income was introduced. The additional costs of 8 billion ATS for the federal government were covered by an increase in the health insurance contribution (0.4% increase for both workers and employers).

In political exchange the **parental leave allowance scheme** had to be extended from one to two years in 1990, but was again reduced in 1996 to 18 months (Alber 1998, p.19). These measures aimed in particular at women to withdraw from the labour market.

2. The opening of access to emergency relief payment (*Notstandshilfe*) for foreigners, something which had been forced upon by the Courts and

3. Some improvements for self-employed people that have been forced through by business.

However, despite all budget problems, public employment (in particular by chambers and municipalities) still increased till 1995, a feature which Austria shares only with France. In 1997 there was a stop in public sector hiring, and civil servants experienced income cuts. Government expenditures in % of GDP fell continuously from their peak of 55.2% in 1995 to 54.6% in 1996, to 53.2% in 1997 and to 52.7% in 1998 (see Eurostat).

Austria reached the late 1990s with increasing unemployment rates. They had increased continuously from 1.6% in the 1970s, to 3.3% in the 1980s and 4.3% in the 1990s. In 1999 it was 4.7%, still far below EU average (7.3%) but with an increasing trend, while other countries such as Denmark, Ireland, the Netherlands and Portugal developed in the other direction.

Austria had resisted or postponed adjustments to international challenges the longest. In that sense it was a laggard. The policy field, which was the largest taboo and was only deregulated recently, was the labour market itself. Labour market policy tried first to include more active elements of job promotion.

In 1994, the Austrian labour market service (*Arbeitsmarktservice, AMS*) was shifted from government to the governance of the social partners (bipartite for decisions and control, tripartite for the supervisory board of the federal AMS). The AMS administered in 1996 43 billions of ATS for labour market policy, of which most is devoted to passive labour market policy (Hofer and Pichelmann 1998). However, **active labour market policy is gaining in importance** due to EU-employment policy. In order to adhere to the national action plan for employment of 1998, Austria proposed several active labour market policy measures in order to obtain EU funds. Emphasis is put on reducing youth unemployment and on the shift from passive to active labour market policy (see Unger 1998). Only Spain, the UK and Luxembourg had lower expenditures for active labour market policy in percent of GDP and per percent point of unemployment (see OECD Employment Outlook 1997).

While active labour market was acceptable to unions, labour market flexibilisation was heavily resisted. Trade unions wanted to regulate the full income of their members. But with increasing unemployment and internationalisation, the government put considerable pressure on the Social Partners to **amend the working time law** of 1997. Finally, the competence for regulating flexible working times was shifted to the sectoral level and left to the collective agreements of the individual trade unions.

There had been, however, still few attempts to reform working time arrangements. Austria has the lowest flexibility of working time within the European Union. Only 17% of Austrian workers work in shifts, only 8% at night, only 20% on Saturday and only 12% on Sunday (Walther 1996). Sunday and holiday work in Austria is still lower than in other countries, and remains a sensitive issue to trade unions and the church, as well as to small shopkeepers who cannot afford to hire personnel.

Overall, Austrian labour market flexibilisation is underestimated from abroad. Austria not only has the highest real wage flexibility in Europe, but also has high turnover rates in the labour market. Half of all new jobs are created in 10% of expanding firms, while 10% of shrinking enterprises cause more than half of the jobs disappearing (Pichelmann and Hofer, 1998). This means that there is a large stable part in employment in about 80% of firms, with extremely high flexibility for the extreme cases.

As Tálos (Interview September 1998) has emphasised, one has to differentiate between the official statements of social partners in this regard and their actual politics. While the official statements are still in favour of rigorous and strict labour market and wage regulations, reality is different. Many plant level agreements (*Betriebsvereinbarungen*) have flexible working time schemes, and exemptions from collective agreements are agreed on the plant level when firms come under economic pressure. In fact, labour market regulations are far more flexible than appear to be at first glance.

Neoliberal trends of cutting benefits and withdrawal of the state from the economy took place much later and at a much more moderate pace than in the other countries. Table 2 shows the policy sequence pursued in Austria. In the 1970s the main policy response instruments to international shocks were macroeconomic policies (increase in public spending, tax increases to finance it). In the 1980s the break down of the nationalised industries made industrial policy of privatisation the main policy instrument. In the 1990s social policy consisted of major cuts and changes. The latest policy area affected was the core domain of social partnership itself: the labour market. Flexibilisation, part time jobs, shift work, longer opening hours, and Sunday work, were resisted largest by the trade unions. Work time arrangements were shifted to the sectoral level and spared out of negotiations at the peak level. Compared to other continental welfare states such as Belgium or the Netherlands, the shifts from one policy field to the other occurred ten to fifteen years later. In particular the restructuring of the welfare state was postponed till the end of the 1990s. The only instrument for employment which seems still quite intact is moderate wage policy bargained at the sectoral level.

INSERT TABLE 2 The Adjustment Path of Austria's Economic Policy

3. THE NEW ALPENMODEL – ONLY OLD WINE IN NEW BARRELS?

As has been shown so far, almost all pillars of the Austrian Alpenmodel – macroeconomic, industrial, social and labour policy – have been challenged in the 1990s. Social policy reforms have been implemented as a reaction to the welfare state crisis, caused both by financial pressures and socio-demographic developments. The most important social policy changes concerned restricted access to – and reduced levels of – unemployment compensation, changes in the provision of early retirement, increased co-payment levels within the Austrian health care system, and changes within family policy.

Both the reasons of the welfare state crisis as well as the related policy shifts have affected most European countries and are no Austrian specificity (Klammer 1998). However, many of the reforms introduced by the SPÖ/ÖVP government in the middle of the 1990s might also be interpreted as part of a paradigm shift towards neo-liberalism (see also Badelt and Tálos 1999). Policy analysts in Austria by and large agree that this paradigm shift will be reinforced by the new government coalition of the ÖVP and FPÖ (Becker 2000). However, in how far do the reforms challenge the Austrian Alpenmodel, and thus the „atypical" Bismarckian welfare state? Does Austria move towards a liberal-type welfare state model? Or will it continue to remain a Bismarckian welfare state?

3.1 Work before welfare?

The traditional Bismarckian welfare state model emphasises both capitalist economic development as well as reliance on the family to provide services, continuity and stability beyond the market or the state (Esping-Andersen 1990). As has already been shown, Austria has chosen a unique policy mix to keep unemployment low – not least by providing several more or less attractive exit options for women (e.g. through parental leave allowance as well as a low provision of public child care) and older workers (e.g. through generous possibilities of early retirement). However, as the social security system is mainly threatened by demographic developments and the fact that most insurance benefits are paid through ear-marked contributions of the current workforce, these measures are at stake. Thus, policies have been introduced to improve the employability of potential workers, and to increase the participation rate.

Active labour market policies have become increasingly important (AMS 1999). Unemployment compensation has become – and will continue to be – more restrictive, both in terms of entitlement criteria, replacement length and ratio.

Recent reforms within the pension system have focused on decreasing the number of early retirees – partly by abolishing early retirement pension for partial disability – and on decreasing the replacement ratio for early retirement. The aim is to keep (older) workers longer in the labour market and to make a long-time favoured exit option increasingly unattractive. Current reforms and discussions within health insurance focus on higher payments for medical treatment and on the abolishment of the co-insurance coverage for non-working wives. The latter is as a further incentive to seek for labour market participation.

Social security benefits continue to be linked to gainful employment both in terms of coverage and level of the benefit. Conversely, there are no plans to improve the means-tested social assistance scheme. Thus, the employment centred and status-preserving Bismarckian model of the welfare state still persists and indeed has been reinforced by the new policy measures. It has however been adapted to changed circumstances: employment-related benefits have been made less attractive, gainful work becomes more important for welfare state entitlements. Put in a nutshell: work has been placed before welfare.

3.2 Flexibilisation: a way out of the employment crisis?

A deregulated labour market and more flexibility are common demands of neoliberal economists. And flexibilisation might indeed become a bigger issue in Austria than it currently is. Though Austria's turnover rate in the labour market is high, Austria is a laggard in terms of contractual flexibility. In 1997 only 14% of employees – most of them women – worked part-time, some 8% have been temporarily employed, and another 7% earned less than the base minimum (i.e. ATS 3.977.- = € 289), the level for compulsory social insurance. Due to these comparatively small proportions of precarious employment, there is quite some potential to enlarge flexible work forms.

The new ÖVP/FPÖ government is very much in favour of enhanced contractual flexibility and flexibility of working time. Its governmental programme mentions the support of these work forms as a desired measure to better reconcile employment and family obligations.

Labour unions are – officially – very critical about flexibilisation. However the new coalition government increasingly excludes labour unions from many decision-making processes, introducing a remarkable change in the Austrian policy process. If social partnership – and in particular the labour unions – are weakened, an important „control” institution with regard to increasing flexibility looses power. Moreover, as the (traditional left-wing) Ministry of Labour has become part of the (traditional conservative) Ministry of Economic Affairs, resistance against enhanced flexibility is bound to be limited.

Thus, contractual flexibility might increase quickly and considerably in Austria. A Bismarckian welfare state incorporates disadvantages for part-timers in terms of social insurance coverage and benefit levels. Currently, 28% of all women workers are part-timers (compared to 4% of all men), a proportion that has steadily increased (Tálos 1999). This gender-segregated labour market in terms of (male) full-time and (female) part-time employment results in low insurance benefits of women. Average retirement pension for women amounted in 1998 to only 59% of the average pensions for men in Austria. The female proportion of unemployment benefit was 75% of average male unemployment benefit.

Policy reforms did not aim to adjust for these inequalities. Rather, social insurance benefits have been more closely linked to previous employment (e.g. by enlarging the reference period for entitlement of retirement pension) and previous income records (e.g. regarding unemployment benefit) and favour full-time, high-paid work. Thus, the first pillar of the Bismarckian welfare model – employment-centred insurance benefits – has actually been reinforced by recent governmental reforms.

3.3 Women: mothers or workers?

The second pillar of Bismarckian welfare states is family reliance. As mentioned earlier, Austria has a comparable high female labour participation. Women are seen not only as mothers but also as workers. However, recent policies and policy plans targeted towards women in Austria are ambiguous in this respect.

On the one hand, there are incentives to integrate more females into the labour market, indeed into part-time jobs (see above). Also the reforms regarding the enhanced parental leave[ii] (*erhöhtes Karenzgeld/Karenzurlaubszuschuss*) point at the welfare state becoming less supportive of caring mothers. On the other hand, recent policy plans reinforce the role of women as mothers rather than workers in Austria. For example, the current coalition government and especially the freedom party intends to introduce a parental leave allowance for every parent. So far parental leave has been an unemployment compensation, depending on previous insured employment. As this benefit ought to be extended to all parents for a maximum of two years (if only one parent takes parental leave, this applies also for lone parents, s/he is entitled to a maximum of 1.5 years), it becomes a universal family benefit. As the vast majority of parents on leave are women, the reform encourages women to take on child care obligations, the more so as child-care facilities in Austria are still scarce. This results in a reinforcement of the male breadwinner model (see Langan and Ostner 1991; Lewis 2000) and promotes dependency of women from their (male) partners. The second pillar of the Bismarckian welfare model – family reliance – thus is fostered by the new coalitions governmental reforms.

Concluding Remarks

The analysis of the specificities of the Austrian Alpenmodel, and the adjustment path chosen, indicate Austria to be a laggard. Due to its specific mix of macroeconomic, industrial, labour and social policy, unemployment increased later than in other Western European countries. However, a deterioration of the employment situation, socio-demographic developments, and membership in the European Union have led to major policy reforms of the Austrian social security system, starting from the mid 1990s on. Moreover, after the last elections the country has – after thirty years of social democratic government participation – a new coalition of two conservative parties.

The international trend towards cutting back the state and also the welfare state has thus finally also reached Austria. As has been argued though, the neoliberal tendencies in the economy and in politics do not yet make for a policy movement away from the Bismarckian welfare state model and towards a more liberal type of (residual) welfare state of the Anglo-Saxon style. Rather, policy-makers seem to retrench the Alpenmodel back to the traditional Bismarckian model – as some of the features of Austria’s atypicalness have been renounced. E.g. „Austro-Keynesanism” and public employment have been reduced as well as the comparable powerful influence of the trade unions.

The traditional pillars of a Bismarckian welfare state – status preserving social security linked to employment and family reliance – however, have not been renounced, leaving the conservative welfare state type in Austria as solid as the Alps.

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[i] It included, for instance, a longer reference period (from 5 to 10 working years) for pension benefits, an introduction of an almost linear earnings replacement factor (before: the earnings related component varied with the length of the insurance period and was 0.6% for the first 10 years, 0.9% for next 11-20 years, 1.2% for years 21-30 and 1.5% for years 31-45. Longer working careers therefore led to privileged pension entitlement. This was changed to 1.9% for the first 30 years and 1.5% for years 31-45 (see Alber, 1998, p.15)), and slower pension payment adjustments (see Talos/Wörister, 1998, p.257).

[ii] Lone parents as well as low-income families are entitled to enhanced parental leave up until the third birthday of their child, only if they do not have a sufficient child care possibility. If the income of the parents (including an absent father!) exceeds a certain level, this benefit has to be paid back.