



# **THE ECONOMIC AND SOCIAL SITUATION IN AUSTRIA**



*European Economic and Social Committee*

# "The economic and social situation in Austria"

Contributions from the Workers' Group



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EESC/COMM/08/2013

## **Executive Summary**

The following study gives an overview of the current economic and social situation in Austria, with a particular focus on explaining the Austrian labour relations model and the importance of social partnership and its role in developments since the onset of the global economic crisis in 2008-2009.

Austria is an interesting case study in the context of the continuing difficulties the EU faces and the wide disparities between Member States in terms of recent trends and current situation. The main socio-economic indicators presented show Austria's position to be broadly satisfactory, especially compared with the rest of the euro area. Some years after the peak of the financial and economic crisis, Austria's GDP per capita is very high, employment is high and unemployment relatively low. Austria's positive economic ranking is partly due to its strong situation before the crisis and partly to subsequent trends. Over the longer term, Austria has benefited from above-average growth, which can be attributed in part to its efficient institutions and ability to adapt to changing conditions and in part to the positive impact of EU eastern enlargement and the country's geographical location in a strong and dynamic economic region.

After 2008, employment growth in Austria was markedly higher than the average for the euro area and the rise in unemployment was much smaller. In 2012, Austria registered the lowest unemployment rate in the EU for the third time running. Youth unemployment and the number of young people not in education, employment or training (NEETs) are also low compared with other European countries. Austria's labour market is generally characterised by a high degree of flexibility, loose protection against dismissal and high labour turnover. Active labour market policy plays an important role and the country has a sophisticated welfare system, which is reflected in a comparatively equitable income distribution and low at-risk-of-poverty rate. Although Austria's social spending as a percentage of GDP is around the European average, the risk of poverty is reduced more effectively through social transfers than in the rest of the euro area.

Austria is particularly noteworthy within the EU for its industrial relations and social partnership. The social partners' influence on social and economic policy goes far beyond the core area of wage negotiations and collective bargaining. Coverage of collective agreements is unusually high and there is a coordinated wage formation process at sectoral level led by the metal-working industry. Considering the transformative processes of the last few decades, the Austrian labour relations system exhibits a relatively high degree of stability and continuity. Events since the eruption of the recent financial and economic crisis have tested the relevance of systems based on social partnership (including an extensive welfare state) and offered an opportunity to demonstrate the advantages of an economic policy coordinated through social partnership.

The strong competitive position of Austria's export industry and generally healthy economic situation before the crisis helped it to ride out the storm. During the acute phase of the crisis,

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the automatic stabilisers - i.e. the automatic countercyclical response of the tax-transfer and social security systems - helped considerably in getting the economy back onto an even keel. A number of economic policy approaches in the form of stabilisation and labour market policy packages were also used to address the crisis. Social partnership played a significant role, both in the measures to support employment and soften the impact of unemployment (including short-time working, facilitating access to training leave and increasing the budget for labour market activation policy), as well as in achieving a stabilising wage policy.

The analysis that follows highlights some areas of concern, however. Although unemployment in Austria is low compared with the rest of the EU, the number of jobless is above pre-crisis levels and is expected to rise further by 2015. The increase in unemployment has been accompanied by a marked fall in average working hours, which is reflected in the low rise in real wages over the past few years. In addition, certain structural deficiencies have been apparent in Austria for some time, such as the disappointingly average performance of the education system, low labour market participation rate among older people and the pronounced gender wage gap.

The crisis also permanently changed the framework for economic policy and competing political interests and thrown existing tensions into relief. On the wage policy front, the export sector is under heavy competitive pressure to contain costs. Strain between employers and employees has frequently been manifest in recent years, resulting among other things in the break-up of collective bargaining in the metal-working sector to be conducted at the level of individual trade unions. Fiscal budgets have been constrained by consolidation requirements, leaving less scope for structural reforms. Thus although by European standards Austria is in a relatively good position, the country nevertheless faces considerable challenges for the future.

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## 1. Introduction

The advent of the global financial and economic crisis in 2008 and 2009 produced considerable disruption of Europe's economic and social system. Combined with the ensuing sovereign debt crisis, the economic crisis also changed the balance within the EU, as well as relationships between the Member States and their perception of each other. The crisis exposed imbalances between the EU that already existed but had not been sufficiently analysed and weighed before 2008, especially within the Economic and Monetary Union. The dynamics of the crisis and economic policy responses to it also amplified differences between European countries, both within and outside the euro area.

Austria is an interesting case study in the context of the current difficult economic, and economic policy, situation in the EU and the wide disparities between Member States in terms of their recent development and current position. Austria is one of the countries commentators count among the comparatively stable "core" of the currency union. Outside the currency union, Austria has also been notable for its above-average economic performance in the years following the start of the crisis. Like most other European countries, Austria has experienced the most serious crisis in 60 years. Gross domestic product (GDP) fell by almost 4% due to the collapse in export demand in 2009. But the recession was followed by a relatively rapid recovery of exports and the economy in general. The positive development of Austria's labour market was particularly remarkable in the international context. In 2012, Austria registered the lowest unemployment rate in the EU for the third time running. The Austrian system also demonstrated its stability and adaptability in other respects. The sophisticated welfare system and discretionary measures to address the crisis helped to considerably soften its negative social effects.

The following study is intended in the first instance to illuminate the latest developments and the current socio-economic situation of Austria using a range of indicators (Section 2). Austria's situation is assessed by comparing national indicators in each case with average values for the euro area and for the EU-27, as well as Germany, which is the country's most important trading partner. Austria is different from most other EU countries in the highly corporatist structure of its labour relations, and above all in the influence that the social partners have on economic and social policy, which is far greater than the average. Industrial relations and the institutional framework of social partnership have been subject to fewer changes over the past few decades in Austria than in other countries. Austria's situation and in particular its post-crisis development must therefore be understood in the context of the special role of social partnership. Sections 3 and 4 of the study therefore give a brief outline of social partnership in Austria and then consider its role in relation to trends over the past few years. The closing remarks summarise the most important findings of the analyses and consider (critically) Austria's prospects for the future.

## Where is Austria today?

Four years after the onset of the financial and economic crisis, the latest economic report of the OECD gave a very positive assessment of Austria's economic and social situation. As well as having a very high standard of living, Austria enjoys relatively low unemployment, combined with low inequality, high environmental standards and steadily increasing life expectancy (OECD, 2013). In 2012, Austria's per capita GDP was about 25% above the euro area average, or almost 40% above the EU-27 average, and also higher than Germany's (Table 1). Compensation per employee in purchasing power parity and productivity per employee were also above the average. This high economic performance is the outcome of a lengthy catch-up process where Austria closed the gap with the top-performing countries in the EU. Austria's GDP growth was slightly higher than the euro area average before the crisis owing to its close trade links with the central and eastern European countries and Germany (measured by the average rate of change between 2000 and 2008). After the crisis of 2009, GDP growth lagged slightly behind average growth in Germany but the trend continued to be better than the euro area and EU-27 average.

Table 1: Macroeconomic performance

	Real GDP per capita (base year 2005)		GDP growth (real) (average per annum)		Productivity per worker	Compensation per employee
	Euros per inhabitant	Index 2002=100	%		Index EU-27=100	PPP <sup>1)</sup>
	2012	2012	2000-2008	2008-2013	2012	2012
Austria	32,200	113	2.1	0.4	115.2	38,696
Germany	30,200	114	1.4	0.6	106.2	35,734
EU-27 average	23,200	108	2.0	-0.3	100.0	33,853
Euro-17 average	25,700	105	1.8	-0.4	107.9	36,108

Source: Eurostat, WIFO calculations - <sup>1)</sup>Purchasing power parity

GDP contracted substantially in 2009, by 3.8%. Unemployment still rose only relatively moderately in the same year, according to Eurostat figures, by one percentage point, to reach 4.8%. Employment contracted by a relatively modest 0.7 percentage points. As noted in Section 4 below, another reason that the negative effects of the downturn on the employment market were limited was that time accumulated in working-time accounts was used up and short-time working introduced to ride out the period of weak order books. This set of instruments allowed companies to keep workers on despite the slump in demand, which meant that experienced workers were available immediately when demand picked up during 2010. In addition, as in Germany, the crisis affected only certain parts of the economy in Austria, but not the economy as a whole. It was mainly the production sector that suffered, while employment in the service sector continued to expand despite the economic downturn. During 2010 and 2011 unemployment in Austria fell essentially to its pre-crisis level owing to the more favourable economic climate. From 2012, unemployment rose again as the economic situation deteriorated, although the number of jobs is now increasing despite the subdued economic performance.



Table 2: labour market indicators

	Employment rate (15-64 age group)	Employment rate (15-64 age group), FTE <sup>1)</sup>	Employment growth (average per annum)		Unemployment rate (15-64 age group)	Out of labour force <sup>2)</sup>
	%					
	2012	2012	2000-2008	2008-2012	2012	2012
Austria	72.5	63.9	1.1	0.8	4.4	24.1
Germany	72.8	63.0	0.3	0.8	5.6	22.9
EU-27 average	64.2	58.4	1.0	-0.6	10.6	28.2
Euro-17 average	63.8	57.4	1.1	-0.7	11.4	28.0

Source: Eurostat, WIFO calculations - <sup>1)</sup>Full-time equivalent - <sup>2)</sup>% of the total population

The employment indicators for 2012 show both higher per capita employment and higher full-time equivalent employment for Austria than the European average. In addition, Austria's annual employment growth for the period 2008-2012, which included the peak of the crisis in 2009, was markedly higher than in the euro area or than the average for the EU-27, equalling Germany's. Before the crisis, employment growth was higher in Austria than in the euro area and the EU-27, and substantially higher than in Germany.

Austria had the lowest unemployment rate for the 15-64 age group in the EU; in the euro area the proportion of jobseekers was about two and a half times higher. Although the inactive population was smaller in Austria than in the euro area, it was higher than in Germany. Youth unemployment is also higher than unemployment among prime-age workers in Austria, since frictional unemployment is higher among young people and they often have less experience. Young people are more likely than prime-age workers to be the first to lose their job when demand is insufficient, since they have been with a company the shortest amount of time. Youth unemployment is nevertheless distinctly lower in Austria than in many other European countries; this is attributable to the training guarantee for young people who cannot find an apprenticeship with a company, as well as to the country's multistranded system of school-based vocational training at upper secondary level. Education at this level consists of academic and vocational schools, and within the vocational schools of full-time school streams with a traineeship component and apprenticeship streams with longer periods spent in a company. Since young people who have opted for a vocational school start their vocational training while still of school age, such school-leavers are relatively "competitive" on the labour market because they often need no initial training.

Notwithstanding the strong performance of Austria's employment market internationally, it shows marked differences in age-specific labour market participation that highlight an essential problem, namely the low employment rate of older workers (Table 3). Thus there is an 18.4% difference in the employment rate of people aged 55-64 between Austria and Germany (compared with a 5.6% difference between Austria and the euro area and a 5.8% difference between Austria and the EU-27). The low unemployment rate among this age group in Austria must be seen in the context of their high rate of inactivity.

Table 3: labour market segment indicators

	Employment rate (55-64 age group)	Unemployment rate (55-64 age group)	Long-term unemployment rate (55-64 age group)	Unemployment rate (15-24 age group)	Proportion in low-paid employment <sup>1)</sup>	Working poor <sup>2)</sup>
	In %					
	2012	2012	2012	2012	2010	2012
Austria	43.1	3.0	52.9	8.7	15.2	8.1
Germany	61.5	5.9	63.0	8.1	20.9	7.8
EU-27 average	48.9	7.3	58.5	22.8	17.1 <sup>3)</sup>	9.2
Euro-17 average	48.7	8.0	61.8	22.9	15.2 <sup>3)</sup>	8.9

Source: Eurostat, WIFO calculations - <sup>1)</sup>Full-time workers on low wages as a proportion of total workers; low-waged workers are defined as workers whose gross hourly earnings are two thirds or less than national median earnings. - <sup>2)</sup>The at-risk-of-poverty rate of employed people is understood as the number of employed people (aged 18 or over) with an equivalised disposable income below the at-risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after welfare payments). - <sup>3)</sup>Unweighted average.

By contrast, the employment rate for women in Austria is relatively high and the gender difference is below average in international terms. In FTE terms, however, the female employment rate is lower because part-time work is higher among women. Whereas the female employment rate in Austria was 9.1 percentage points higher than the EU-27 average in 2012, the difference in FTE terms was only 4.6 percentage points. In addition, the unadjusted difference in gross hourly wages between men and women was somewhat higher than the European average.

Table 4: Gender gap indicators

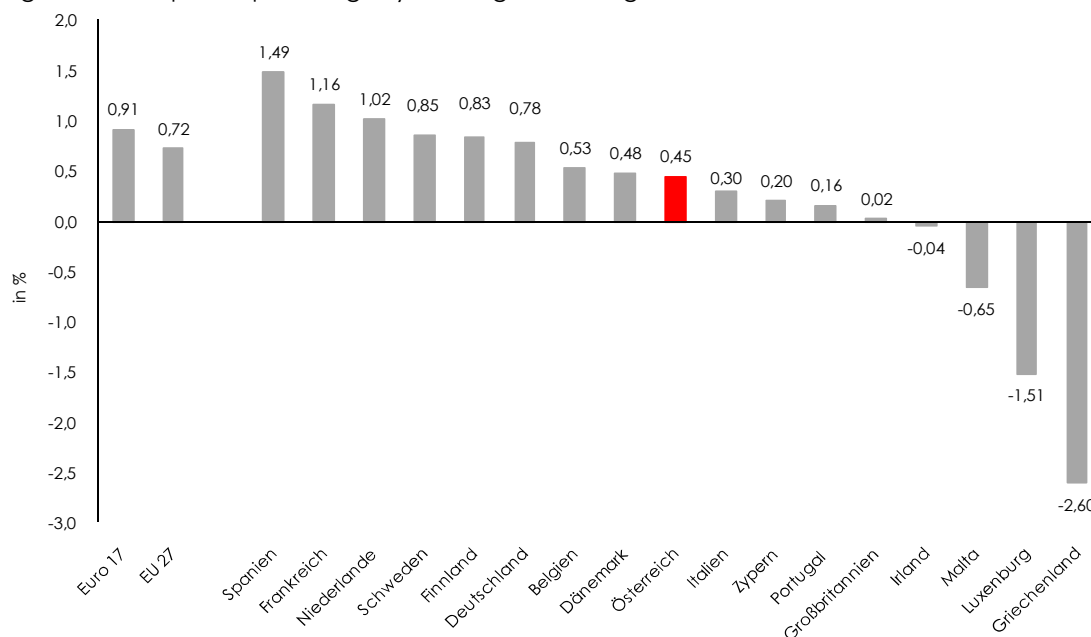
	Female employment rate (15-64 age group)	Female part-time employment (15-64 age group)	Female employment rate in FTE <sup>1)</sup> (15-64 age group)	Gender gap in employment rate (25-44 age group) <sup>2)</sup>	Gender gap in employment rate (15-64 age group) <sup>2)</sup>	Gender pay gap <sup>3)</sup>
	%	%	%	Percentage points	Percentage points	%
	2012	2012	2012	2012	2012	2011
Austria	67.3	44.4	53.0	9.0	0.0	23.7
Germany	68.0	45.0	52.1	10.8	0.5	22.2
EU-27 average	58.6	32.1	49.9	12.4	-0.1	16.2
Euro-17 average	58.2	35.8	48.4	11.9	-0.3	16.4

Source: Eurostat, WIFO calculations - <sup>1)</sup>Full-time equivalent - <sup>2)</sup>Gender difference - <sup>3)</sup>The gender pay gap is the difference in average gross hourly earnings between male and female employment as a percentage of average gross hourly earnings of male workers.

The financial and economic crisis also brought about structural changes in Austria's labour market that were essentially supply-driven: female employment continued to increase steadily, and employment of older workers also rose as a result of demographic factors (age structure of employment) and the restriction of options for leaving the workforce by taking an invalidity disability or early retirement/"corridor" pension. In addition, the employment of foreign workers is increasing again, especially of people from the countries that joined the EU in 2004, with large numbers of commuters from Slovakia and Hungary.

Another typical feature of Austria's labour market since the crisis is the slow growth in real wages and fall in average working hours (see Figure 1 and Figure 2). The fall in weekly hours actually worked was due partly to the increase in part-time work and decrease in full-time work and partly to offsetting of overtime worked, particularly in the case of people with very long working hours. Thus the increase in real per capita wages was considerably more moderate in Austria than in the euro area as a whole, in comparison with the EU-27 and with Germany, which it will be recalled has had very low wage growth historically. On the other hand, the expansion in low-wage employment was much smaller in Austria than in Germany, with barely one seventh of workers in Austria earning less than two thirds of national median earnings (compared with one fifth in Germany) and one twelfth of workers with an equivalised income below the at-risk-of-poverty threshold.

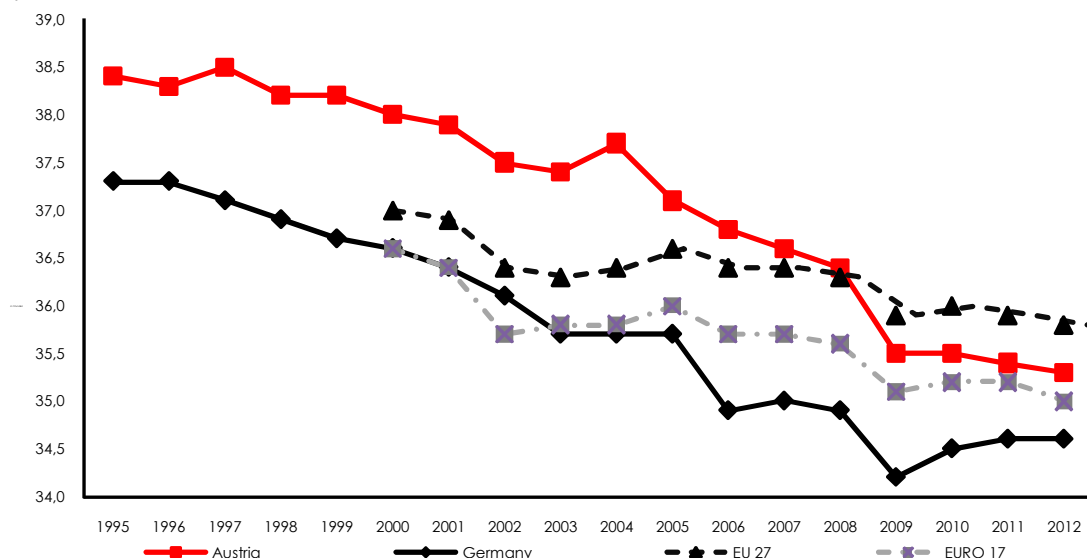
Figure 1: Real per capita wages<sup>1)</sup>, average % change 2008-2012



Source: AMECO, WIFO calculations - <sup>1)</sup> Real wages = nominal compensation per employee deflated by trends in the harmonised consumer price index

Figure 2: average weekly hours actually worked in the primary occupation

Employees



Source: Eurostat

Income is slightly more evenly distributed in Austria than in other European countries. The incomes of the top 20% were 4.2 times that of the bottom 20% of earners, whereas the ratio is higher in Germany (but only slightly) and in the euro area and the EU-27. This finding is also reflected in a comparison of the gini coefficient, which is lower in Austria than in the reference countries. Whereas Austria's rate of welfare spending - or social benefits as a proportion of GDP - is around the European average, welfare spending has a greater impact than in other EU countries, so that the at-risk-of-poverty rate is reduced much more through social transfers than in Germany and the euro area.

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Table 5: distribution, poverty and social benefits

	Income quintile share ratio <sup>1)</sup>	Gini coefficient <sup>2)</sup>	Taxes (on labour) <sup>3)</sup>	Rate of welfare spending <sup>4)</sup>	At-risk-of-poverty rate after welfare benefits	Reduction in risk of poverty <sup>5)</sup>
			%	%	%	%
	2012	2012	2011	2011	2012	2012
Austria	4.2	0.276	56.7	29.5	14.4	-44.2
Germany	4.3	0.283	55.9	29.4	16.1	-33.7
EU-27 average	5.1	0.306	50.8	29.0	16.9	-34.7
Euro-17 average	5.0	0.304	53.0	30.0	17.0	-32.0

Source: Eurostat, Taxation Trends in the EU 2013, WIFO calculations - <sup>1)</sup>Ratio of total income received by the 20% of the population with the highest income (top quintile) to the total income received by the 20% of the population with the lowest income (bottom quintile). Income is understood as equivalised disposable income. - <sup>2)</sup>Gini coefficient for household income, on a 0-1 scale. - <sup>3)</sup>As a % of total taxation - <sup>4)</sup>Social spending as a proportion of GDP. - <sup>5)</sup>Comparison of at-risk-of-poverty rate before and after social benefits

Spending on active labour market policies is designed to improve the functioning of the labour market and to prevent or eliminate unemployment. This includes training

opportunities, support services and measures to promote employment. During the crisis years, Austria implemented a range of discretionary labour market measures. This entailed a substantial increase in spending on active labour market policies, which was already slightly above the European average just before the crisis. This spending peaked as a proportion of GDP in 2009 and then fell slightly. However, Austria is still a country in which measures implemented as part of an active labour market policy are an important component of the labour market policy toolkit.

Table 6: labour market integration and active labour market policy indicators

	Fixed-term employment (15-64 age group) <sup>1)</sup>	Part-time employment (15- 64 age group) <sup>2)</sup>	Spending on active labour market policy <sup>3)</sup>
	%	%	% of GDP
	2012	2012	2009
Austria	9.3	24.9	0.667
Germany	13.9	25.7	0.634
EU-27 average	13.7	19.2	0.542
Euro-17 average	15.3	20.9	0.495 <sup>4)</sup>

Source: Eurostat, WIFO calculations - <sup>1)</sup>Workers with a fixed-term contract as a percentage of total workforce - <sup>2)</sup>% of total employment - <sup>3)</sup>% of GDP, categories 2-7 - <sup>4)</sup>Unweighted average

Austria differed from other European countries not only in terms of its quantitative labour market performance, but also with respect to many other factors, ranging from its greater flexibility and comparatively high proportion of part-time employment to the significant role of active labour market policies and the relatively limited protection from dismissal and high labour turnover (Aiginger *et al.*, 2011). Owing to Austria's rather weak protection against dismissal, fixed-term employment is much less prevalent than in Germany or than the European average. On the other hand, part-time employment has increased steadily over the last twenty years, reaching around one quarter of the workforce in 2012. This is slightly lower than in Germany, but around 5% higher than the European average.

A high education level and high-quality education system are critical for a country's economic development and form the basis for creativity and application of technical, social and organisational innovations, not to mention for integrating people into the labour market. Austrian pupils' scores in the PISA study were at best intermediate in reading, maths and sciences, with 20% rated "at risk" in both maths and reading.

Austria's scores for new students also lag behind those of some other EU countries, albeit somewhat less markedly than they used to. This is despite the fact that more young people (women in particular) than previously are going on to gain a higher-level qualification after compulsory education (Bock-Schappelwein *et al.*, 2012). Austria's education system is nevertheless notable for producing fewer people with a tertiary-level educational qualification than the European average, a characteristic which is due to the upper secondary school system. One fifth of the population aged between 25 and 64 has a tertiary qualification, whereas the proportion in the euro area is higher by seven percentage points. On the other hand, the level of education of the population is a function not only of how many young people complete a course of further education or university course, but also of

how many do not take part in any form of further education and do not acquire any experience directly in the workplace, and who therefore face a greater risk of social and economic exclusion. Eurostat figures show the proportion of young people aged between 18 and 24 who are not education, employment or training (so-called NEETs) standing at 6.5% in Austria, which is half of the level for the EU-27. Whereas almost one in every fifteen young people in Austria falls into this category, the figure is one in eight for the euro area. The difference is attributable in part to the guarantee in Austria of a non-company-based apprenticeship for young people who cannot find an apprenticeship with a company.

Table 7: education and future prospects

	Proportion of the population with a tertiary qualification (25-34 age group)	Proportion of the population with a tertiary qualification (25-64 age group)	Lifelong learning <sup>1)</sup>	NEETs (15-24 age group) <sup>2)</sup>
	%			
	2012	2012	2012	2012
Austria	23.0	20.0	14.1	6.5
Germany	29.0	28.1	7.9	7.1
EU-27 average	35.3	27.7	9.0	13.1
Euro-17 average	33.7	27.0	8.4	13.0

Source: Eurostat - <sup>1)</sup>Adult participation in education and training - <sup>2)</sup>Young people not in education, employment or training

Comparing health indicators is informative (Table 8). Whereas in Austria life expectancy for both women and men is slightly higher than the European average, the healthy life years expectancy is appreciably lower than for other European countries. This problem of apparently poorer health among Austria's population is reflected in the labour market. Around one quarter of the working population report suffering from chronic health problems – 3.9 percentage points more than the average for the euro area.

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Table 8: life expectancy and health

	Life expectancy at birth: men	Life expectancy at birth: women	Healthy life expectancy at birth: men	Healthy life expectancy at birth: women	Workers with a chronic health condition/disability
	Years	Years	Years	Years	%
	2011	2011	2011	2011	2011
Austria	78.3	83.8	59.8	60.4	24.2
Germany	78.4	83.2	57.9	58.7	25.0
EU-27 average	76.1 <sup>1)</sup>	82.3 <sup>1)</sup>	61.8	62.2	20.3
Euro-17 average	77.7 <sup>1)</sup>	83.4 <sup>1)</sup>	63.8 <sup>1)</sup>	63.5 <sup>1)</sup>	20.3 <sup>1)</sup>

Source: Eurostat, WIFO calculations - <sup>1)</sup>Unweighted average

The indicators presented in this section give a generally positive - though not completely unclouded - picture of the socio-economic situation in Austria. Although unemployment is lower than in most other European countries and employment is observably picking up, there are still some structural weaknesses in the labour market: sluggish real wage growth, a decrease in total hours worked, a marked gender income gap, and low labour market

participation among older people. Moreover, Austria's labour market is expected to see a further increase in unemployment by 2015.

## 2. Industrial relations and social partnership in Austria

Austria is one of the EU countries in which social partnership has a particularly strong impact on social and economic policy. Social partnership is based on the corporatist principle that a balance must be found between the interests of workers and employers via the relevant bodies representing those interests. The principle of social partnership was built into Austria's institutional system after the second world war. Thanks to strong support from local authorities, expertise contributed during the legislative process and the presence of many key representatives in parliaments and governments, the social partners have been able to influence Austria's social and economic policy over the past few decades far beyond the basic sphere of wage and collective bargaining (Wineroither, 2013; Brandl-Leoni, 2013). Austria differs in this respect from other countries with a social partnership model, such as the Scandinavian countries, where the social partners have been, or are, less intensively involved in public management and decision-making processes (Karlhofer – Sickinger).

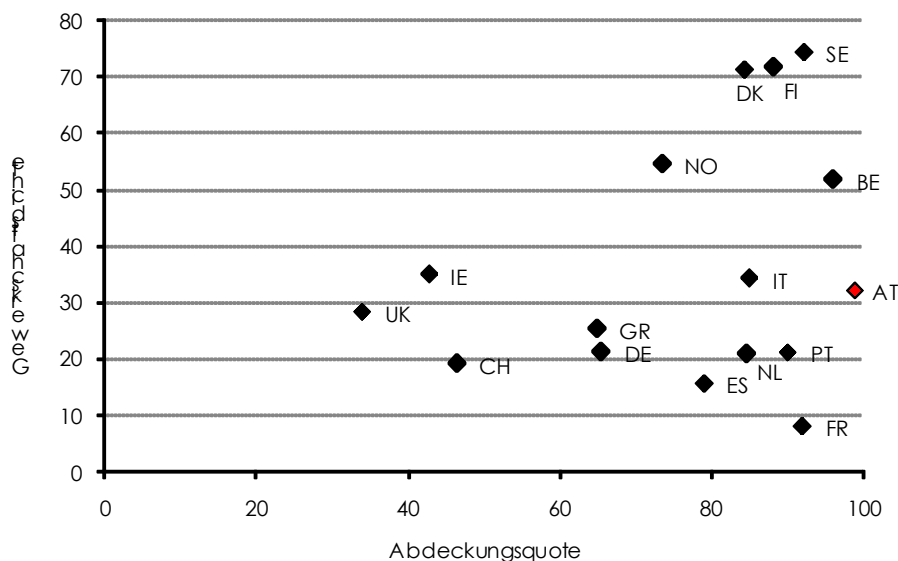
Austria is also particularly distinctive in international terms with respect to wage formation and labour relations, –especially in the current situation.– The formal basis for social partnership in Austria is a "mixed" system of representation in which associations with voluntary membership (such as trade unions) are complemented by statutory representation bodies where membership of workers or employers is compulsory (Chambers of Labour and Chambers of Commerce). The main feature of the social-partnership-based wage formation system is coordinated wage bargaining at sectoral level led by the metal-working industry (Traxler, 2001; Knell - Stiglbauer, 2009, 2012). Although numerous collective agreements are negotiated at sectoral level and the relevant affiliated associations of country-wide representative bodies (affiliates of the Austrian Trade Union Federation, professional associations and guilds in the Austrian Chamber of Commerce) operate quite autonomously (Pollan, 2004), the activity of representative bodies at national level ensures resolution between different position and a degree of macroeconomic direction.

As the following two figures (Figure 3 and Figure 4) show, collective agreement coverage is particularly broad in Austria by international standards. Collective agreement coverage denotes the percentage of workers who are covered by agreements negotiated by the social partners (or negotiating parties). This rate of coverage is very important because it is in a way what connects corporatism with macroeconomic performance: collective agreements can only have an impact on the economy if coverage is high (Leibrecht–Rocha-Akis, 2013). As the figures show, there is no correlation internationally between collective bargaining coverage and union density rate (Figure 3), but there is a correlation between collective bargaining coverage and the proportion of workers employed by companies that belong to an employers' association (Figure 4). Austria has the highest density of employers' organisations internationally. This is attributable to the legal requirement for employers to belong to chambers of commerce and the consequent comprehensive collective bargaining coverage. At the same time, labour is better coordinated than the

average and enjoys a strong position in negotiations with employers owing to the legal requirement of membership in chambers of labour and the division of responsibilities between unions, chambers of labour and workplace representation.

Figure 3: union density and collective agreement coverage

2000/2011 average

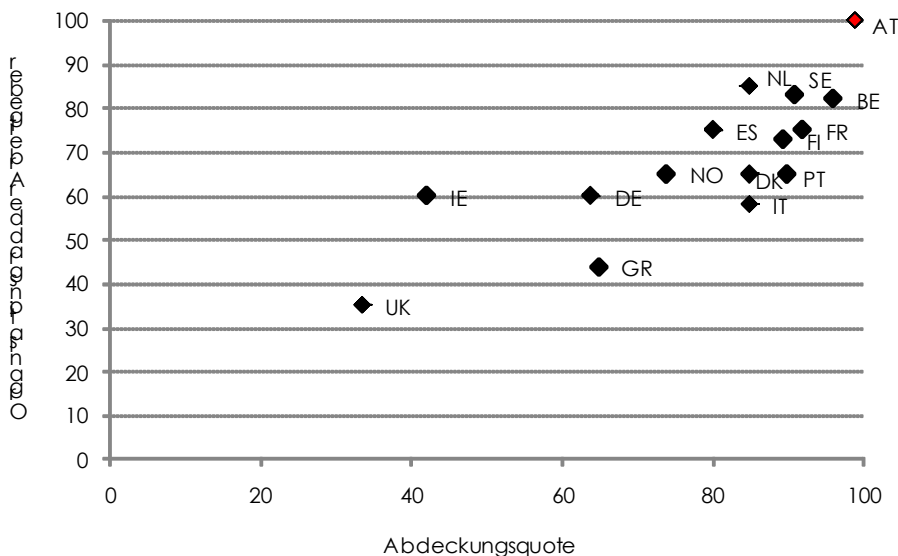


Source: ICTWSS database (version 4, April 2013), WIFO calculations

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Figure 4: density of employers' organisations and collective agreement coverage

2008



Source: ICTWSS database (version 4, April 2013), WIFO calculations



These particularities have led to Austria's social partnership model and industrial relations system often being referred to as a special case in the international (western European) context. *Traxler* (1998) points not just to the "extremely corporatist" character of industrial relations in Austria, but also to the stability and continuity of the Austrian system over time. Internationally, a shift has frequently been observed in labour relations recently away from coordinated and centralised negotiation and decision-making processes towards greater decentralisation to company level. At the same time employment relationships have become more flexible and there has been a marked increase in the prevalence of atypical types of employment. The broad economic and social policy trends of the past few decades have also left an impression on the formal framework of economic and social policy in Austria. This is apparent, for instance, in the long-term reduction in trade union density in Austria, a trend also seen in the majority of industrialised countries (*Visser*, 2006). This is attributable partly to the structural change that took place in the economy and labour market. It is precisely those areas where employment growth has been concentrated for some time whose characteristics (small company size, a high proportion of atypical jobs, short-term employment) make it more difficult for unions to recruit members.

Since the 1980s the social partnership system has come under increasing pressure within the broader social and political context. This is due to longer-term, internationally discernible trends such as the blurring of boundaries between capital and labour, the sharper divide between "winners" and "losers" in economic transformation processes, and the general depoliticisation of social forces (see *Ferner – Hyman*, 1998). EU accession, the liberalisation and internationalisation of product markets and associated increase in competitive pressure have also meant that employee and employer interests are more meshed with the company level and have weakened the perception of collective interests. Austria's accession to the EU and growing internationalisation of its economy also limited the margin for manoeuvre of interest groups. The period 2000-2006 marked a historical departure for Austria politically, when a coalition government was formed between the Austrian People's Party (ÖVP) and the Freedom Party (FPÖ), superseding a series of grand coalitions between the Social Democratic Party (SPÖ) and the People's Party, the parties of so-called "consensus democracy" (*Wineroither*, 2013). The main change in the established form of interest group politics was the key component of Austrian corporatism, namely participation in policy- and decision-making, was restricted (*Tálos*, 2006).

The role of social partnership remained consistently strong in Austria throughout these shifts and developments. This is evident for instance in the wide coverage by collective agreements, which was maintained in the 2000s through the addition of expanding spheres that were not yet covered by collective bargaining (e.g. labour leasing, the social and healthcare professions, and private educational establishments) (*Böhnisch*, 2008; *Hermann-Flecker*, 2009). The "vertical networks" of interest group politics, i.e. the traditional interaction between interest groups and a political party with which their interests coincide, also remained intact (*Tálos*, 2006). This is demonstrated not least by the notable rise again in the number of people in government representing interest groups after the coalition between the People's Party and the Freedom Party came to an end. Although estimates using the

corporatism index show a slight decrease during the period 2000-2006/7, they still confirm Austria's position at the top of the international rankings. These trends are notable in particular because in comparable countries the situation of interest group politics underwent greater change: during the same period in Germany, for instance, wage-setting processes became more flexible and there was a clear decrease in collective agreement coverage.

### 3. Response to the economic crisis and the role of social partnership

The strong competitive position of Austria's export industry and healthy general economic situation before the crisis helped it to ride out the storm. In an empirical study, *Aiginger et al.* (2012) show that the differential impact of the financial and economic crisis on labour markets in Europe can be explained to a large extent by conditions prevailing before the onset of the recession. In countries with a stronger trade surplus before the crisis –which applies to Austria– the labour market responded more gently, while in countries with above-average credit growth the response was less favourable. Trends were affected positively by certain country-specific aspects of the labour market, including both regulation and flexible factors such as part-time employment and spending on education and training. The pre-crisis dynamics of the labour market were also particularly important: in those countries where unemployment had fallen in 2007, vigorous efforts were made to maintain jobs during the crisis, presumably because companies wanted to avoid permanent loss of skilled workers. The characteristics of Austria's labour market were very much determined by these conditions, and they explain why the financial and economic crisis did not have such a negative impact on it.

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However, the effects of the financial and economic crisis was also shaped by economic policy and automatic responses. An important aspect of this was the automatic anticyclical adjustment that took place through the tax transfer system, i.e. the automatic stabilisers (*Leoni– Marterbauer – Tockner, 2011*). The way the taxation and transfer system works is a key determinant of how much a negative shock affects income or employment, and how much it reduces households' disposable income. The stabilising effect of the welfare state is generally greater in the EU than in the United States, but it varies considerably within the Union (*Dolls et al., 2009; Eichhorst et al., 2010*). Austria is one of those EU countries in which the tax transfer system has the strongest stabilising effect in the case of a cyclical fall in national income or increase in unemployment (*Dolls et al., 2009*). Estimates put the revenue loss for the fiscal system (social security contributions plus taxation) in the crisis year 2009 at around EUR 4.8 billion, which is equal to about 1.8% of GDP (*Eichhorst et al., 2010*). There was also a perceptible increase in cash transfers (see Table 9).

The automatic stabilisers and social security systems thus contributed substantially to stabilising the economy during the acute phase of the crisis. The strength of the automatic stabilisers goes back historically to the expansion of the welfare state in the second half of the 20th century. The development of the welfare state can in turn be considered a result of Austria's "consensus democracy" based on social partnership, especially in the post-war period. Although the social partners in Austria have never lost their key role in shaping

economic policy, the arrival of the financial and economic crisis marked the beginning of a phase of more intensive efforts between the social partners. *Wineroither* (2013) refers in this context to a "comeback" of social partnership. The coordinated discretionary measures that were deployed to address the crisis carried the obvious stamp of the social partners (*Brandl – Leoni*, 2013). This is particularly true of measures to stabilise employment and soften the impact of unemployment (including short-time working, facilitating access to training leave and increasing the budget for labour market activation policies).

Table 9: response of the automatic stabilisers during the crisis in Austria

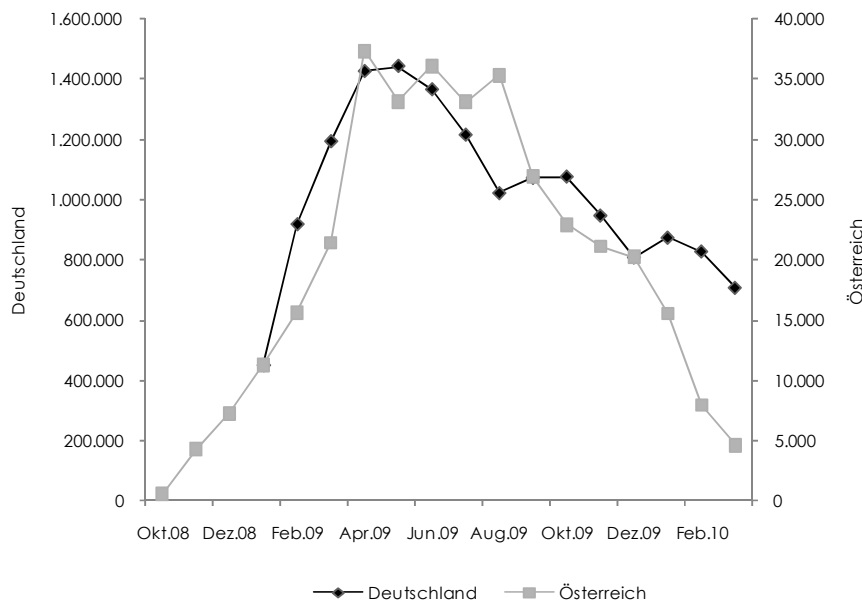
	Average growth rates 2000-2008	2008-2009 change
	%	%
Social security contributions	4.6	1.7
Income tax	5.4	-11.0
Cash transfers	4.4	6.2

Source: *Eichhorst et al.*, 2010

The crisis triggered a wide-ranging and dynamic economic policy effort. From the end of 2008 Austria adopted various discretionary measures aimed at cushioning the negative effects of the crisis. During the fourth quarter of 2008 a package of banking measures and two packages of recovery measures were adopted by the National Council. The first of these packages (amounting to EUR 100 billion) was designed to shore up the creditworthiness and liquidity of the financial market. The focus of the two recovery packages (totalling EUR 3 billion) was on promoting small and medium-sized businesses and developing infrastructure, as well as making funding available for investment incentives, regional employment campaigns and skills measures. The recovery packages were complemented by specific employment initiatives under three labour market packages and further measures.

Funding earmarked for active labour market policies was increased from 0.51% to 0.66% of GDP between 2008 and 2010. *Mahringer* (2009, p. 976) observes that a range of measures helped to decrease the supply of labour in companies while maintaining employment. This objective was pursued through specific incentives for further training (e.g. training leave) as well as substantial use of short-time working. To this end, short-time working - a labour market policy instrument that had been around for years but had hardly been used - was made a lot more flexible and attractive for companies and workers (*Bock-Schappelwein et al.*, 2011). The option was also introduced of a subsidised combination of short-time working and in-house training. This led to very intensive use of short-time working (Figure 5). Smaller-scale initiatives were also deployed to make use of additional employment potential (e.g. local authority employment programmes). It was also decided to promote the setting up of one-person companies and develop a new wage top-up scheme for certain target groups. People seeking apprenticeships were also offered non-company-based training places under the training guarantee scheme (*Mahringer*, 2009).

Figure 5: workers on short time as a response to the downturn in Germany and Austria



Source: BMASK (Federal Ministry of Labour, Social Affairs and Consumer Protection), statistics of the German Federal Employment Agency

Social partnership played a decisive role in the design and implementation of these discretionary measures. Beyond the immediate crisis management, measures were also taken to improve social security for people in atypical jobs, especially freelancers, and to improve employment conditions for temporary agency workers. In addition, the needs-based minimum benefit came on stream in September 2010, replacing the different social assistance regimes of the provinces and strengthening the legal right to a basic subsistence allowance for people in need. As well as playing a role in social and economic policy, the social partners exercised a stabilising influence on wage policy. Despite the steep fall in productivity, (nominal) wage increases were agreed on even during the crisis and the wage-setting process was conducted without major industrial conflicts, even during the sometimes difficult years of the crisis.

However, the crisis also brought about permanent changes in the framework for economic policy and interest group representation, heightening existing structural problems and challenges. On the incomes policy front, competitive pressure is exerting considerable downward pressure on costs for the export industry, owing to weakening demand in the European "neighbourhood" on the one hand and to the adjustment processes in countries hit harder by the crisis (with a reduction in unit labour costs in the euro area periphery) on the other. Although employment trends have been surprisingly positive in recent years, total hours worked by employees were still below pre-crisis (2008) levels in 2012. On average, real wages lagged behind the levels negotiated in wage agreements (in other words there was repeated "negative wage drift"), and this was reflected in a weak increase in real incomes. Although the latest wage rounds have not been accompanied by strikes either, the divergent interests of employers and workers, with respect not just to wage-setting but also to conditions such as working time flexibility, frequently came to the fore. In 2012, negotiations

in the metal-working sector were devolved to the individual trade union federations at the urging of employers. This new turn could fundamentally alter the balance of the wage-bargaining model in the next few years.

At the same time, the fiscal consolidation drive that followed on from the economic crisis severely constrains economic and social policy. Following the economic recovery and employment packages adopted between 2008 and 2010, economic policy measures were dominated by budgetary consolidation intended to reduce Austria's public debt, which had risen as a result of the crisis. Spending and fiscal consolidation measures were adopted under the stability programme (2009-2013), the federal financial framework act (2011-2014), the federal finance act (2011) and the ancillary budget act (2011). The federal budget act of 2013 established a "debt ceiling" limiting the national structural deficit, including social security and decentralised federal entities, to no more than 0.35% of GDP from 2017. Two "stability laws" passed in 2012 regulate tax increases and savings measures and legally establish a fiscal consolidation package for the period 2012-2016. The federal financial framework law (2014-2017) of May 2013 continues to prioritise fiscal consolidation, continuing the measures introduced in the 2010 and 2012 consolidation packages.

Events since the start of the latest financial and economic crisis have provided an opportunity to demonstrate the advantages of an economic policy coordinated through social partnership. On the other hand, the room for manoeuvre of national interest group representatives has in practice been reduced owing to the factors mentioned above. Moreover –in view also of the considerable imbalances and increasing economic policy interdependence within the EU– the need for transnational responses to current economic and social policy issues has increased (*Brandl-Leoni, 2013*).

#### 4. Outlook

To sum up, Austria's socio-economic position is very strong in international terms: its economic performance and competitiveness are good, welfare standards are high, the job market is vigorous and combines flexibility with security, and the welfare system is well-developed and inclusive, which is reflected in the relatively equitable income distribution and low at-risk-of-poverty rate.

Over the longer term, Austria has benefited from above-average growth, which can be attributed in part to its efficient institutions and ability to adapt to changing conditions and in part to the positive impact of EU eastern enlargement and the country's geographical location in a strong and dynamic economic region. However, the positive picture provided by empirical analyses is also partly due to the fact that Austria has fared better than most other European countries since the start of the global economic crisis in 2008-2009. Events since the crisis have tested the stability of the country's political system and institutions, and of its labour relations; they have also –countered a long-term trend– by strengthening social partnership. The automatic stabilisers and discretionary measures eased the shock of the crisis, while relations between interest groups and government during the years that followed

reverted to the patterns prevailing before the year 2000. Labour relations continue to be characterised by extremely high collective agreement coverage and a formal wage-bargaining process led by the metal-working industry.

However, analysis of recent trends and the current situation also reveals issues and challenges that will arise in the future, both for the country as a whole and for economic decision-makers and the social partners. Austria has many strengths, but also some areas of concern that have already been apparent for some time, including for instance a high rate of inactivity among older people and an education system which is in need of reform. Although Austria has enjoyed better than average development since its accession to the EU (in 1995), these years have not been adequately used to introduce appropriate structural reforms that lay the foundations for sustained growth or maintaining high socio-economic standards over the long term. The scope to undertake such reforms has decreased with time and is now more limited than before the crisis. The increase in government debt and fiscal consolidation requirements mean that public budgets are fiscally constrained. This is an issue in particular because many reform programmes are costly in the short run. On the other hand, taxes that are already high can hardly be raised further without having a negative impact on economic activity and Austria's attractiveness as a business location.

In view of these factors, Austria faces considerable challenges in the future despite its favourable position compared with other EU countries. The same holds for the system of labour relations and social partnership: Austria can look back on a model that has been a success story in many respects and the country has successfully navigated the acute crisis years. However, long-term economic, political and social trends, together with the drastic upheavals since the onset of the global economic crisis, have changed the basis for social partnership and exaggerated existing tensions.

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Published by: "Visits and Publications" Unit  
EESC-2014-83-EN

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QE-02-13-551-EN-C  
ISBN 978-92-830-2222-0  
doi:10.2864/36492