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AUSTRIAN ECONOMIC POLICY SINCE 1945:
An exploratory analysis
AUSTRIAN ECONOMIC POLICY SINCE 1945:
AN EXPLORATORY ANALYSIS*

by

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1. Introduction

Austria in its current form can look back on a relatively short history. The small country of Austria - as we know it today - came into being after the first world war as a result of the dissolution of the multinational Habsburg empire. From a trade area of 51 million people, in 1918 a small land of 6.5 million people was created more or less overnight. Nevertheless, the history of economic policy in this country, in particular during the Second Republic founded after the Second World War, is characterised by numerous unusual features. In section 2, the development of economic policy up to 1945 is sketched. Section 3 contains a description of economic policy from 1945 to today. This section divides the economic development into three phases: the reconstruction and stabilisation phase (1945 - 1955); the growth phase (1955 - 1974); and the period of instability (1974 - today). In section 4, two typically Austrian features of economic policy are highlighted: in the analysis of the social partnership in the first part, consideration is given mainly to Austrian institutional features; in the second part a further element specific to Austria is portrayed, namely, the economic policy concept of austro-keynesianism as characterised by an unorthodox combination of policy goals and methods. In section 5, a short summary and some conclusions are given. Basic information about the political system, important trading partners, government statistics and so on, can be found in the appendix.

2. Historical development up to 1945

To understand the Austrian economic policy of the last 50 years, it is necessary to be acquainted with at least the basic political and economic conditions during the first republic (1918 - 1938). Our portrayal of the economic situation during the first republic does not aim to present a complete account of the development strategies of economic policy at that time, but rather sets out in outline those points which are of interest in understanding the politico-economic strategies pursued after the second world war. Only with this background can the functioning of particular economic policy measures in the second republic be understood, in particular during the initial period. A good example of this connection is the prices and incomes agreement of the second republic - specific to Austria and dealt with in more detail below.

The damage to the economic infrastructure caused by the First World War was comparatively small. In spite of the fact that the production structure was relatively unaffected and that world economic activity recovered quickly, Austria faced serious problems. Due to the fact that before the First World War, production in what is now the federal republic comprised mainly of services and industrial goods, with the basic materials and in particular food being 'imported' from other parts of the empire, there was dynamic internal trade within the 51 million inhabitants strong economic area. After the empire was carved up, this internal flow of goods and services had to be carried out in the form of foreign trade. As the newly created states attempted to protect their own economies by cutting themselves off from Austria, trade was mainly conducted in the form of barter. This was not even enough to cover Austria's basic food and energy requirements let alone to enable the manufacture of the necessary export products. Seen from this point of view, Austria has always sought to dismantle protectionist foreign trade policies and to build an

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1 For an overview of Austrian economic policy during the First Republic, see Butschek (1985), p. 28 - 58.
open, international economic structure. In contrast to the reconstruction during the Second Republic, after the First World War the international community did not manage to establish macro-economic connections, and thus long-term political as well as economic stability could only be achieved by conceding the necessary trading freedom as well as a certain autonomy for Austria. This fact was documented in the peace negotiations at St Germain which did not dramatically worsen Austria's economic situation but did have an adverse effect (e.g. the confiscation by the victorious powers of Austrian property, the introduction of a right of distrain on all state assets in order to meet reparation requirements). The most important reason why economic reconstruction in Austria was only successful in the medium term was due to pessimistic expectations and a lack of faith on the part of the Austrian people in their ability to construct a functioning economy. A large number of national politicians and economists did not believe that a small country like Austria could survive. With this attitude it is easy to see that a "collective" solution to economic problems, as functioned in the Second Republic (see chapter 4: Social partnership), misfired at that time.

After 1919 the economic situation in Austria did actually improve: raw material prices came down; the fall in the exchange rate encouraged exports; and there was a reduction in unemployment. At the same time, however, the budget was under heavy pressure because of unemployment benefit payments, wide-ranging food subsidies and interest payment on war debts. Although this large budget deficit was mainly financed by increases in the money supply, the government saw no necessity to consolidate the budget. Deficit financing by printing money was certainly a misjudgement by the government and resulted in massive hyperinflation in 1922. At that time a trade-off existed between increases in wages and reductions in the high levels of food subsidy. However, there was the fear that these measures would give an inflationary cost push to a price level already under pressure. Even from a current perspective, these economic policy measures could only have been a short-term solution to the national debt. At the height of the hyperinflation, Austria was given an international loan for the redevelopment of the economy, the announcement of which was enough to stop the hyperinflation. It should be stressed that this loan, unlike the international aid of the Second Republic (discussed in detail below), was granted because it was in the interest of the signatories: for example, it was linked to the limiting of national sovereignty. This loan was a reason for the spark of optimism which enabled the inflationary tendency to be brought under control. Due to the pessimistic assessment by the Austrian people of their ability to survive economically, this limiting of national sovereignty was a further reason for the effectiveness of the loan in terms of the existing hyperinflation.

Up to 1929 the Austrian economy corresponded to the international image of relatively healthy development in business activity which, despite Austria's inflation experience, had not been dogged by restrictive money policies. In spite of the boom, by 1929 material prosperity had only reached the level it was at during the empire period before 1914. The boom had also hidden structural problems which were beginning to be apparent in Austria. The end of the 1920s was characterised by a relatively low growth in exports. Furthermore, the pessimistic expectations of businessmen resulted in a low level of investment. In the financial sector, share prices remained lower than expected due to the hyperinflation earlier in the decade. After the currency and exchange rate stabilisation of 1926, a stock market boom took hold which led to an inflated banking sector in Austria. A lot of speculation was on a credit basis and a lack of financial control by the banking authorities made the situation worse. As is now known, this overheating in the stock markets and banking sector
was the trigger for the world economic crisis which began in 1929. Along with America and Germany, the small, open Austrian economy was particularly badly affected. Beginning with a crisis in agriculture caused by overproduction and a drop in international prices, the economy shrank in real terms by more than 22% in the next three years. From the depression low of 1933, the economy went into recovery, but even by 1937 had not reached the levels of 1929.

Along with the pessimistic expectations for economic survival, the relatively bleak economic situation was certainly a reason why Austria was occupied by Germany in 1938. From this point onwards, Austria no longer existed as an independent, sovereign state. This annexation was also connected with a significant reorientation in economic policy which stretched into the second republic. Immediately after annexation, the free movement of goods and capital was replaced by regulated foreign trade with total control over prices. Government investment increased significantly and unemployment fell. This boom period, financed via massive public debt, had the single purpose of rearmament. In 1939 the second world war began and economic policy was put on centralised war footing. During the seven years in which Austria was annexed to Germany, a number of structural changes took place in the Austrian economy which were not particularly an expression of economic policy, but determined much more by the war situation:

(1) Before the second world war the production of consumer goods was central to Austrian industry; during the war the industries producing basic and industrial materials (e.g. steel), as well as the building industry, were significantly expanded.

(2) A series of large, efficiently run companies came into existence (e.g. VOEST steel works).

(3) Before the war, economic activity was concentrated in the eastern part of Austria. The reason for this lay in the historically determined orientation of trade towards eastern European countries. The annexation brought with it a reorientation of trade towards Germany whereby the western states (of Austria) were also of more importance in terms of the centralised planning of the war.

3. Austrian economic policy after 1945

After the second world war, Austria was an occupied, but still an autonomous country. The area of the country was divided into four occupation zones. The eastern part of the country was under Russian influence, the rest was divided between France, Great Britain and the United States. The period from the end of the second world war to today can be roughly divided into three phases. At the beginning, from 1945 - 1955, the goals of economic policy were directed at reconstruction and re-establishing Austria's independence. Subsequent to this period of rebuilding, Austria found itself in a relatively stable period of economic growth which was ended by the oil price shocks of 1973/74. After this oil price crisis, the economy was confronted with the problem of internationally rising rates of inflation and unemployment and, in comparison to the second phase, low rates of growth. These three

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phases are now discussed from a macro-economic point of view in terms of how economic policy was conceived.

3.1. The period of 1945 - 1955 (reconstruction and the road to independence)

![Figure 1: Economic indicators over the period of 1947 - 1955](image)

Source: Butschek (1985), p. 213

In order to start the reconstruction of the country after the Second World War under a stable government, a grand coalition of the social democrats and the conservatives was found, which lasted up to 1966. In 1945 Austria found itself with an economy in a state of collapse. The productive capacity of some industries had been wasted, and the workforce had shrunk. Initially, therefore, there was no problem of unemployment; on the contrary, there was a labour shortage. The most pressing problem at this time, however, was the underemployment of productive capacity because of the lack of raw materials. As well as the problem of a shortage of labour, there was, above all, a need for raw and construction materials. Particularly in the east, the reconstruction was made more difficult because of the setting-up of the USIA\(^3\) economic complex by the occupying power, namely, Russia. This economic complex employed 55 thousand workers; the profit and a part of the production had to be diverted abroad and thus was not part of the domestic economy. On the other hand, Austria profited from the occupying powers in that they unconditionally took over the responsibility for the provision of food within their zones; Austrian agriculture itself was not in the position to produce the necessary goods.

What was the orientation of economic policy during this period of rebuilding? The goals of economic policy were clearly reconstruction and stabilisation as well as the recovery of Austria's sovereignty. After the war, Austria was faced with a centralised economic administration. Also the from the Germans founded basic industries (steel mills; chemistry

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\(^3\) USIA ('Administration of the Soviet property in Austria') was an economic combine, which was owned by Russia.
plants; car, truck and construction firms) were given from the occupying countries to the Austrian government - so that Austria all of a sudden had a rather large public sector enterprise. There was never any doubt, however, that the above goals could only be achieved by establishing a market economy. Although at that time it was obvious that the introduction of a market economy could not be carried out overnight, the consensus on the importance and meaning of this massive economic policy initiative ran through all parties and interest groups. The transformation from planned to market economy actually took place not via the short, sharp shock ("cold turkey") but much more through a step-by-step gradualism.

Before the economic policy activities are examined in detail, a further point should be mentioned which can be seen as a significant factor in enabling Austria to side with other west European countries in the area of business and trade. If the reconstruction after the first world war was characterised by the prevalent pessimism - because of a lack of faith in the strength of the economy, or not believing in Austrian economic autonomy - the situation after the second world war in this respect was completely different. Expectations were characterised by optimism, by a belief in autonomy, and by a sense that the reconstruction could only be achieved by working together. This feeling was reflected in many areas of economic activity. As an example, one can take the fact that, in the period after the war, a coalition government was formed of all the parties represented in parliament. The "social partnership" (see section 4.1) still in existence today is not the only evidence of this willingness to work together.

3.1.1. The reconstruction

It was not possible to achieve internal economic equilibrium immediately after the war. A significant reason for this was government expenditure, financed by the money supply, in which the costs of the occupying powers played a considerable role. At this time, the money supply corresponded to approximately six times the quantity of goods. The result was a marked inflationary tendency which was combated by strict price regulations. It is immediately clear that one of the first tasks in economic policy had to be the restoration of an independent currency and a reduction in the money supply. In 1945 the German mark was thus replaced on by the Austrian schilling. Linked to this was a reduction in the money supply and a freeze on the vast majority of accounts. Although the money supply was still too high for this volume of goods, these measures at least made it possible to establish a sovereign currency.

Alongside interventionist monetary policy and price regulation, the decision to keep the state-owned industries was also seen, at that time, as an effective instrument to safeguard reconstruction and stability. Also, the decision to nationalise, which had a lasting influence on the structure of the Austrian economy, involved the basic industries and the banks (1946) and the electricity supply industry (1947). Since that time, the proportion of industry under state control in Austria has been amongst the highest in western European. Politically, the nationalisation and state ownership was supported by all parties, albeit for different reasons: the socialists saw nationalisation as an instrument for intervention via planning and controlling; the conservatives wanted to use it to make up for a lack of equity capital, and thus to prevent high capital inflows and dependence on foreign countries.
After initial difficulties, production was thus boosted relatively quickly; having a qualified labour force readily available was also a great advantage. In particular the industries related to the infrastructure (transport, electricity, water) managed to overcome the crisis quickly. More problematic was industrial production because of the lack of resources.

A problem which was becoming increasingly difficult was that of inflation, the origins of which lay in the financing of government deficit by printing money. In view of this, the general situation was perceived as follows:

(1) Because of the backlog of money, there was considerable demand for foreign, and in particular American, goods; this led to a shortage of dollars.

(2) No help could be expected from the world bank or the IMF, founded under pressure from the USA, because the re-financing of these institutions via the international capital market had not been successful.

(3) In the political sphere, the east-west conflict was becoming more and more difficult. Particularly in the countries occupied by the USA and by the USSR, political intervention was commonplace as a way of extending their respective spheres of influence.

At this time, a radical free market solution was on the agenda, not only because of economic considerations, but also because of a political climate dominated by the increasing influence of communism: the budget had to be balanced; the currency had to be floated on the exchange markets. A policy of tight money and the increase in the mobility of factors of production was to help towards a solution to inflation. With these measures it was hoped that the budget and the balance of payments could be balanced. For social reasons, however, this radical course was not implemented. Given the tight economic situation, it would have been impossible to guarantee a minimum standard of living for the less well off, or a sufficient supply of food in general, had prices been free to find their market levels.

3.1.2. Foreign aid

Given this economic and political pressure, wide-ranging financial support was given to Austria by America as part of the Marshall plan. Of the 13 billion dollars which Europe was given for post-war reconstruction, Austria received one billion: after Norway, the second highest per capita payment. Unlike the loans in the first republic, self-interest on the part of the donors was of only secondary importance. The Marshall plan was seen primarily as necessary for reconstruction, but also as a prerequisite for the setting-up of a democratic, free economic system. That the associated economic and political stability of Europe was in the interest of the USA, given the pressure from the increasing influence of communism, speaks for itself.

As part of the Marshall plan, Austria was initially provided with goods free of charge. The revenue from the sale of these goods had to be paid in Austrian national currency into a "counterpart fund" from which investors could borrow long-term and at low rates of interest. This solved two problems: the bottleneck in the capital market caused by the low post-war interest rates on savings, and the shortage of foreign currency (dollars) which was
typical in Europe at this time. In 1948, as a result of the support provided by the Marshall plan, economic growth of almost explosive proportions took hold, and the dramatic transition to an industrial state was set in motion.

3.1.3. The problem of inflation

The inflationary pressure could not, of course, be brought under control by this programme of aid. The inflation rate in 1947 was 10%. In typical Austrian fashion, the problem was resolved institutionally instead of technically. The increasing inflationary gap, which had come into existence in 1938 due to a drop in the quantity of goods and services at the same time as increasing wages payments, was further reinforced by a quadrupling of the money supply. The first currency policy measures had only limited success because of the wage-price spiral mentioned above. So the interest groups, under the auspices of the government, attempted to resolve the problem. In the first prices and incomes contract in 1947, it was agreed by representatives of both the employers and the workers that the economy should aim for a realistic price structure, without coming under pressure from the wage side. The prices of essential goods were fixed and other prices were subject to strict controls. In addition, the government was to reduce the money supply. The contract was successful, and in March of 1947 the wage-price spiral practically came to a standstill. The inflation rate in 1948 was -9%. In the second prices and incomes contract, the representatives from the respective sides achieved a reduction in farming support as part of a 6% wage increase. Three further prices and incomes contracts were mainly used as instruments of redistribution policy, and were not as successful as the first two. For only a short period in 1951 was there renewed inflationary pressure, and here again it was to suffice that, on the one hand, the workers' representatives reduced their wage demands, and on the other, that the employers' representatives were not permitted any further price rises. These measures were supported by favourable international economic circumstances: the raw material prices, so important to Austria, stagnated because of the flagging international economy. From 1953 the inflation rate

The prices and incomes contracts mentioned above not only represented a method of dealing with a limited problem in the period of reconstruction and stabilisation, but they were the basis of a concept specific to Austria which has made a significant contribution to Austrian economic policy - the social partnership. Roughly speaking, this involves a kind of institutionalised co-operation in which basic economic policy is not determined by the prevailing economic circumstances (e.g. strikes, etc.) but rather by getting around a table. Because of its relevance to Austria and its international uniqueness, this institution is discussed in greater detail in section 4.1.

3.1.4. The social market economy

In the meantime Austrian economic policy oriented itself towards the German model of a market economy. This particular form of free market system stresses social security for the participants in the economic system via a social network which is designed to soften the impact of a pure market economy the weakest members. It is a fact that this method avoids the excessively painful consequences implicit in a radical implementation of market economy mechanisms. The system involves an economic adaptation to the new overall situation via small, socially bearable steps. By instituting this type of market economy, the emergence of a polarised society with huge variations in income has been largely avoided.
With the completion of reconstruction and successful stabilisation, this period can be seen as coming to an end between 1953 and 1955. From this point onwards, the supply of aid under the Marshall plan was wound down, and in 1955 the occupying powers withdrew - Austria was an economic and politically independent country once again.

3.2. The period of 1955-1974 (the period of growth)

![Figure 2: Economic indicators over the period of 1956 - 1973](image)

Source: Butschek (1985), p. 213ff and WIFO database

After 1955 the economic recovery which had begun in the period of reconstruction developed into full-scale economic growth; this would later be described as an economic miracle. The high point for unemployment was reached in 1953 with 8.7%, and full employment, 2.5%, had been achieved by 1961. The whole period from 1955 - 1974 was characterised by high levels of economic growth, and was interrupted only by short and not very intensive setbacks which were dealt with using discretionary, Keynesian policies. The policy of consolidating the budget during the boom phases was really only a political response; in economic terms the pressure on the budget was not so dramatic, as the deficit could always be balanced via the high rates of economic growth.

3.2.1. Reasons for the economic growth

The declared aim of economic policy was growth which, particularly at the beginning of this period, lay well above the rates achieved by other OECD countries. Of course, the particular reasons for this rate of economic growth are not easy to pin down. It is, however, possible to imagine the conditions which created a breeding ground for the economic development in Austria at this time:
(1) Probably the most important prerequisite was a change in the attitude and the expectations of the participants. Public and private energy was directed towards building up and expanding productive capacity within the framework of a social market economy. Growth of the economy was seen at that time as positive and necessary.

(2) The country certainly profited from other countries, in particular from foreign demand for Austrian goods. It is undoubtedly the case that in Austria each economic upswing was initiated by an increase in the demand for Austrian exports. Exports and foreign trade became the most important factor for growth and employment. This is also evidenced by Austria's positive attitude regarding openness in economic affairs and support for foreign trade. From this point of view it is easy to understand the high status of export trade in Austria.

(3) That the supply of labour was still very elastic at this time can also be cited as a contributory factor for high growth rates.

(4) The supply side policy measures were also of importance as a trigger for the economic upswing. For example, the measures taken to support investment, and reductions in taxation can be seen in these terms. A moderate incomes policy on the part of the workers' representatives also had a positive effect on the investment climate.

Overall, this period can be judged as being free from major economic problems. However, by 1962 the end of the era of the economic miracle had been reached.

3.2.2. The dip in growth after 1962

Between 1953 and 1962 the average rate of growth was 6.3%; between 1962 and 1967 a rate of only 4.3% was achieved. What is more, an acceleration in the upward trend of prices and a worsening of the current account had to be taken note of.

(1) The causes of this downturn in growth were mainly structural. The transition from agricultural to industrial state had been accomplished. The industrial sector no longer had the potential for the kind of growth which was realised during the period of the economic miracle. A fall in the international prices for energy and basic products put basic Austrian industries, which for the most part were nationalised, under pressure. However, the stagnation in the industrial sector was partly offset by the expansion of the service sector, particularly the tourist trade.

(2) The second major reason for the levelling out of growth, and in particular for the worsening current account, was the international trend towards integration: in 1957 Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands signed the Treaty of Rome, thus founding the "European Economic Community" (EEC); the long-term goal, however, was political integration. Although the largest share of Austria's foreign trade was transacted with these countries, membership of this community was out of the question because of neutrality considerations. As an economic counterbalance, European Free Trade Area was founded at the instigation of Britain. (The members were Britain, the Scandinavian countries - initially without Finland, Switzerland, Austria and Portugal.) Clearly, foreign
trade with these EFTA countries, because of their geographical situation, was of much less significance than trade with the EEC countries. Nevertheless, these integration initiatives triggered a change in the structure of Austria's foreign trade. Exports to the EEC countries diminished, and increased to EFTA countries, although not in the same proportions. In contrast to this, the structure of imports remained relatively constant. Altogether, Austria suffered losses due to the discriminatory restrictions implemented by the EEC countries; this contributed, on the one hand, to lower growth rates, and on the other, to a worsening of the balance on current account.

(3) The increasing inflation which took hold after 1962, the year of recession, was the result of an inflationary development caused by an increasing labour shortage. At the level of incomes policy, the social partners agreed to the general principle of rises in real income in line with increases in productivity. Even the trade unions accepted this income policy. The wages should rise with the labour productivity and the inflation rate. Incomes policy thus served neither as an instrument of redistribution nor as a stabilising influence on prices as inflationary expectations were built into the standard wage negotiations. In spite of this handicap, agreement was always reached which, because of reasonable wage claims, prevented excessive increases in the price level.

In 1966 the grand coalition, which had already become something of a tradition, came to an end; in its place came single party government. Economic policy during this period was increasingly determined by the social partnership.

3.2.3. Renewed economic upswing: 1968

After the short recession of 1967, one of the longest economic upswings (1968 - 1974) of the post-war period began. During this time, the average rate of growth in Austria was 5.2% - well above the OECD average. Once again it does not appear to be possible to give explicit reasons for this boom. However, those factors which may have been responsible for this high level of growth can be isolated.

(1) A significant impulse for the upswing again came from the industrial sector where it appears that the supply and demand sides of the economy came into equilibrium at this time, thus resolving the structural crisis.

(2) The increasingly difficult problem of the shortage of labour was resolved by the employment of foreign workers in large numbers.

(3) It should also be mentioned that with the progress made in economic research, the experts in the field were able to offer increasingly effective solutions to the problems of economic policy; this may have partly contributed to this upturn.

(4) With the revaluation of the Deutschemark in 1969, Austria's monetary policy was at a watershed. There had previously been attempts to improve Austria's trading position by devaluation; the question now was whether a de facto devaluation of the schilling - Germany was Austria's largest trading partner - could mean problems for Austria. On the one hand, there was the danger of inflation due to the higher price of imports, on

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4 Years later this rule was named the 'Benya-formula'.
the other hand, the lack of competitive pressure could lead to a slowing down of structural change in the economy. With the decision to follow the German lead, Austrian monetary policy followed a course which is still of crucial importance today. The decision was one of pursuing a hard currency policy and close linkage to the Deutschmark. The concept was and still is very successful. Extremely stable conditions in foreign trade were achieved due to the close connection of the schilling to the mark, and the revaluation dampened inflationary pressure and stimulated structural adaptation. (See section 4.2: austro-keynesianism.)

At this point the economic structure in Austria should be mentioned. Austria is characterised by a dual system. On one side is the private exposed sector within which the hard currency policy certainly acts as a stimulant to maintain competitiveness and structural adaptation. Then there is the relatively large, protected sector which is characterised by both nationalisation and the relatively influential social partnership. The argument about hard currency affects this protected sector not at all or only partially.

3.2.4. The end of the period of high growth rates

As already mentioned, from an economic point of view this period can be described as successful and problem-free. Nevertheless, some of the roots of the difficulties experienced after 1974 can be found here, whereby the oil crisis of 1974 can be seen as the spark for the instability which followed.

Since the mid-sixties there had been comparatively high expectations regarding constantly rising incomes. These expectations and the fact that the experience of high levels of inflation in the post-war period had been largely forgotten, led to a massive increase in wage demands made by the workers' representatives. Towards the end of the sixties, this had manifested itself in accelerating price-wage inflation.

A second point to be mentioned is the substantial extension in the economic activity of the state, and with it a constant growth in the strain on the budget, and the resulting inflationary pressure. The cause of the increased government activity can be traced back, in particular, to the introduction of the system of social insurance, a consequence of which was a marked increase in taxation.

Last but not least mention should be made of a general change in the intellectual background and the basic attitude in Austria which had been so characteristic of the growth period. A new generation with different political opinions appealed for new values and a new direction away from the competitive society and the profit motive. The desire for growth, which must be seen as the prerequisite for the high growth rates in the period from 1955 to 1974, was no longer of the same intensity.
3.3. The period of 1974 - 1991 (a period of instability)

![Figure 3: Economic indicators over the period of 1974 - 1991](image)

Source: WIFO database

The break-up of the Bretton Wood Agreement, which signalled the end of the system of flexible exchange rates, can truly be seen to herald the instability and economic problems which were to come after 1974. When the raw oil price increases were implemented in 1973, nobody reckoned with a serious setback because of the healthy signs from the economic indicators. Quite the opposite, the increase in oil prices triggered a boom in raw materials which provided an impulse to Austrian exports.

Then in 1974 came the unexpected backlash. The economic climate worsened appreciably and there was a sharp proportional rise in savings. Fiscal policy intervention via income tax reform was rendered ineffective by increased saving. After that, there was a massive increase in discretionary fiscal measures to try to counteract the recession.

3.3.1. The era of full employment

If the explicit economic policy goal between 1955 and 1974 was to achieve the highest possible rate of growth, so at the beginning of the 70s full employment had taken over first place in the list of economic policy objectives.

Even during the mini-boom of 1976, additional expansive fiscal measures were taken along with an increase in the money supply. From an economic point of view, there were essentially two problems to be confronted at that time: high inflation and stagnating foreign trade.
To improve its position in the international market, a rejection of the hard currency policy (a devaluation of the schilling) was again discussed. According to international experiences, devaluation would be a temporary and relatively ineffective solution to the problem, and thus the hard currency policy was maintained. The fear of additional imported inflation also motivated this decision. Alongside the hard currency policy, the decision was taken to fix the exchange rate for the Austrian schilling to that of the German mark. An incomes policy (a relative fall in the wage growth) was used to support the exchange rate so that, in spite of the hard currency policy, there was no wage push inflationary pressure. The inflationary expectations formed by increased energy prices were thus broken as a result of these policy measures. The drop in production was not as dramatic as in other OECD countries. In stark contrast to the international labour market indicators, full employment was largely maintained in Austria throughout this phase.

From 1977 onwards, there were attempts to reduce the budget deficit by means of tax increases. In particular, the introduction of a tax on imported luxury goods enabled an improvement on current account. These recovery policies brought about a fall in the rate of growth but maintained a low level of unemployment.

The maintenance of full employment with an increase in the supply of labour was not, however, inevitably synonymous with a corresponding expansion in production. The high rate of employment was achieved much more by a reduction in the working week and in the number of foreign workers. Furthermore, labour productivity lagged well behind that of other countries. The reason for this low productivity was the rise in employment in the tertiary service sector which, experience tells us, never achieves the productivity increases which other sectors manage. Another reason could be the high employment in the state-owned industry sector: Depending on the method of analysis it can be shown that the productivity of the private sector was higher than the productivity of the state owned enterprises although it must be mentioned that other empirical methods cannot discover this fact.

Up to 1983 the Austrian economy had successfully detached itself from the international inflation and unemployment rates, and only during the 80s did the Austrian economic indicators tally with the international figures. For this reason Austria was sometimes called the "island of the blessed". The policy bundle, which was seen as being responsible for this disengagement from the international business cycle, was later termed "austro-keynesianism". Because of its uniqueness to Austria and its success, at least in part, austro-keynesianism is dealt with in more detail in section 4.2.

1981 brought to an end the era of full employment. During this period (of austro-keynesian policies) a whole lot of problems had built up which demanded a turn-around in economic policy:

(1) Because of the intense, discretionary fiscal policy carried out in the 70s and the resultant high budget deficits, the scope for countercyclical policies had become severely restricted. There were also structural reasons for the deficit such as the liability for export credit, the financing of special road projects, and the state liability for non-payment of pensions. Moreover, the state had to subsidise a large number of big companies to protect them from bankruptcy.

(2) The budget situation was exacerbated by the rapid rise in American interest rates which made the management of Austrian interest rates more difficult.

(3) Many of the economic policy measures were aimed at saving jobs and thus were more directed at conserving the existing structure rather than adapting it to the new economic circumstances.

(4) A further reason for the change in economic policy was that, both internationally and in Austria, thinking was to become fundamentally dominated by concepts of competition and structural change.

3.3.2. Consolidation

In response to these problems, there was an attempt to overcome the structural problems by encouraging investment, and by research and development projects. From this point onwards, budget consolidation and price stability were at the forefront of the economic policy.

In 1983/1984 a new stimulus to growth was once again triggered by foreign trade. The expanding American economy provided for increasing Austrian exports which initiated the longest boom, still continuing, of the second republic. The upswing is, however, associated with high levels of unemployment, although not of the same magnitude as in other OECD countries. The high level of state ownership and participation led to an economic discussion about the size of the state sector in Austria. On the basis of this discussion and for reasons of budget consolidation, attempts have been made to privatise the nationalised industries and to restrict state activity.

4. Austrian specifics: social partnership and austro-keynesianism

As the above represents just an overview of Austrian economic policy in the second republic, two unusual features particular to Austria could not be discussed in detail. The one concerns a particular form of institutionalised co-operation which was an important basic framework for economic policy decision making - the Austrian social partnership. The other - austro-keynesianism - is characterised by a particular form of economic policy pursued between 1970 and 1983, during which time a disengagement from the international recession was achieved; for example, full employment was maintained for a considerable time while in most other European OECD countries high rates of unemployment were the central problem.

4.1. The Austrian social partnership

This section does not deal with the various decisions taken by the Austrian social partnership, but rather the discussion focuses on institutional characteristics in Austria, which to a large extent dictate economic policy. As mentioned above, the partnership of 1957 grew out of the post-war prices and incomes contract. In simple terms, a committee consisting of representatives from the government and from the important interest groups was formed to take decisions on social and economic policy on the basis of least possible

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conflict. In studying the development of this form of decision making, a few features particular to Austria should be taken into consideration:7

(1) Because of the strong centralisation of trade unions and the compulsory system of chambers as well as the small size of the economic area there are only a small number decision makers in economic policy and thus a more intensive co-operation is possible.

(2) The historical and political development and stability in the Second Republic is characterised by long periods of government by grand coalition. A large number of past economic policy decisions are thus the result of a broad consensus.

(3) In Austria the ownership structures are characterised by a high level of nationalisation; of course, the members of the social partnership can exert a relatively large amount of influence over these industries; measures applied to the large state sector naturally have spill-over effects on the rest of the economy.

(4) The structure of interest groups in Austria is marked by a high degree of organisation. On the one hand there are the interest groups which have legal status and receive state funding (Kammern): on the side of the employers is the federal chamber of industry and commerce (Bundeskammer der gewerblichen Wirtschaft) and on the side of the employees, the chamber of workers (Arbeiterkammer). Another important organisation is the chamber of agriculture (Landwirtschaftskammer). On the other hand, there are also influential pressure groups with a voluntary membership: the employees are represented by the unions and the employers by a confederation of business owners. All of the above organisations are centrally organised, whereby the basic guidelines are set by the main office and passed on to the sub-offices, thus ensuring that all members toe the line.

(5) In contrast to, for example, America, there is only a limited budget available to the parliament to employ its own body of experts. In the main the advisory function is carried out by experts from the interest groups or from the political parties. For decision making, it is thus essential to include the interest groups.

(6) Traditionally in Austria there has always been a marked interdependence on personnel, with workers in political offices having functions in the individual interest groups, as well as decision makers also working for trust funds and commissions; implementation of the decisions taken is thus guaranteed.

The core of the social partnership is the parity commission for prices and incomes, which is based on voluntary co-operation. It is composed of members of the government, representatives of the federal chamber of industry and commerce, the chamber of agriculture, the confederation of trades unions and the chamber of workers. Alongside informal contact between its members, this committee meets regularly to discuss and come to decisions on important questions of economic policy. Decisions must be carried unanimously making compromise obligatory. These meetings provide a forum for an early solution to a conflict or for a softening of differing opinions. The implementation of the decisions made is ensured via the high level of organisation within the interest groups, and

the high degree of representation of members of the economic and social partnership in parliament, government and other organisations involved in economic affairs.

The parity commission is the main body to which three further sub-committees report: the sub-committee for prices, the sub-committee for incomes and the advisory body on economic and social questions.

4.1.1. Advisory body on economic and social questions

This sub-committee of the parity commission works through reports and recommendations on general economic questions for the parity commission. In its current form, the social partnership goes far beyond questions of prices and incomes. The experts for this body are chosen by the members of the parity commission. Their recommendations do not represent completely independent expert opinion, but reflect the fact that a part of the discussion and thus potential for conflict has been dealt with. Differences of opinion between politicians and experts on current matters of policy are very rare, unlike Germany where the body of expert consultants (Sachverständigenrat) is often at odds with the government. Almost all recommendations are made on the basis of a broad consensus, and this contributes to a general framework of political and economic stability. It is not uncommon for collective bargaining solutions to be achieved because the social partners are used to working in close co-operation in a wide range of economic functions. Important economic policy recommendations from the parity commission are often merely ratified by parliament.

4.1.2. Prices sub-committee

Because of the small size of the economic area and the fact that in Austria the law on cartels is based on the principle of misuse rather than prohibition, close attention has to be given to the maintenance of competitive prices. This happens in two ways: firstly, the prices of approximately 20 - 25% of goods are laid down by the authorities; secondly, a large number of goods are subject to price control by the prices sub-committee. This is not control in the sense of a fixed price, but rather an administrative instrument to influence price trends in Austria. The employers representative (Bundeswirtschaftskammer) expect all companies or industries to submit applications for price increases to the prices sub-committee and, again on a voluntary basis, to accept their decisions. The prices sub-committee can accept the application in full, in part, or it can reject it completely. In principle, this is an attempt to allow only those price changes caused by rising costs which cannot be compensated for by increases in productivity. Changes in demand conditions are no reason for price rises! The principle of unanimity is also applied in the prices sub-committee, and so the representatives of the employers and the employees must reach an agreement. If there is no consensus, the application is automatically granted. The unions also have an interest in participating and finding an agreement in price questions as they can thus influence both nominal and real wages. On the other hand, the employers can be assured that by including the unions in price negotiations, talks on other important issues regarding, for example, investment or export subsidies will not be boycotted by the employee side.
4.1.3. Incomes sub-committee

In principle, all interest groups (tariff partners) in the individual industries negotiate for themselves on the basis of a collective agreement - a guideline on the wage rate within the industry. The tariff partners are obliged, however, only to begin individual negotiations when the basic bargaining position has been agreed by the incomes sub-committee of the parity commission. Thus a double "filter" is built into wage negotiations in the form of the umbrella organisation for the interest groups, and through the discussion within the social partnership; this ensures that the wage negotiations are in tune with the general economic situation. Particular consideration is also given to the timing of the wage negotiations with the intention of achieving some continuity in incomes policy. As a rule, this system ensures wage negotiations which are concluded swiftly and without resort to extreme measures.

4.1.4. The advantages of the social partnership

Certainly the most important advantage of the social partnership is that economic stability can be treated as a public good. On the one hand, all participants profit from stability in the economy whether they have contributed to it or not (non-rivalry); on the other hand, in a pure free market system there is hardly any way of denying a so-called free rider the advantages of stability (non-excludability). Via the system of the social partnership, decisions on economic policy measures are made centrally and under collective responsibility with those participants in the economy who are represented by only few interest groupings. The possibility for individuals to free ride is therefore considerably restricted within such a system.

A further positive aspect is the potential for decision making and problem solving without conflict. The double system of chambers with enforced members and the interest groups with voluntary membership is the base for a great consensus of opinion. Due the breadth of involvement by the partnership, there are a large number of possibilities for compromise and bargaining which would not exist if the room for manoeuvre in negotiations was very limited.

4.1.5. The problem areas and disadvantages of the Austrian social partnership

As mentioned above, price control via the social partnership applies to only a particular range of goods and services traded in Austria. The consequence of this is that only a part of the economy bears the costs of pricing policies and may thus be disadvantaged in terms of competitiveness.

Not all groups which take part in the economic process are sufficiently involved in the system of the economic and social partnership. Thus the interests and preferences of organised groups which are not correspondingly represented receive too little consideration in the Austrian economic structure which is dominated by the social partnership.

On the other hand, it is possible that influential groups which are not included in the partnership can operate, to some degree, as free riders and achieve income advantages, without considering the implications for the economy as a whole. Examples would be the freelance professionals such as chemists, doctors, lawyers, etc. who profit from the social partnership but share the costs of the system only to a limited extent.
The powerful administrative network and the "all-pervasiveness" of the economy by the social partners naturally holds the danger that extreme self-interest is pursued under the guise of social partnership. The danger of bribery, corruption and "mutual self-interest" is great.

Because of the centralised organisation and the relatively large influence of a small and closed group of experts, there is a danger of a lack of innovation and of insufficient flexibility in recognising new tasks and problems. The social partnership is accused, for example, of displaying a lack of ability to cope with structural change in the economy.

From a free market theory perspective, the functioning of the prices sub-committee is difficult to understand. As mentioned above, the committee attempts to prevent price rises due to increased demand. In a perfect market this would result in rationing. In connection with this it can be said that, because of the small size of the Austrian economy, a monopolistic tendency can be found in many markets in which, even from a theoretical point of view, short-term rationing does not have to follow from intervention in price setting. However, in terms of the free market system, which Austria claims to have at least in name, criticism of such economic policy measures is certainly justified.8

4.1.6. Overall evaluation

All things considered, the institution of the social partnership can be judged as positive for Austria. It is certainly partly responsible for the economic and political stability which Austria can look back on, even though the disadvantages described above are not to be underestimated.

4.2. Austro-keynesianism

In contrast to comparable economies, Austria was relatively successful in overcoming the oil price shocks of the early 70s. This success can be seen as part of an economic policy concept applied in Austria between 1970 and 1984 under the title of austro-keynesianism. The term does not imply a theoretically based, consistent concept of economic policy, but rather a series of policy goals and associated measures resulting from a basic consensus concerning the functioning of the Austrian economy. To assign these measures to policy models such as keynesianism or monetarism is more difficult than the name suggests. Particular measures can be interpreted as keynesian, others as more monetarist. The term austro-keynesianism is much more an ex post summary of the policies which were pursued during the period in question. The uniqueness lies not in the goals pursued or the instruments used to achieve them but in the unorthodox combination of the two.

The term austro-keynesianism comes from the policy at the centre of this concept, namely, keynesian demand management in the sense of countercyclical budget policy. Other characteristics are incomes policy based on the social partnership and the hard currency policy. The main objective of austro-keynesianism lay in achieving full employment. As the stability of the price level was also seen as important, the balance of trade and the stabilisation of the budget were given less priority.

4.2.1. Keynesian goals and policy measures

In the common interpretation of keynesianism, the attempt is made to achieve full employment by discretionary demand management and financial policies (taxation, subsidies, transfers). To ensure price stability, these budget measures have to be supported by incomes and monetary policies. Equilibrium in foreign trade is established via monetary and exchange rate policies and/or import controls and export subsidies.

4.2.2. Austro-keynesian goals and policy measures

The following table classifies different aspects of austro-keynesianism:

<table>
<thead>
<tr>
<th>Goal</th>
<th>Keynesian instrument</th>
<th>Austro-keynesian instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full employment</td>
<td>discretionary budget policy + financial policy</td>
<td>discretionary budget policy + financial policy</td>
</tr>
<tr>
<td>Price stability</td>
<td>incomes policy, monetary policy</td>
<td>incomes policy, exchange rate policy, demand management</td>
</tr>
<tr>
<td>Balance of trade</td>
<td>monetary policy, exchange rate policy, export subsidies, import controls</td>
<td>interest rate policy, demand management, incomes policy</td>
</tr>
</tbody>
</table>

With reference to full employment, austro-keynesianism goes in the same direction as keynesianism: state management of demand aims to close the employment gap by discretionary countercyclical government spending. Intervention via fiscal policy, however, is not seen as a counter cyclical instrument in periods of prosperity to the same extent as is the case in the application of keynesianism in other countries. For example at the end of the first oil price shock when the economy was in a relaxation period the policy makers decided to continue the expansive fiscal policy. Perhaps this decision was the reason for the low unemployment rates in the period of austro-keynesianism. There was not a systematic counter cyclical connection between the fiscal policy and the economic situation. Fiscal policy was rather an instrument to achieve full employment. In Austria the fact was recognised that it was necessary to include the micro-economic decision makers in the deliberations on fiscal policy within the framework of the social partnership. Therefore austro-keynesianism was governed to a great extent by a broad consensus.

Price stability has to be achieved by a moderate incomes policy (given wage push inflation), by exchange rate policy (given imported inflation) or by demand management (given demand pull inflation). Responsibility for trade equilibrium lies with interest rate policy, demand management and incomes policy.

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It is clear from the above that, alongside budget policy, incomes policy takes on special importance in austro-keynesianism. The guidelines for incomes policy are basically established within the social partnership, as described above. The adoption of continuously increasing income as the policy goal excludes the possibility of redistribution via incomes policy. The increase in income has to correspond to the rate of inflation and to the rise in productivity. Because of this regulatory arrangement, keynesian countercyclical incomes policy is not possible. The primary aim of a moderate incomes policy is to maintain a stable price level.

A second instrument of price stability is exchange rate policy in the form of hard currency policy. As part of this policy, the attempt was made to hold the exchange rate constant and, in particular, to fix the schilling-mark relationship. Devaluation is not used as an instrument to encourage exports. The hard currency policy, as an instrument of austro-keynesianism, thus contradicts pure keynesianism. In spite of the theoretical contradiction in its conception, the hard currency policy was extremely successful in Austria. On the one hand, stable conditions for decision making were achieved in foreign trade (especially with Germany), on the other hand, imported inflation was at least partly resisted. One problem, however, is the distortion in allocation between the exposed and the protected sectors which arises from this hard currency policy.

Actual monetary policy, in the sense of influencing the inflation rate by manipulation of the money supply, played an insignificant role in Austria. Monetary policy was largely subordinate to fiscal policy. By attempting to maintain the nominal interest rate at a constant level, investment was to be stimulated. In the initial phase at least, the nominal rate was held constant.

To encourage growth and structural change, supply side policies such as investment support, tax incentives, interest rate advantages, saving and export incentives, etc. were adopted.

As can be seen from the following illustrations, by applying the concept of austro-keynesianism to its economic policy, Austria was able to detach itself from the general international economic situation in the period from 1973 to 1983. While the growth rate in Austria compared well, up to 1978, with the European trend (c.f. figure 7), full employment was maintained throughout the period (c.f. figure 5). Even after the period of austro-keynesianism, unemployment rates were well below those of other European countries. The inflation rates in Austria are also lower than many other despite the oil shocks of 1973/74 and 1979 (c.f. figure 6). Of the large European powers, only the German inflation rate lay below Austria's.
Figure 5a: Unemployment rate over the period of 1970 - 1987 (small European countries)

Source: WIFO Database (Remark: Because of different and not comparable measurement the unemployment rate of Switzerland has been omitted)

Figure 5b: Unemployment rate over the period of 1970 - 1990 (large European countries)

Source: WIFO database
Figure 6a: Inflation rate over the period of 1970 - 1990 (small European countries)

Source: WIFO Database

Figure 6b: Inflation rate over the period of 1970 - 1990 (large European countries)

Source: WIFO database
Source: WIFO Database
4.2.3. The end of austro-keynesianism

There were essentially two reasons for weakening the concept of austro-keynesianism:\(^\text{12}\)

(1) The implementation of a discretionary fiscal policy in which, even in periods of boom, no restrictive measures were taken, led to government debt which required a consolidation of the national finances. In rejecting expansive budget policies, austro-keynesianism lost its central weapon.

(2) In the whole of Europe, and in Austria, a change in values took place which placed consideration of industrial structure and competitiveness at the forefront of policy. The concept of austro-keynesianism was not very well suited to such policy measures. The goal of full employment was no longer apportioned the same amount of importance as was the case when austro-keynesianism was at its peak.

5. A short summary and some conclusions

If one summarises the major findings of this paper one realises that after the first world war Austrian economic policy was not very successful and Austria underwent very difficult times. Because of the creation of new economic policy institutions like the Austrian social partnership and austro-keynesian policy a much more successful story can be written after the second world war. Austria recovered quite quickly and had long and stable growth periods up to the first oil crises (1974). In the seventies Austria had similar difficulties like many small open economies in Europe but up to the year 1986 it successfully managed the economy with lower inflation rates and unemployment rates compared to most other small open economies. It is too early to evaluate whether the stabilisation period from 1986 will be a success or not but what can be seen up to the year 1992 it seems to be also a quite promising way.

The conclusions drawn from this study are that each period of time has its own difficulties and each period of time requires different institutional arrangements, e. g. when entering the EC. The two most prominent Austrian features, the social Partnership and the austro-keynesian policy proved to be quite successful for almost 40 years. Whether or not these institutions have to be reformed or remodelled to meet the new challenges like the possibility to become a member of the EC or to meet the challenge of the transformation period of former planed economies into market ones is an open question. Up to now Austrian economic policy was flexible enough to react to changes and one can hope that Austrian economic policy will face this challenge with new and maybe quite different institutional arrangements, too.

Appendix

Further basic information about the Austrian political and economic system:

<table>
<thead>
<tr>
<th>Name</th>
<th>Austria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political system</td>
<td>parliamentary democracy, federal republic</td>
</tr>
<tr>
<td>Political parties</td>
<td>- before 1986: 3 parties, after 1986: 4 parties;</td>
</tr>
<tr>
<td></td>
<td>- share of parliamentary seats since 1990, social democrats: 44%, conservatives: 33%, nationalist liberals: 18%, green parties 5%;</td>
</tr>
<tr>
<td>Trade area</td>
<td>EFTA since 1959, June 1989 application for membership of EC</td>
</tr>
<tr>
<td>GDP at 1990 prices</td>
<td>($1 = 10.4 ATS) $172.06 thousand million</td>
</tr>
</tbody>
</table>

![Figure 8: Austrian real GDP (baseyear 1976)](image)

Source: WIFO Database
Export share

Table 2: Export share in %

<table>
<thead>
<tr>
<th></th>
<th>1970</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export share of GDP</td>
<td>24.5</td>
<td>26.0</td>
</tr>
<tr>
<td>(total)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports to the European</td>
<td>39.4</td>
<td>63.8</td>
</tr>
<tr>
<td>community (share of total)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports to Germany</td>
<td>23.4</td>
<td>35.0</td>
</tr>
<tr>
<td>(share of total)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: statistical handbook for the republic of Austria 1970 and 1990

Table 3: Trade shares in percent of the total exports and imports

<table>
<thead>
<tr>
<th></th>
<th>EC</th>
<th>EFTA</th>
<th>European communist states</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>50.3</td>
<td>13.2</td>
<td>13.7</td>
</tr>
<tr>
<td></td>
<td>56.5</td>
<td>12.2</td>
<td>11.2</td>
</tr>
<tr>
<td>1965</td>
<td>46.7</td>
<td>18.4</td>
<td>15.3</td>
</tr>
<tr>
<td></td>
<td>59.2</td>
<td>14.9</td>
<td>10.8</td>
</tr>
<tr>
<td>1970</td>
<td>39.4</td>
<td>26.6</td>
<td>12.9</td>
</tr>
<tr>
<td></td>
<td>56.1</td>
<td>19.6</td>
<td>9.4</td>
</tr>
<tr>
<td>1975</td>
<td>44.2</td>
<td>15.3</td>
<td>17.1</td>
</tr>
<tr>
<td></td>
<td>62.3</td>
<td>10.6</td>
<td>10.2</td>
</tr>
<tr>
<td>1980</td>
<td>54.4</td>
<td>12.4</td>
<td>12.1</td>
</tr>
<tr>
<td></td>
<td>62.2</td>
<td>7.9</td>
<td>9.7</td>
</tr>
<tr>
<td>1987</td>
<td>63.4</td>
<td>11.1</td>
<td>9.0</td>
</tr>
<tr>
<td></td>
<td>68.0</td>
<td>7.8</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Source: Breuss (1989), p. 401
**Sector shares:**

<table>
<thead>
<tr>
<th>Sector</th>
<th>1965</th>
<th>1980</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farming and forestry</td>
<td>7.3</td>
<td>5.6</td>
<td>5.2</td>
</tr>
<tr>
<td>Mining</td>
<td></td>
<td></td>
<td>4.7</td>
</tr>
<tr>
<td><strong>Secondary sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food, drink, tobacco</td>
<td>40.6</td>
<td>42.1</td>
<td>40.2</td>
</tr>
<tr>
<td>Energy, water supply</td>
<td></td>
<td></td>
<td>4.7</td>
</tr>
<tr>
<td>Metal industry</td>
<td></td>
<td></td>
<td>3.5</td>
</tr>
<tr>
<td>Building industry</td>
<td></td>
<td></td>
<td>11.1</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Tertiary sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>52.1</td>
<td>52.3</td>
<td>54.6</td>
</tr>
<tr>
<td>Financial services</td>
<td></td>
<td></td>
<td>14.3</td>
</tr>
<tr>
<td>Civil service</td>
<td></td>
<td></td>
<td>13.2</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>13.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Schleicher and Deistler (1989), p. 78 and p. 81

**Government statistics:**

<table>
<thead>
<tr>
<th></th>
<th>Austria</th>
<th>West Germany</th>
<th>OECD average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenditure % GDP</td>
<td>51.5</td>
<td>47.4</td>
<td>40.7</td>
</tr>
<tr>
<td>Total income % GDP</td>
<td>48.3</td>
<td>45.6</td>
<td>36.0</td>
</tr>
<tr>
<td>Balance % GDP</td>
<td>-2.5</td>
<td>-1.1</td>
<td>-3.5</td>
</tr>
</tbody>
</table>

Source: Ganter (1989), p.225
Table 6: Austria in comparison with other European countries
(Total outlays of general government (% of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>37,8</td>
<td>41,3</td>
<td>48,9</td>
<td>50,7</td>
</tr>
<tr>
<td>Belgium</td>
<td>32,3</td>
<td>39,1</td>
<td>50,8</td>
<td>54,4</td>
</tr>
<tr>
<td>Denmark</td>
<td>29,9</td>
<td>42,1</td>
<td>56,2</td>
<td>59,5</td>
</tr>
<tr>
<td>Ireland</td>
<td>33,1</td>
<td>39,0</td>
<td>50,9</td>
<td>54,5</td>
</tr>
<tr>
<td>Switzerland</td>
<td>19,7</td>
<td>24,2</td>
<td>29,3</td>
<td>31,0</td>
</tr>
<tr>
<td>Germany</td>
<td>36,6</td>
<td>41,5</td>
<td>48,3</td>
<td>47,2</td>
</tr>
<tr>
<td>France</td>
<td>38,4</td>
<td>38,5</td>
<td>46,4</td>
<td>52,4</td>
</tr>
<tr>
<td>OECD Europe</td>
<td>34,5</td>
<td>38,7</td>
<td>46,5</td>
<td>50,5</td>
</tr>
</tbody>
</table>


Figure 9: Budget deficit of the central government

Source: Austrian Statistical Central Office 635, 525, 984
Figure 10: State subsidies to firms

Source: Austrian Statistical Central Office 635, 525, 984
References


