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Landeskunde: Austria at 60

– A Social Market Economy in Transition

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The paper argues for a more ‘information-rich’ approach to the *Landeskunde* of D-A-CH. It outlines the specific features of the unique socio-economic and political model of the 2nd Austrian Republic since 1945, on which ‘Austrian national identity’ is essentially based. It tries to show why this model entered a period of crisis in the 1990s – and how the Austrians are (so far successfully) coping with the necessary economic, social and political transformation processes. The study of Austria may provide clues to political, economic and social changes still to come in Germany and other EU member states.

Over the years, we have heard frequent admonitions to broaden the focus of *Landeskunde* beyond Germany proper (cf. ABCD-Thesen 1990). This is still rarely done apart from the perfunctory inclusion of some Austrian (or Swiss) national peculiarities in presentations of everyday culture. The ‘smaller countries’ of the German-speaking world more often than not appear as secondary regional variations and are rarely treated with the respectful interest they deserve. Ironically, modern *Landeskundedidaktik* contributes to this lamentable state because it rightly emphasises the relativity of cultures, cultural interpretation and reflective practice in the classroom (*das ‘Eigene’ und das ‘Fremde’*, ‘*entdeckende Landeskunde*’). But in doing so, it also habitually (and in my opinion absurdly) rejects any notion of ‘Realienkunde’, i.e. the teaching and learning of ‘facts’ (e.g. Hackl 1994:30) – if only by pointing to the overwhelming cultural complexity of German-speaking Europe:

Wissen denn Muttersprachler ‚alles‘ über ihre eigene Kultur und die der Nachbarn? Sind sie mit allen Phänomenen der drei deutschsprachigen Gesellschaften vertraut? Natürlich nicht, und dennoch können sie miteinander kommunizieren. [...] Der Ausweg, den das D-A-CH-Konzept vorschlägt, heißt: Die Lernenden sollen Methoden des *selbstständigen* Wissenserwerbs trainieren. (Biechele/Padrós 2003, 107)

Such wholesale substitution of *content* with *method*, however, affects the perception of Austria and Switzerland far more negatively than the *Deutschlandbild* of learners worldwide. The result is simple ignorance. This is a pity because both countries do indeed

¹ This article is based on two lectures given at the Hong Kong Baptist University and the Macau Institute of European Studies as part of a conference “The State of Austria 2005”, organised by

have distinct socio-economic systems, which have created cultures noticeably different from Germany. The present *Landeskundedidaktik*, however, omits them almost entirely – because their appreciation requires a thorough look at ‘facts’, i.e. the respective political, social and economic fabrics and their historical genesis. By contrast, this article intends to contribute deliberately to the development of a “*Landeskundekonzept [...], in dem das kognitive Wissen als systematisches Wissen dominiert*” (Hackl 2001:1205). As teachers, we can hardly stimulate our learners to be autonomous (“*handelnd und eigenverantwortlich in der Recherche*”, Hackl 1994:30) – if we ourselves are not at least basically familiar with the peculiarities of non-German German-speaking countries. Let’s make a start with Austria.

1. Jubilee Austria 2005

2005 is a multiple jubilee year for Austria. The country celebrates the 60th anniversaries of its liberation from Nazi occupation, the end of WW II, and the foundation of the 2nd Austrian Republic and its key political associations (among them the Austrian Federation of Trade Unions ÖGB and the country’s major political parties, the SPÖ and the ÖVP). 50 years ago, in 1955, Austria regained full sovereignty through the *Staatsvertrag*, a multilateral treaty which also established the country’s neutrality between east and west. The *Staatsvertrag*, in fact, created the very conditions under which Austria could develop a distinct modern national identity. Finally, ten years have passed since the country’s accession to the European Union in 1995 – an event with far-reaching economic and socio-cultural consequences. Now is certainly an appropriate moment to reflect on Austria’s successful development during the last six decades. This article will sketch some of Austria’s underlying socio-political and economic structures, as they have changed over the years.

The 2nd Austrian Republic is a textbook case of a successful *Social Market Economy*, a typically ‘old European’ compromise between free market liberalism and social-democratic ideas. Social Market Economies are currently in a period of crisis – and nowhere more so

the Austrian Consulate General in Hong Kong in spring 2005.

than in Austria's big neighbours to the north. Austria has so far coped with necessary reform processes rather better than most European countries, albeit with considerable public dissatisfaction. It may, therefore, serve as an example of trends and trouble still to come elsewhere. To appreciate this, one needs to put aside common stereotypes about this 'Land of Music' and become aware of its real achievements during the last six decades:

Die längste Zeit wurde Österreich gepriesen oder verdammt, aber es kommt darauf an, es zu entdecken. Wer zu ihm vordringen möchte, muss den Zauberwald der Idyllen hinter sich lassen und die sieben Berge der Geschichtslosigkeit überwinden. Dahinter liegt ein Land, das den Verklärern Österreichs nicht gefallen mag und von dem die Verächter überzeugt sind, es wäre gar nicht vorhanden. (Gauß 2001:75)

2. Post-War Austria: Successful Structural Change

The present shape of the Republic of Austria dates back to the Treaty of St. Germain in 1919. Today, roughly eight million people live in this German-speaking 'leftover' of the much larger Austro-Hungarian Empire, as the then French prime minister Georges Clemenceau defined it: *L'Autriche est ce qui reste*. The impoverished 1st Austrian Republic, stripped as it was of most of its industries and markets by the peace conference, was annexed by Nazi Germany from 1938 to 1945 and then reconstituted as an independent federal republic – the *Second Austrian Republic*. Both republics had to deal with the lack of a distinct national identity. The Austrians of the inter-war period, in a manner of speaking, saw themselves as 'Germans' (and as such had joined the fight for *Einigkeit und Recht und Freiheit* in the 19th century revolutions). But in 1919, and again in 1945, they were prevented from becoming (or remaining) part of the German nation. It was then largely the success of the Austrian economy after 1945 (and the creation of a collective system of social provisions) which made 'the Austrians' what they are today: German-speaking, but yet a distinct nation with its own characteristics.

Austria's post-war economy underwent the typical transformation process hypothesised by *Jean Fourastié* (1952). Fourastié assumed that advanced industrial societies would all see a dramatic shrinking of their primary and secondary sectors, which however would be offset by a rising demand for services. This hypothesis was correct, as we know today – even though Fourastié could not foresee the rise of modern *job-threatening information*

technology and the *effects of globalisation (and Europeanisation)* even on the tertiary sector. Today, both factors make the transition process in reality far more difficult than predicted. Austria, nonetheless, has so far managed the transition rather well. Less than 5% of the work force is still engaged in agriculture and mining (the primary sector). But about 70% now works in the tertiary sector. Major job losses occurred in the industry, especially in the 1990s. Austria today, therefore, has the profile of a highly developed, ‘post-industrial’ nation, as predicted by Fourastié.

In that state, it does rather well, as some statistical data may illustrate: The overall unemployment rate in Austria according to OECD statistics currently stands at a mere 4.5%. This is very low indeed when compared to France (10.1%), Germany (12.0%) or the European Union average (8.8%). It is lower even than in such ‘miracle’ economies as the U.S. (5.4%) or Hong Kong (6%)². The Austrian GDP grew in the last quarter of 2004 by 2.4% – again higher than the European average. It stands at around 30,000 US\$ ppp per capita p.a., surpassing France and Germany, and roughly equal with Switzerland. Austria is thus among the 10 fastest growing OECD countries in the world³, the third-richest EU country and number 7 worldwide⁴. These figures indicate persistent economic success in times of radical change. Economic prosperity and mechanisms to spread its benefits as broadly as possible in an intricately democratic system are what Austrians feel proud of today (cf. Koppensteiner 2001:80-82) – not the least because the initial post-war starting conditions had been anything but favourable.

3. The Inauspicious Start

The *1st Republic* had left Austria in fact with a troublesome economic and political polarisation between highly industrialised ‘Red Vienna’ and an otherwise predominantly agrarian, catholic-conservative rest, which brought the country to the brink of civil war in the 1930s (cf. Vocelka 2000:272ff.). The period of Nazi occupation saw the build-up of

² Figures: Economist 2 Apr 2005, 88; <http://www.info.gov.hk>.

³ Cf. <http://globalis.gvu.unu.edu/>.

⁴ Cf. Pelinka/Rosenberger 2003, 43 and <http://globalis.gvu.unu.edu/>.

(German) state-owned heavy industry cores (e.g. around Linz in Upper Austria) within the framework of a war economy. The allied powers divided post-war Austria, like Germany, into four military occupation zones, in the process creating dramatic imbalances in the economic development. In the Western zones, economic life soon returned to a pre-war, pre-annexation system of free markets. In the east, a Soviet authority named USIA (*Uprawlenie Sowjetskim Imuschestwom w Awstrij*) took over former 'German' industrial property, including about 300 big industrial enterprises, major banks and the energy, mining and transport sectors. Private investment around Vienna stopped altogether, and funds from the European Economic Recovery Fund (ERP, the 'Marshall-Plan') were channeled exclusively into the western regions.

On 27 April 1945, a newly formed provisional government reconstituted Austria as an independent, though not yet sovereign country. The first post-war governments, coalitions of social-democratic, conservative and (at first) communist parties, upheld state ownership not least because they could thereby potentially limit further Soviet influence over the country's industry. Two *nationalisation laws* in 1946 resulted in an exceptional *dual ownership structure* in the economy: a very large *state-controlled industrial sector* (predominantly in the east) in an otherwise free market economy characterised by small and medium-sized enterprises. The entire economy, however, was severely affected by the onset of the Cold War, which deprived Austria of all its markets in eastern-central Europe.

The *Staatsvertrag* of 1955 effectively ended allied occupation – under the obligation, however, “*to practice in perpetuity a neutrality of the type maintained by Switzerland*” (cf. Vocelka 2000:325). Politically, the neutrality status created modern Austrian identity as the proverbial ‘Island of the Blessed’ (as Pope Paul VI once called the Second Republic). In a recent interview with Deutschlandradio, the writer Joseph Haslinger described the pervading ‘national feeling’ of the 1960s and 1970s in these terms:

Wir sind eine Insel der Seligen geworden, wir haben mit Krieg und so weiter, Verwicklungen, nichts mehr zu tun, wir machen unsere eigene, friedliche und kulturell hochwertige Suppe und da fühlen wir uns wohl und alle Bösartigkeiten sind sozusagen

anderswo und wir sind die Guten, – das war so ein Gefühl, das so allgemein verbreitet wurde.⁵

The dimension of international politics alone, however, is not sufficient to account for the newly acquired, positive *‘Wir-Gefühl’* of the Austrian population. The neutrality status was paralleled by a new – and ultimately problematic style – of domestic political arrangements, which nonetheless successfully created genuinely ‘Austrian’ socio-economic structures and a consensus culture based on material security and prosperity. The fact that the *Staatsvertrag* held the country suspended between the two big power blocks in Europe helped to shape these distinct national features.

4. Social Partnership and Austro-Keynesianism

From the onset, the determination to overcome pre-war ideological divisions characterised the Second Republic. Parties cooperated across the political spectrum – in particular the *ÖVP* (the conservative *Austrian People’s Party*) and the *SPÖ* (*Social-Democratic Party of Austria*), which together shared about 90% of election votes for many years. The need to compromise and the urge to avoid political confrontations (including asking too many questions about the Austrians’ own involvement with the preceding Nazi dictatorship) became the country’s overarching characteristic, as Armin Thurnher wrote: “*Über dem Tor zur Zweiten Republik steht in riesigen Buchstaben das Wort ‘Konsens’. Der Konsens war das konstituierende Element der Zweiten Republik*” (Thurnher 1999:43). This desire to establish political harmony was written right into the political constitutions of the nation and has formed the basis of social life ever since – not the least in moments of violating this principle, as we shall see:

Politik spielt zwischen den Polen ‘oben’ und ‘unten’ [...] In fünf der neun Bundesländer, vor wenigen Jahren noch in sieben, gelten bis heute so genannte Konzentrationsverfassungen: Alle Fraktionen im Landtag müssen entsprechend ihrer Stärke in der Regierung vertreten sein. [...] Es gibt auch keine Opposition [...] Von oben betrachtet, ist die Opposition eine Randerscheinung, keine ‘Regierung im Wartestand’. [...] In dem Koordinatensystem, das die Österreicher im Kopf haben, sind Regierung und Opposition auf der vertikalen Achse angeordnet, nicht, wie überall sonst, auf der horizontalen. (Mappes-Niederdiek 2002:53-54)

⁵ 13 May 2005, cf. <http://www.dradio.de/dkultur/sendungen/kulturinterview/375915/> [online 27.6.05].

The constitutionally encouraged party consensus and the peculiar dual ownership structure together created a uniquely Austrian socio-economic system with four salient characteristics:

- (1) Austria was (and is) a neo-corporatist system or *Kammerstaat*;
- (2) Austria transferred substantial political rights to non-governmental bodies, thereby forcing them into close cooperation in and with the state, the so-called *Social Partnership*;
- (3) Austria created a comprehensive system of *social welfare*; and
- (4) The state and its affiliated social partners could (and did) *interfere* decisively in *the economy*. This came to be known as *Austro-Keynesianism*.

4.1 The *Kammerstaat*

The Second Republic was and is a *Kammerstaat* (neo-corporatist system). By law, Austrian employees automatically belong to a *Kammer* (chamber) organised along professional sectors on the federal and regional levels. The chambers are democratic, autonomous organisations and exert enormous influence in society. Three chambers are particularly important:

- The *Employee Chambers*, which represent all workers and employees – currently about 3 million (*Bundeskammer für Arbeiter und Angestellte*)
- The *Business Chambers* (*Wirtschaftskammer Österreich*), representing all independent business owners and enterprises
- The *Agricultural Chambers* (*Landwirtschaftskammern*), representing all farmers and (partly) agricultural workers (but, for obvious structural reasons, now losing much of its former political clout).

Austrian employees have a further representative organisation, the ÖGB (*Österreichischer Gewerkschaftsbund* = Austrian Federation of Trade Unions). Membership is voluntary; the ÖGB nonetheless represents the totality of dependent employees. Similarly, an independent *Association of Austrian Industrialists* exists alongside the Business Chambers (*VÖI* =

Vereinigung Österreichischer Industrieller, since 1996: *Vereinigung der Österreichischen Industrie*), representing in particular the interests of large corporations.

We call Austria a (*neo-*) *corporatist state* because

- 1) Practically all Austrians are members in one or more of these chambers,
- 2) There are numerous cooperative links between the chambers, the trade unions, the government and the political parties, and
- 3) These organisations (rather than the government) regulate social life through mechanisms of *collective bargaining* (*Kollektivverträge*) and political consultation.

4.2 The Sozialpartnerschaft

Collective bargaining is at the core of the ‘Social Partnership’ (*Sozialpartnerschaft*). The partners negotiate collective wage agreements across whole industrial sectors. In addition, the three main chamber groups and the ÖGB, together with the Federal Chancellor and members of the national government, form the ‘Parity Commission on Wages and Prices’ (*Paritätische Kommission für Lohn- und Preisfragen*), first constituted in 1957⁶. The Commission – in which all employers and employees are represented ‘on a par’ (equally) – is the prime consultative instrument of the Social Partnership. In its decisive influence on national economic and social policies and its capacity to create *social consensus* across all sectors of society from the bottom up, the Commission has been unique in the world. For many years, it was far more powerful than other, genuinely political institutions.

4.3 Benefits of the Sozialpartnerschaft

The four factors (1) *political consensus*, (2) *extensive state-ownership of industries*, (3) the *corporatist structure* and (4) the *Social Partnership* generally worked to Austria’s advantage. They stabilised the young democracy and fostered a sense of social cohesion,

⁶ Pelinka/Rosenberger (2003, 196).

ironed out former regional imbalances through planned allocation of economic resources, and created a relatively conflict-free, peaceful business environment⁷.

Moreover, the system provided enormous material benefits to all sectors of the workforce. Besides extensive labour protection legislation, Austria has developed a comprehensive social security system, administered autonomously by the *Sozialpartner*. Its major components are *medical, old age and unemployment insurance* (plus a separate public sector *pension system*), but also a number of other tax-financed support schemes for families in need, for children, the disabled, etc. Over 99% of the population is, for example medically insured. The system is organised as a roll-over fund with mandatory monthly contributions. This fosters a sense of *social and inter-generational solidarity* – but also dependency on the national community. Only 10% of Austrian employees, for example, have additional savings or retirement plans (e.g. *Betriebsrenten*). Austrian worries about ‘*Überfremdung*’, as irrational as they are, have their roots partly in this dependency.

4.4 Austro-Keynesianism

The rationale of the system was ultimately full employment (*Vollbeschäftigung*) – because wage deductions at source finance collective social security. Without a sufficient number of jobs, the entire edifice would collapse. To achieve full employment, the Austrian state tried to influence and guide economic development – as well as to protect national industries. Especially in the 1970s under the then Federal Chancellor Bruno Kreisky (SPÖ), large-scale *state ownership* helped to implement corresponding macroeconomic policies. For many years, the state also propped up industry by stimulating domestic demand through a policy of *deficit spending*. Especially in the 1970s, this so-called *Austro-Keynesianism* led to massive public investment programs (e.g. public infrastructure projects and subsidised job creation in the public sector). Eventually, key state-owned companies were merged into large, vertically and horizontally integrated industrial holdings⁸ (e.g. VOEST-Alpine 1973). Employment levels were thus kept high for a long time. At the same time, the intricate

⁷ Austria is, for example, after Switzerland, the OECD country with the least number of industrial strikes (Pelinka/Rosenberger 2003, 198).

mechanisms of the *Social Partnership* prevented overt conflicts. But these policies also led to high national debt and endemic budget deficits.

Austria thus became the prototype of a modern democratic welfare state. Its citizens are in a sense stakeholders in the system – rather than mere recipients of state welfare. The collective system has guaranteed them a very high quality of life and comprehensive social protection. But it also made them wary of perceived system abuse and outright frightened in the face of external threats.

5. Crisis of the Welfare State and the *De-Austrification* of Austria

As early as the 1980s, crisis symptoms indeed began to show up – some of which were home-made (or *endogenous*), while others were caused by external (*exogenous*) factors.

5.1 Endogenous Factor I: Political Change and *Proporz*

The corporatist society operated on a system of *Proporz*, in which public administration posts and management positions in the industry were allocated to members of the big parties in proportion to their respective voter shares (*'Parteibücherpolitik'*). In the long run, this led to allegations of *Filz*, i.e. illegal collusion of politicians and the business sector. Thurnher (1999:45) speaks of the *Social Partnership* therefore as “*die Grauzone schlechthin, die offiziellste Grauzone der Welt*”. James (1997:92) satirised the highly undemocratic practice of democratic *Proporz* in the following terms:

Ein besonders exquisiter Aspekt [des] Prinzips [der Konfliktvermeidung] ist die sogenannte ‘soziale Partnerschaft’, durch die im Rahmen einer nicht-offiziellen Übereinkunft zwischen allen interessierten Parteien die politische Stabilität in Österreich bewahrt wird. Schwierige Entscheidungen in der Lohn- oder Preispolitik werden von einer Kommission getroffen, die keinerlei demokratische Legitimation besitzt. [...] Übereinkünfte werden [...] hinter verschlossenen Türen ausgehandelt und dann mittels der Propagandamechanismen der Regierung dem dankbaren Volk zur Kenntnis gegeben.

Not surprisingly, public criticism mounted in the 1970s and 1980s, the party consensus eventually collapsed, and voters increasingly migrated to other political groupings, which

⁸ In which, for example, one or more subsidiaries act as customers of other holding companies.

were as yet not embedded in the governing structures of the *Social Partnership*. The most notorious and most successful of these is, of course, the FPÖ (*Freiheitlich-demokratische Partei*) of Jörg Haider, and (since April 2005) its successor ‘party’, the BZÖ (*Bündnis Zukunft Österreich*)⁹. Contrary to domestic and international concerns (which in early 2000 led to a temporary EU boycott of the Austrian ÖVP/FPÖ coalition government), the temporary public support for the FPÖ/BZÖ has less to do with a resurgence of neo-Nazi sentiments in Austria but – within the political co-ordinate system of ‘*oben*’ and ‘*unten*’ described by Mappes-Niederdiek above – rather with a general (though pervasive) *Angst* of being ‘cheated’ by the country’s political class. The populism of Jörg Haider, currently the *Landeshauptmann* of the state of Carinthia, is worrying nonetheless, because it plays with fears of economic change and social declassification – and these fears are to some extent justified, as we shall see. Armin Thurnher wrote this sketch of a typical Haider supporter in 1999:

Es war der Kellner aus unserem Stammlokal, kein Zweifel. Er stand in der Menge und wartete [...]. Dann hatten sie das Wirtshaus zugesperrt, und der Kellner verlor seine Arbeit. Nun stand er da, ganz vorne in der Menge. [...]

Nicht wiederzuerkennen war er [...], als unter amerikanischer Beleuchtung und triumphal einsetzender Lautsprechermusik sein Idol die Bühne betrat und zu reden begann. Wutverzerrten Gesichts brüllte er seinen Hass gegen die Ausländer heraus, denen alles geschenkt wird, begeistert schrie er sich heiser gegen die da oben, die lügen und die anständigen und fleißigen kleinen Leute betrügen. [...] Man sollte dabei gewesen sein. Man sollte einmal gesehen haben, was der Demagoge Jörg Haider in den Unauffälligen zum Vorschein bringt, was er aus den Normalen und Gleichmütigen in den Beiseln und Geschäften, den Ämtern, Fabriken und Büros herausholt. Man sollte die Verzweiflung gesehen haben, mit der sie ihre Hoffnung auf ihn setzen. Man sollte dort gewesen sein, um diesen fürchterlichen Landeshauptmann des Feschismus [...] richtig einzuschätzen. (Thurnher 1999:123-124)¹⁰

At the root of this hysterical protest is the perceived system abuse through the *Filz* of the established political classes. The clamor was particularly loud in the 1980s and 1990s, the period in which the FPÖ and Jörg Haider rose to prominence and political influence. It only

⁹ For a detailed analysis of the “Haider phenomenon” cf. Sully 1997 and Zöchling 1999. At the time of writing this article (June 2005), the BZÖ (of which Mr. Haider is the chairman) appears little more than a tactical regrouping of Haider supporters who had been about to lose their dominant influence in the FPÖ.

¹⁰ ‘Feschismus’ is a common word play in current Austrian German: the ‘Faschismus’ of old in new and elegant (‘fesch’) clothing. In a country in which politicians habitually appeared drab, Mr. Haider’s flamboyant fashion styles have become legendary.

distracted, however, from the real threats to Austrian society: the loss of economic competitiveness for the industry and the corporatist edifice as a whole, due to slow decision-making processes and management often rightly perceived as unprofessional.

5.2 Endogenous Factor II: The Cost

The Austrian system came (and still comes) at the price of generally high taxation and high mandatory contributions (*Gesamtsteuerbelastung*). Nearly half of the gross income of every employee goes to state and social insurance bodies. In 2002, for example, 46.7% of an individual's income was deducted at source. Nearly two thirds of that is income taxes; the rest are social security contributions (Pelinka/Rosenberger 2003, 44). At the same time, government spending grew to nearly 52% of GNP in 2002, which is significantly more than in Germany (49%), the US (33%) or Japan (41%)¹¹. Despite the collective insurance system, the bulk of government spending today increasingly lies in subsidies to social welfare (especially pensions) and health. Considering demographic trends, the welfare state can therefore not be maintained at present levels. It is this factor which must worry Austrians the most – because any solution to the problem is bound to affect those who are, like Thurnher's *Kellner*, already among the most disenchanted.

5.3 Exogenous Factors: The EU and Internationalisation

Finally, and despite its still cherished political neutrality, Austria is no longer an independent national economy. Since the 1980s, increasingly internationalised ownership structures and the liberalisation of global trade have enforced an overhaul of the system. Further pressure came from the fall of the Iron Curtain in 1989 and EU membership in 1995.

In the process, the largely unprofitable former state-controlled industries had to be privatised. This was a necessary precondition for Austria's accession to the European Union in January 1995. In 1993, the enterprises were first placed under an industrial

¹¹ Pelinka/Rosenberger (2003, 47).

holding named *ÖIAG (Österreichische Industrieanlagen Holding Aktiengesellschaft)*, modernised and then sold off. This gradually eliminated direct party influence (*Proporz*) and encouraged professional, profit-oriented management¹². Many Austrian companies have since come under partial ‘foreign ownership’¹³. These owners naturally have little interest in subsidizing collective national welfare at the expense of their own profit margins. In a parallel development, Austrian investment abroad has also soared¹⁴ – linking the economy predominantly with other EU countries.

The influence of the state and the *Social Partners* is thereby greatly diminished. They have also been forced to deregulate the economy further. The *Social Partnership* as such remains in place, but since 1990 the government no longer participates in the decisions of the *Parity Commission*. *Chambers and Trade Unions* are in the process of transforming themselves from political actors into mere service agencies for their members¹⁵. This partial separation of politics and economy is a major factor behind the persistent GDP growth in recent years, which I mentioned earlier. The privatisations also helped to reduce national budget deficits.

Austria still has a higher national debt than the so-called *Maastricht convergence criteria* of the European Union allow¹⁶ (64%) – which will probably make further cuts in public spending necessary. Invariably, this would further affect the country’s employees – who are already faced with massive structural change, job losses and a gradual reduction of state-guaranteed labour and social protection. In the process, Austrian society has changed noticeably from a consensus-oriented community to a competitive, neo-liberal environment. The result is that most people do indeed obviously find jobs – without, however, the same security and comfort as before and often with significantly lower income expectations. The ‘Island of the Blessed’ (if indeed it ever was) has practically ceased to exist. Many Austrians (like the jobless *Kellner*) have reacted angrily by

¹² The massive privatisations have continued until today – including former state monopolies like tobacco (Austria Tabak), air transport (Austrian Airlines), or post and telecommunications (Pelinka/Rosenberger 2003, 42).

¹³ Especially from Germany and other EU countries (cf. Lichtenberger 2002, 266).

¹⁴ Higher in fact than inbound foreign direct investment, cf. Jülg (2001, 219).

¹⁵ Cf. Sandgruber (1995, 521).

¹⁶ Pelinka/Rosenberger (2003, 49).

withdrawing support from the traditional social partners and the big parties – which further corrodes the original consensus system.

Most of the neo-liberal policies are, however, in line with EU stipulations – a factor which is currently leading to growing dissatisfaction with ‘Europe’¹⁷. Austrian public anger in fact preceded the spectacular French and Dutch rejection of the EU constitutional draft in 2005 and was directed, on the surface at least, against domestic politicians rather than ‘Europe’. But public protest in all cases can be traced back to essentially the same underlying concerns. The ‘Euro-scepticism’ is the consequence of a comprehensive ‘*De-Austrification*’ process (*Entaustrifizierung*¹⁸) of politics and economic life. Similar processes are also affecting all other EU member states. The national political and social institutions everywhere are currently losing much of their former influence – and now merely react to changes imposed by the EU and diffuse forces of globalisation¹⁹.

6. The Austrian Economy Today

Significantly, however, the Austrian economy as such has profited from these developments. Despite dramatically falling employment figures (e.g. mining or textiles), the industrial output and the overall productivity have risen impressively²⁰.

Big industry, the former basis of the Austrian welfare model, is declining. But the number of small- or medium-sized companies²¹ is rising – for four reasons:

- 1) Privatisation led to the breakup of former vertically / horizontally integrated companies like VOEST Alpine.
- 2) This is accompanied by extensive outsourcing strategies typical for a modern economy.

¹⁷ Pelinka/Rosenberger (2003, 45).

¹⁸ Pelinka/Rosenberger (2003, 258).

¹⁹ Cf. also Weinzierl/Haerpfner (1995) and the detailed overviews by Aginger (1996) and Talós (1996).

²⁰ Lichtenberger (2002, 280).

²¹ A percentage far higher than in other OECD countries, cf. Jülg (2001, 218).

- 3) Mass production facilities have been moved to low wage countries in Eastern Europe²².
- 4) Remaining industrial enterprises become integrated into multinational, multi-centred global companies.

The latter – practically all of them non-Austrian – act today as cores surrounded by smaller, independent and highly specialised firms. The internationalised automotive industry, for example, sustains so-called ‘car clusters’ of Austrian high-tech supplier firms for their global operations (BMW, DaimlerChrysler, General Motors). The pattern is similar in the textile, chemical and electronic industries. The production of ‘simple’ consumer goods is transferred almost entirely to low-wage south-eastern Europe. The Austrians concentrate instead on research-intensive high-tech production, either as part of multinational conglomerates or as independent firms, supported by semi-private research and development firms (e.g. the *Austrian Research Centers*, Seibersdorf). Other SMEs survive and even grow with highly specialised and innovative products (e.g. *Alpla Alwin Lehner GmbH*, Vorarlberg, a global leader in developing plastic bottles for consumer goods²³).

Such examples, however, cannot hide the fact of enormous job losses in the industry as a whole. They have so far been balanced by increases in the tertiary sector. But even here the picture is not trouble-free. In order to achieve *cost efficiencies on an international scale*, parts of this sector are also shrinking, in particular retail and banking. Further job reductions are occurring in the public sector and in tourism (which is by no means as important as Austria’s image in the world would suggest²⁴). Growth lies in industry- and trade-related areas and the information technology and communications sectors, all of which provide high value-added services.

²² Lichtenberger (2002, 283).

²³ Lichtenberger (2002, 285). See also, for example, Swarovski, Austria’s top firm in the glass/optics industry, or Red Bull GmbH Salzburg, producer of a dubious “high-energy” soft drink available worldwide.

²⁴ Lichtenberger (2002, 283).

Most of these jobs, however, are centered in the (now forming) ‘Euro metropolis’ Vienna (which, in this function, directly competes with Prague and Budapest²⁵) and a handful of second-tier urban centres – thereby possibly creating new regional imbalances. Moreover, the Austrian labour market still has a serious labour mismatch, i.e. those losing jobs in industry do not necessarily have the required qualifications for the ‘new economy’. This may increase unemployment rates further in the time to come and therefore put additional stress on the social security system. It will, at any rate, require further investments in the education and training sector (already the third-highest national budget item).

Despite these problems (which will, if anything, only become more pressing with the long-term effects of the 2004 EU enlargement), one can say in conclusion that Austria has so far coped surprisingly well with the onslaught of globalisation. But the socio-economic and socio-cultural system for which the Second Republic has become famous is now fraying. In the process, Austria is no longer an independent, sovereign national economic system in the traditional sense. It has become part of an internationally integrated and highly competitive economy. It does well in this transnational system because – much earlier than others in Europe – Austria had the courage (and the necessity) to question, at least in part, its former social model. Despite the currently ferocious domestic political debate, the remnants of the *Social Partnership* and *consensus culture* and their mechanisms, which have been so carefully nurtured over the years, may well turn out to be an important factor in managing the transition process peacefully. Ironically, however, the relatively advanced transition away from the ‘cradle-to-grave’ model of national welfare is today among the most salient national characteristics of Austria – quite in contrast to its economically ailing neighbours in the north, especially Germany.

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²⁵ Lichtenberger (2002, 283).

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