

## BÜCHER

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### REFLECTIONS ON AUSTRIA'S ECONOMY AND ECONOMIC POLICY IN A PERIOD OF CHANGE AND UNCERTAINTY\*

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A wide-ranging, authoritative and up-to-date account of Austrian economic policy, scholarly and yet accessible to non-specialists, is more than welcome: *Grundzüge der Wirtschaftspolitik Österreichs* (1) gives insight into the workings of the economy and polity over recent decades and will be of enormous use to a wide range of readers. To be properly informed is vital in these challenging times of rapid and extensive political and economic change: change not fully understood engenders a sense of insecurity, which itself has negative consequences for politics and so for policy.

"Wirtschaftspolitik" has a structure that is clear and reader-friendly. Seven chapters deal with selected key areas by one or more specialists in their respective fields. They were free to develop their contributions, but were asked to keep to a pattern which unifies the book. So, after introducing and giving an overview of their topic, providing some basic information on facts and concepts, the authors sketch out the theoretical models available for the explanation of the problems faced and for solutions advanced in their respective areas. Traditional theoretical approaches are contrasted with the most up-to-date: policy objectives are set out along with the policy instruments to attain them, and with the institutional set-up within which and through which, these instruments operate.

This approach seems particularly useful to those nurtured in the Anglo-American tradition – that has a wide base in continental Europe also – in which, for a long time now, mainstream thinking has turned away from its glorious origins of "political economy" and moved towards a frequently technical, narrow, and supposedly value-free "economics" that all too often abstracts from historical and socio-structural realities and ignores the importance of institutional specifics. Its isolation from related disciplines such as history, politics and sociology greatly reduces its power to explain what is actually happening (2). But the economy is "too important to be left to economists" and in "Wirtschaftspolitik", by contrast, the distinctive Austrian institutional set-up is given its due as the specific forms of Austrian policy are analysed. There is an occasional overlap of topics, which is unavoidable in view of the close inter-action of matters economic, but which actually enriches, facilitates and reinforces understanding. Each chapter provides an extensive bibliography of state-of-the-art works on the theory and practice of economic policy. Listings of tables and diagrams of statistical information are given, and an extensive index makes it easy to locate specific topics.

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\* Rezensionartikel zu: Ewald Nowotny, Georg Winckler (Hrsg.), *Grundzüge der Wirtschaftspolitik Österreichs*, MANZ, Wien 1994, 296 Seiten, öS 425,-.

As a detailed exposition of the theory and practice of Austria's economic policy in a number of specific fields, "Wirtschaftspolitik" is at the same time a valuable contribution to a crucial, ongoing and ever-changing debate about the uses and abuses of economic policy generally, about the choice of, and the priority given to objectives – about public intervention in the economy. It is ultimately about the most favourable balance between the respective roles of the market and the state, about the appropriate intensity of regulation, and about the most suitable model of "the market". Reading "Wirtschaftspolitik" – and the Austrian reality that it portrays – one must in this context conclude that *public* intervention is often essential, but also that it need not always be by the *government*: it can be, and very effectively, by a co-operative set of arrangements as pioneered in Austria by economic and social partnership, arguably the greatest contribution Austria has made to policy-making in recent times.

The book's input into the "systems debate" is implicit but nonetheless significant. The first hint of the issue comes already in the very first paragraph of the first chapter, where Ewald Nowotny stresses the eminent importance for an economy of the character and inter-action of the regulatory framework within which it operates, and he refers in this context both to the problems of transformation faced by the eastern European economies in transition and to the western market economies in which the question of the "intensity of regulation" also provides one of the "most important areas of the socio-political debate" (p. 11) (3).

Stressing the importance of regulation and other forms of government intervention accords with the way Austria's socio-economic system is characterised in "Wirtschaftspolitik" as a mixed economy (p. 11) in which the "voluntary exchange" (p. 203) is organised via markets (p. 248). The discussion concerning intervention (economic policy) is based on an analysis of markets (p. 203).

Vital to the current international economic theoretical and ideological debate are the fundamental differences about how market capitalism actually works. We see a continuum of differentiated visions and understandings as to the way today's economies and societies are, or ought to be, organised. If the British government's attitude represents one extreme in Europe, the other extreme of such a continuum is situated in Austria's experience, reflected by policies as analysed in "Wirtschaftspolitik". It exemplifies an approach that might be called "social" democrat (though it has also been called "democratic-corporatist") that has up to now profiled the Austrian, as against the ideologically dogmatic Thatcherite "neo-conservative" vision, which conflates a New Right political agenda with one which in its attitude to the management of the economy might be called "neo-neo-liberal". Chapter Four (p. 139) considers the Austrian "economic order" a "social-corporative way of steering the macro-economy, based on market-economic principles".

In one view, market forces work so efficiently that, in the face of difficulties, what is required is to allow them even greater rein: not only are market solutions best, but *any* interference is ineffective or even damaging. Taken to its logical or, rather, illogical – conclusion, this implies the end of economic policy as we know it.

The other view is that markets are dynamic and powerful mechanisms for growth and narrowly defined efficiency, but that their *wider* efficiency has its limitations, and economic policy – intervention in the workings of market forces and the appropriate kind and a proper degree of regulation – is at times justified, even required, in order to tame and civilise market forces in the interest of social justice, solidarity and cohesion, and also for the smooth functioning of the

economy. Nowotny (p. 13) agrees with Matzner that markets as social institutions do not simply function by way of a (mechanistic) "invisible hand" but need a comprehensive institutional base, a "socio-economic context" that is not limited to the protection of the right to property. The debate about the functions of the market is being played out against a background of a world economy in a more than usually rapid and extensive state of flux, and of the emergence of new and the re-interpretation of old theoretical approaches suitable for underpinning any shade of political opinion.

Material and intellectual political and ideological currents are swirling around and do not stop at national borders. Nor is Austria's domestic scene itself tranquil and impervious to homegrown material, social and political changes. In times like these, periods of reflection are at a premium and thus the appearance of a book that provides a snapshot of the present economic policy situation is doubly timely and welcome.

There are good reasons for the *autonomy* accorded to the individual chapters and their authors, but it seems to have led to the two Herausgeber denying themselves an editorial voice that transcends individual chapters. A concluding chapter could have put the content of the various contributions into a wider perspective and have provided a *synthesising* evaluation of Austrian economic policy and some answers to questions raised in the book, going beyond what could reasonably be expected to be dealt with in individual chapters that by their (proper) assignment are concerned with specific areas (4): there are many important and thought-provoking ideas in the book: but by focusing on the (constituent) trees the reader is in danger of not being shown (the whole of) the *wood*.

A number of vital general issues come to mind, for which such a chapter would have been more than useful. Perhaps the most important one concerns the *effectiveness* of policy, the tricky question of how it relates to the overall performance of the Austrian economy: after all, "the proof of the pudding is in the eating". But this relationship is not subjected to overall evaluation in "Wirtschaftspolitik". Some of the raw material can be found distributed across a few of the individual chapters, and it will be dug out, complemented and brought up to date in this review article. While it would be simplistic to make an absolute and mechanistic connection between policy input and economy output, the presumption must be of *some* causal link: and in the end, results is what policy is all about.

A synthesising chapter could also have discussed the widespread, slow-fuse demolition of the basic postwar economic policy accommodation that had proved highly beneficial to all of western Europe. The change comes under various theoretical and ideological influences.

Take first the *general* question concerning the choice of priority policy objectives and the relationship between them and policy instruments. The question appears sporadically in some of the chapters in relation to *specific* issues. The postwar world was characterised by the emergence of a multiplicity of objectives (and instruments) in steering the economy which had been unrecognised in the inter-war period. With that there emerged the then universally acknowledged Tinbergen relationship between the number of objectives and the number of instruments required. Now there are claims, particularly in the neo-conservative project, that *single* instruments can steer the economy and miraculously and simultaneously solve a *number* of problems. An example was the rhetorically over-sold but in fact short-lived monetarist proposition that controlling the money supply would, in conjunction with a bonfire of controls and regulations (i. e.

the *opposite* of policies), ensure the avoidance of not only inflation (its immediate target) but also recessions and unemployment, and would guarantee fast and sustainable growth. This of course it did not do (5).

More significantly, there has in recent times developed a wide "policy scepticism" sometimes to the extent of "policy phobia", which brought a notable shift towards privatizing publicly-owned enterprises, deregulation and giving clear precedence to the operation of market forces over public intervention, regulation and control. The switch received an additional boost as Soviet-type central planning progressively discredited itself and finally collapsed. The idea of a fully deregulated market being a "perfectly efficient" allocator of resources and of incomes is at times pushed – most vocally in Britain – to an extreme which comes close to decrying *all* things "public" and to denying the validity and efficiency altogether of key aspects of public intervention (economic policy) to steer the economy. This appears paradoxical – whatever weaknesses the postwar accommodation may have started to display – in the face of the overall successes of three decades of postwar interventionist policy-making that has led everywhere in western Europe to an economic and social performance that was vastly superior to that of the inter-war period.

While "policy-phobia" and "market mania" were clearly ideology-driven, and sat happily with New Right *political* preoccupations, justification was sought for it in economic theory. There exists in our time a near-infinite number of explanatory models, a veritable supermarket of theories, among which support can be found for any ideology or dogma.

By way of example, theoretical support has been claimed from the model of "rational expectations" as showing (for instance in the context of the stabilisation of national output) that government policy is likely to be ineffective because market participants would as "rational expectors" anticipate its results and thus act to frustrate it. Similarly, if "correctly expected" a rise in aggregate spending would have little or no effect on employment. In fact, the theory shows nothing of the kind. As an authoritative textbook states: where "ineffectiveness of government . . . policy" can be observed, this is not due to the existence of "rational expectations". On the contrary, new models imply that "government policy has a potential role even if expectations are rational" (6).

An even more potent example of dogmatic, ideological doctrine passing itself off as science: crucial to the discussion of the (reduced) status of economic policy is the "general competitive equilibrium" model that "Wirtschaftspolitik" (pp. 203 ff.) refers to as the "voluntary exchange model" and that for the best part of a century has been central to mainstream economics and to students' textbooks. Following Walras, perfectly competitive markets are shown to achieve the most efficient allocation of productive resources and of final goods (incomes) – the so-called Pareto optimum. No re-allocation can increase overall welfare, so there is no role for public policy intervention (and so no role for a book on economic policy!).

"Wirtschaftspolitik" soon restores realism by its reminder that the logical validity of such uncompromising claims depends entirely on the assumptions underlying the model. One condition for the model to lead of itself to the maximisation of welfare is that all markets are "perfectly competitive" (which evidently they are not) and, even more crucial than that for the market to bring both efficiency and justice, all individuals participating in the market must start out with equal initial endowments of productive resources (which evidently they do not). Dare one mention that Marx's concepts of "class" and of "exploitation" start from the premise that in capitalism initial endowments differ, with one

class owning real capital and the other class having been deprived of it and having therefore to sell its labour to those who do own capital?

The fact that the conditions (7) of the model are not satisfied has of course been long recognised. It suggests, by inversion, that when left to themselves markets can and in fact often do lead to *inefficient* market equilibria, and *losses* in welfare: *market failure*. Thus measures summed up as allocation and distribution policy (pp. 204 ff.) can not only be *justified* but may even be *required* for the purpose of improved allocative efficiency as well as of improved distributional justice. Of course, inappropriate economic policy can lead to state *failure*. While "Wirtschaftspolitik" demolishes the *extreme* intellectual position, dormant for a long time, but awakened to serve neo-liberal purposes, that would deny any relevance to economic policy, one cannot ignore the fact that international economic developments, which could not have left Austria unaffected, such as the globalisation of the economy, the rapid progress in functional and institutional integration and the deregulation of financial markets, have indeed reduced the effectiveness of *national* economic policy (p. 38) without compensatory *international* or supra-national policy-making, regulation and control filling the gap.

It is to do "Wirtschaftspolitik" full justice that what follows will focus on some of these issues raised by the book but left partly unresolved. The vantage point from which this article looks at these questions is given by the author's close physical proximity to the "market-fundamentalism" of the Thatcherite project in Britain with its destabilising societal and economic consequences. In spite of increasing disillusion and hostility in its home base, its preoccupations are continuing to reach out into much of continental Europe. Thatcherite overtones and undertones can nowadays be heard from inter-governmental bodies and from government and employers' organisations, for instance in Germany, a warning not confined to that country of possible dangers ahead for social consensus.

### The Institutions of Economic Policy

"Wirtschaftspolitik" starts (pp. 11–43) with an over-arching exposition of the fundamentals and institutions of economic policy by Ewald Nowotny, one of the two editors. It covers Austria's economic order including the production, market, finance, monetary and social orders, and the actors in economic policy, namely political parties, interest groups, the bureaucracy and the media. It then discusses the levels of policy, the legislative, executive and the judiciary in Austria, and the international level with special reference to Europe.

Most importantly, we are given a detailed account of that Austrian speciality, the system of Economic and Social Partnership (ESP), a voluntary arrangement greatly facilitating the co-operation of the "two sides of the economy" in the solution of basic problems of economic policy-making and co-ordination. Its constituent bodies are the Chambers of Labour, of Business and of Agriculture and the Trade Union Federation. Decisions are taken by unanimity (which implies consensus and compromise) in a number of key bodies and applied in innumerable committees and commissions by the representatives of the "partners". It is this all-pervasiveness of ESP that makes it effective and significant societally in a way that is unique in Europe. The system has always evolved and adapted successfully to changing circumstances and demands made upon it.

In recent times the ESP has been affected by changes in the overall environment in which it functions: in Austria, as elsewhere, objectives of societal policy are shifting and are being given new weighting as a consequence of changes in economic structures and of intellectual currents that operate internationally. There is a relative reduction in the weight accorded by some sections of society to the orientation towards economic growth (traditionally a central element in the basic consensus underlying the ESP): a reduction in the *additions* to income can intensify the conflict over income *shares*. And there arise new economic and societal areas of conflict such as ecological questions, issues affecting the position of women, and the "new poverty", which are – according to Nowotny – more difficult to fit into the area of ESP competence.

The author, however, also lists considerations that *enhance* the role of, and the need for, the ESP system. Specifically, its incomes-policy aspect becomes increasingly important in view of the much more limited availability of alternative policy instruments, such as monetary and, in the further perspective, fiscal policy consequent on the increasing openness and internationalisation of the Austrian economy, (and, one might add to this, exchange rate policy). Accordingly, a well-functioning ESP could, in Nowotny's view, be considered a significant Austrian economic locational advantage. Finally, there is the important suggestion that the required – and to be expected – future accelerated structural change needs to be managed in a way that is compatible with social objectives, a task for which ESP is eminently suited, given its orientation on the long term, and its wide legitimisation amongst the population.

### Austria in the International Economy

In the second chapter (pp. 44–81), Johannes Pointner and Friedrich Schneider place Austria in the international economic arena. Austria's steadily increasing relative productivity development has been impressive. Accordingly, the export structure has also improved greatly: between 1961 and 1991, the proportion of exports that are resource-intensive was halved, the proportion of exports of technological consumption goods almost doubled and the proportion of high-technology goods increased five-fold. Even so, this latter proportion is still only half that of the OECD average, and the proportion of labour-intensive exports is markedly higher than in the OECD as a whole. The geographical structure of exports shows a weakness in the high and increasing dependence on the German market, though one must add that most of Germany's small European neighbours show a similar dependence on the German "economic locomotive".

In an interesting and highly critical discussion of the "convergence criteria" that have to be satisfied before member countries can participate in Economic and Monetary Union (EMU), Pointner and Schneider alert the reader to the fact that. These criteria are purely fiscal and monetary and that "real" criteria such as GdP per capita, current account balance and unemployment rates play no part at all. Reference is made to the fact that the criteria impart a deflationary bias to the European economy.

Of considerable interest is the last part of the chapter that points to the important changes that arise for Austria's economy as a consequence of the opening-up of the central and east European countries, as well as of continuing integration process in Europe as a whole. The key macro-economic results forecast show – over the medium term – an improvement of Austrian Gross Domestic Product (GdP), an increase in employment, a fall in prices, and an improvement

in the current account balance. A slight deterioration of the budget balance reflects the fact that Austria, as a relatively rich country, will be a net contributor to the European Union (EU) budget. The expected additional dynamics, welfare and other results for Austria will be less favourable than those expected for the twelve older member countries, mainly because of Austria's later start and its peripheral position relative to the agglomerative core of the EU. The next (eastwards) enlargement will reduce this geographical disadvantage.

An interesting parallel is drawn between the impact of Austria's "Hard-Currency Policy" (HCP), which has acted as a spur to improved productivity (Produktivitätspeitsche) and that from participation in the European "internal market", which will be a spur to structural improvement (Strukturpeitsche).

### The Labour Market

Chapter Three (pp. 82–119), by Ingrid Kubin and Peter Rosner, deals with the theories and policies concerning the labour market and the relevant Austrian institutions. It provides comprehensive information on the development and the changing make-up of the labour force between 1954 and 1992, the changing relative weight of male and female participants, the growing importance of foreign workers, the increasing numbers of the dependent labour force, and the decreasing numbers of the self-employed. It gives the unemployment rates between 1960 and 1993, with the vital additional information on duration and incidence. A table shows the structure of unemployment, giving rates that differ widely according to various criteria such as gender and educational attainments.

The complexity of calculating and comparing unemployment rates internationally is underlined. Since the chapter was written, Austria has adopted the system used by the OECD, the EU and the International Labour Organisation (ILO), thus making the data more comparable. The Austrian rate for 1993 that is given in the chapter as 6.4% now shows as 4.2%. The unemployment rate for 1994 was 4.4% (old style 6.6%), compared with 11.8% for the EU (8).

Another section deals with wage and salary levels and with income structures and income hierarchies in various industries. A particularly valuable section supplies the details for Austria of the international phenomenon of horizontal and vertical discrimination of women in the labour market, seeks to account for it and surveys measures aimed at overcoming it (9).

Theoretical models of the labour market are presented to explain the level of employment, of unemployment and of labour incomes; a general model of a market is used as a first approximation, and then modified to be (more) relevant to the special case of the "labour" market. Attention is paid to the Austrian institutions that are involved in wage formation and labour market policy, making the significant distinction between "passive" and increasingly important "active" labour market policy. The reduction of the labour supply as a means of balancing the labour market is also discussed. The *perspectives* of labour demand and labour supply conclude the discussion.

### Competition and the Structure of the Economy

Chapter Four (pp. 120–154), by Christian Bellak, Werner Clement and Reinhold Hofer, combines competition and structural policy, both components of longer-term economic activities. The main objective is to create the conditions

for a welfare-maximising allocation of resources. The main groups of theory are set in perspective and their respective usefulness in real world conditions is evaluated. So too is the manner in which they deal with welfare-reducing distortions of competition that arise out of state and/or private enterprise action, including those that come under the by now well-established concept of "market failure", the widespread existence of which justifies public policy intervention – even to market enthusiasts.

### **Growth and the Environment**

Chapter Five (pp. 155–202), discusses growth and the pressure on the environment, two long-term phenomena of the real economy which show, according to Erich Streissler and Werner Neubeck, surprising parallels. Both growth- and environmental policy find their basic justification in the desire for organs of society to internalise "externalities" that arise as growth and environment-related actions by economic agents almost always have positive or negative consequences for third parties; policy measures are intended to neutralise them. Both kinds of policies thus represent dynamic long-term allocation measures aimed at increasing the quantity and quality of the social product and at welfare maximisation. By contrast, the "Coase-Theorem" suggests that policy intervention is superfluous. This argument is relativised: according to the authors, it would presuppose perfect knowledge of the (essentially unknowable) subjective costs and benefits of those involved. The chapter also counters the claim that economic growth and keeping the environment undamaged are mutually exclusive. Finally, the specific methods and instruments of environmental policy and growth policy are discussed, and the way they are applied in Austria.

### **The Public (Finance and Social Policy) Sector**

In Chapter Six (pp. 203–248), Bernd Genser and Robert Holzmann survey finance and social policy. After discussing in general terms the economic justification for state intervention, they deal with *allocation* policy, the aim of which is to eliminate or counteract market failure and to minimise efficiency and welfare losses associated with it. This involves the supply of "public goods", the internalisation of externalities, the regulation of "natural monopolies", but also the construction of inter-temporal programmes of redistribution made necessary by the insufficiency or even absence of inter-temporal markets due to incomplete information (10). Distribution policy is required to reduce inequality when the market process results in a distribution of income and wealth that does not correspond to society's requirements.

### **The Monetary Sector**

Chapter Seven, (pp. 249–285), by Georg Winckler (one of the two editors of the book) deals with the finance sector and monetary policy. He discusses the meaning and role of money and monetary policy, the financial sector, with special reference to their progressive internationalisation.

Of considerable importance is the section surveying the "Hard Currency Policy", the orientation over recent decades of the Austrian Schilling towards stability, shadowing at first a basket of six "value-stable" foreign currencies and from 1976 the Deutsche Mark – though not in a fully automatic way, maintaining in recent years a rate of roughly 7 Schillings = 1 DM.

The DM link removes an important instrument (exchange rate policy) from Austrian policy-making, but the author shows how the gain from participation in an "optimal currency area" more than compensates for this. In the event, it has enabled the necessary price and wage flexibility. The challenge demanding the constant raising of productivity has been met and has led to a positive change in the Austrian production structure in the direction of technologically more advanced, and so more valuable, goods. The continuing upvaluation of the Schilling associated with that of the DM has led neither to a deterioration in the employment situation nor to deficits in the current account balance. Production and export of goods and (e. g. tourist) services that are more quality- and less price-sensitive was a condition of success. The policy implied "unofficial" membership of the European Monetary System (EMS) and provided a trial run for future membership of a single European currency. (This would reduce the availability to Austria of policy instruments still further: the DM link was discretionary, while participating in a single currency is irrevocable). Since the chapter was written, Austria has officially joined the EMS (January 1995) and is participating in preparations for EMU.

### **Postwar Economic Policy**

In the first three decades of the Second Republic, Austrian economic policy was generally in line with that of other western European countries. The widespread misery of war and post-war devastation and dislocation had in Austria, as elsewhere, given added force to the rejection of the disastrous European inter-war experience to a degree that was widely perceived as calling into question the existing political and socio-economic system. The general understanding was that, if capitalism was to survive, it would have to be much modified to become a "mixed" and "managed" capitalism. This was in line with a modest but not insignificant change that had occurred in the balance of social forces and of their political representatives. The Cold War added to the urgency of a fundamental policy re-think.

Various models of a "new economic policy" emerged, whether under the label of Keynesianism or the Scandinavian model (as in Sweden, Austria and Britain), social market economy (as in West Germany and Switzerland), or indicative planning (as in France, Belgium, the Netherlands and in a later and somewhat different context in Spain and Portugal). Austria clearly belongs in the first group, even if, in the 1960s, consideration was given by the representatives of labour in the ESP to the introduction of indicative planning, and one can discern in Austria also some of the more "civilised" features of the social market economy.

All west European political elites and their governments realised the political necessity of achieving and sustaining high levels of economic growth, employment and social provision, and of stabilising the economic cycle, keeping inflation low and of balancing international payments. Some of these were objectives which had rarely been considered part of public policy responsibility in the inter-war years and for which, therefore, new policies (and instruments) had to be

created. The *credible* commitment by governments to act decisively and effectively in an interventionist way frequently made actual action unnecessary, a clear case of benign "self-realising expectations".

One could perhaps sum up the positive features of the new policy regimes as creating confidence and establishing "long-termism", giving individuals and enterprises an extended time horizon over which to plan their actions. Its importance can be appreciated more fully when one observes the damage that is done to the contemporary British economy by its notorious "short-termism". In Britain this represents a business culture which militates against investment in real and human capital and tends towards precipitate labour lay-offs. In Austria the ESP additionally strengthens long-termism, reinforcing confidence and facilitating compromises by allowing for a longer-term perspective for the exchange of give-and-take. This further reduces uncertainty.

Public ownership of some key industrial and financial enterprises and a generally growing public sector were seen as important support structures for the "new economic policy" in western Europe. Heinz Fischer pointed to the contribution the existence of a strong nationalised enterprises sector made in Austria to a balance in socio-economic political power between trade unions and employers' organisations (11): it acted in addition as providers of cheap inputs for private industry and as shock-absorbers for the labour market, as employers of last resort, and so did the public sector as a whole (p. 137).

The policy systems – including rising mass incomes and welfare transfers – assured sufficient and reasonably stable aggregate (private and public) *demand* that allowed full use to be made of the favourable *supply* conditions for factors of production. These systems were self-perpetuating and led to the Austrian and west European "golden age" of the first three postwar decades.

Success had bred success and also confidence that there were answers available to all economic and social questions as long as the set of wide and varied (often new) policy instruments was appropriately applied to a set of wide and varied (often new) policy objectives: this was in complete contrast to the later appearance of intense "economic policy scepticism" as part of a wider agnosticism regarding the general feasibility of achieving economic and societal objectives.

### A New Policy Paradigm

As the mechanism depended on continued parallel forward motion, it collapsed when in many west European countries a new policy paradigm (12) arose in the mid-1970s in which the near-absolute priority objective of full employment was abandoned, sometimes only implicitly, in favour of an uncompromising, explicit priority commitment to disinflation (13). Growth-rates reverted to the much lower averages of earlier periods of Europe's industrial history. Mass unemployment reappeared, rose inexorably to ever-higher levels in recessions, but tended to fall only modestly in the conjunctural upswings in much western Europe.

The problems singled out by policy-makers were "excessive" rises in incomes from employment, and inflationary pressure and inflationary expectations ascribed variously to a number of causes, or a combination of them (14). Rising mass incomes had been recognised as assuring growing living standards and as maintaining aggregate demand: now they tended to be condemned as holding down incomes from property and enterprise and causing inflation. It can be argued that a different breed of policy-makers pursuing a different ideological

and societal agenda used unemployment as its major instrument to control inflation and the rise of wages, to put workers and their unions in their place, and to increase employers' income shares.

*But not in Austria:* in the later 1970s key aspects of policy-making in Austria began to diverge fundamentally from those practised in most other west European countries. It was a period of continued strong government intervention that became known as Austro-Keynesianism. It proved that, in the specific constellation, there needed to be no unreconcilable conflict in objectives if (an expansive) fiscal policy to further growth and maintain employment was used to counter demand deflation and was combined with (a restrictive) exchange rate policy and with the (strong) incomes and prices policy aspect of ESP to contain (cost) inflation (15), making use of Tinbergen's prescription concerning the number of policy instruments that have to be used to reach a number of policy objectives and applying an imaginative "assignment" of instruments to objectives. This was in the face of a new orthodoxy according to which others were applying "monetarist" principles (16). A slightly different interpretation suggests that budgetary policy was used to stabilise employment, exchange rate policy to contain inflation, and interest rate policy to balance external payments (17). It has, however, been pointed out that the success of the sophisticated combination of economic policy instruments also depended on the political-institutional Austrian specifics, such as the ESP and the public/private economy mix (18). Overall in the 1970s Austrian economic policy paid greater attention to theoretical and programmatic fundamentals: policy-makers were "conscious of the difference between pragmatism and programme" (19).

The successful outcome was that between 1975 and 1980 Austrian growth averaged 3.4% annually, compared with 3% in the EC, but inflation 5.3% against 10.6% in the EC, and, most significantly, Austria's unemployment 1.6% as against 5.8% in the EC (20).

There had been a downside to the socio-political and regional policy measures in that they tended towards conservation of production structures. To counter this, HCP was given a central role, acting as a spur to structural improvement (p. 137). The IMF had at first counselled against Austria adopting a HCP; it was the Austrian labour movement that insisted (21). The international organisations at the time clearly did not understand the determination and so the potential strength of ESP which, with a wages policy characterised by solidarity, provided the vital ingredient for success.

In recent years, a growing number of countries had also adopted the "hard currency" option. But Britain, France, Spain and Italy found that they achieved their objective of falling inflation at the high price of a deflationary economy and growing and stubbornly persistent unemployment (22). This was arguably because of the absence of a consensual and credible partnership environment that would keep a tight rein on wages without neglecting wage-earners' wider interests.

### **The Recent Performance of the Austrian Economy**

A summary evaluation of the outcome of overall Austrian economic policy-making, taking the conventional measures of the "magic square", shows that *growth* was relatively high (p. 79) *unemployment* (pp. 86, 87, 89) and *inflation* (p. 36) relatively low, even when unemployment rose noticeably in the 1980s,

and that the *current balance* of payments was in rough equilibrium over the last ten years (p. 47) in a way that was sustainable over the longer term. To be specific, between 1980 and 1994, inflation averaged 3.7% in Austria and 6.2% in the EC: unemployment between 1980 and 1994 was 3.3% in Austria and 9.7% in the EC (23). A further indicator of performance, *equitableness in the distribution of income*, is more difficult to assess, as value judgements as well as efficiency criteria are involved. If there is a conflict between these two, then the appropriate trade-off will clearly depend on the preferences expressed in the prevailing social philosophy.

New Right, neo-liberal propositions assert that an increase in inequality (decrease in equity) is irrelevant or unavoidable or even beneficial, as the gains for top earners will then "trickle down" and raise the living standards of the disadvantaged. What is emerging, however, is a growing body of evidence suggesting that trickle-down economics does not work and that social efficiency can enhance economic efficiency, whereas increased economic inequality not only turns into increased social but also economic *inefficiency*: growing poverty becomes an actual *competitive disadvantage*, in the way it weakens social cohesion and the sense of common and co-operative purpose (24).

Chapter One tells us that the basic consensus on which ESP is built includes holding constant over the long term functional income distribution, i. e. the relative share in national income from dependent employment and from property and enterprise. *Improvements* in welfare for either group are thus to be based on economic growth (p. 36) including increased productivity, rather than by redistribution of primary incomes. (One could add that such constancy is itself instrumental in holding back inflation). In the early 1970s, the "pure income from property share" was relatively low (25): the adjusted income share from dependent employment (Nettolohnquote) rose between 1970 and 1975, fell between 1975 and 1988, then steadied and improved again marginally by 1992 (26), and 1993 (27).

In 1983, Austria ranked eighth of fourteen west European countries whose equality rates had been calculated (28). As to the *redistribution* of income that arises out of welfare transfers, Austria ranked sixth out of thirteen west European countries in 1980, well ahead of Britain, Italy, France, Germany and Switzerland, but below the Scandinavian countries (29).

The bottom line in assessing economic success could be the *standard of living*, the material part of which is conventionally measured by per capita GdP, (even though the distribution of GdP is heavily skewed). "Wirtschaftspolitik" ranks Austria tenth in the OECD for 1991 and above the EC average (p. 45): this for a country that had been a relative late-comer to European industrialisation, was particularly strongly affected by the world economic crisis of the 1930s, and whose degree of war and occupation-related destruction and dislocation was in 1945 among the highest in western Europe. In 1955 (30) Austria's per capita GdP had been only two-thirds that of the OECD, in spite of growth rates that far exceeded those of most of the rest of western Europe.

The growing degree of functional trade integration (p. 47) contributed to success, and a surplus in the export of services compensated for a deficit in goods. Productivity rose steadily from 60% of the OECD average in 1950 to reach the OECD level by 1991 (p. 49) but then (after the book was written) declined marginally in the recession (31), partly because a strong increase in the supply of foreign labour brought new jobs in less-productive categories. It rose again from 1992 (32). The export structure improved greatly with an increase in the proportion of goods and services that incorporate higher value-added (pp. 48 ff.).

## Unemployment

Kubin and Rosner remind us that "high and rising employment" and "low or falling unemployment" are a universal economic policy objective, even though there is disagreement about ways of attaining it (p. 82): in Austria, although full employment was achieved as late as the end of the 1950s, later than other countries as a consequence of the high level of war-related damage and dislocation, unemployment figures have remained among the lowest ever since. In the early 1970s they averaged 1%, well below the rest of OECD-Europe. After the oil-price shocks of the 1970s, Europe's unemployment soared inexorably to peak at 11% by 1985/86, (Austria 3.1%) (33). It was in Austria kept at little more than 1.5% until 1980, as a consequence of the imaginative and sophisticated economic policy of "Austro-Keynesianism" (see above): Bruno Kreisky (who was very sensitive to the vulnerability of capitalism to economic crises (34) and even more so to unemployment) (35) "and his team" gave full support to the ESP, as it made the maintenance of full employment its central objective. To reinforce the macro-economic approach, the labour supply was curtailed (pp. 108 f.) by issuing fewer additional permits to foreign workers and by facilitating early retirement. Working hours were reduced. Longer compulsory education contributed further. Some observers put the decisive period for laying the basis of Austria's later relatively good unemployment performance as early as the first half of the 1970s (36).

The significance of *keeping unemployment low* while elsewhere it was *allowed to rise*, and yet controlling inflation, is difficult to overstate. The beneficial effects go much beyond the specific period itself: there were long-term benefits that are still operative today. They are in fact crucial for the explanation of Austria's continuing good (by European standards) performance (37). Chapter Four (p. 137) refers only in passing to it and, surprisingly, not at all to its (long-term) significance.

The general, contrasting, European experience clearly makes the point that *almost any* way of keeping unemployment low and inflation under control in the first place involves over the longer term immensely lower economic and social costs than trying to restore the situation once it has got out of hand. The "hysteresis" phenomenon observed in most western European countries provides one possible explanation for such a view. Even when unemployment in Austria rose as high as 3.7% by 1983 and averaged 3.5% over the rest of the 1980s – 5.2% according to the now discarded method of calculation (p. 87) – this compared with 10.2% of the EC countries (38).

With the recession of the early 1990s, however, (i. e. after the publication of "Wirtschaftspolitik") came a new challenge to the whole of western Europe. Employment advances and unemployment reductions of the recovery of the second half of the 1980s which had been strengthened and extended by the "oil-counter-shock" (oil prices falling in real terms), came to an end, and unemployment began to rise again, reaching 11.8% in the EU by 1994. Austria suffered 4.4% in that year. Sweden (which tended to have even lower unemployment than Austria) experienced nearly 8% and Switzerland (which even in 1991 had little more than 1%) reached 4.7%. The new surge came even though the reasons previously blamed for high levels of unemployment in western Europe had disappeared: by then profit margins of firms had been rebuilt as labour shares of national income had been drastically reduced, the substitution of labour by capital had virtually vanished in the 1980s (39), and deflationary policies should have become redundant in view of generally low inflation figures (40). What *had*

remained were problems of budget consolidation that were not merely cyclical (p. 216, p. 242). Evidently new forces are at work. While this is not the place to go into detail, one can identify two types of explanation that are dominating the debate. One approach expects even worse for employment and unemployment in industrial countries, because of increasing competition from a growing number of low-labour-cost developing countries that are rapidly industrialising. They affect employment negatively *directly* by competition, and by inducing enterprises in industrial countries to relocate production in low-wage countries, and also *indirectly* by the labour-saving investment introduced to meet such competition. For Austria one would suspect that it is not so much the overseas developing countries that pose the threat, but the low-wage "transitional" countries on the doorstep. The impact of competition from, but also of opportunities in, neighbouring east European countries, which affect different industries in different ways, is discussed in "Wirtschaftspolitik" (pp. 77 ff.). The other approach puts all the blame on an intensifying process of application of high technology which makes employment increasingly skill-biased. Both arguments, which are not necessarily mutually exclusive, are put into perspective by a wide-ranging report of the ILO which concludes that a new international division of labour and new technology do indeed *destroy* (mainly lower-skill) jobs but with appropriate and continuous structural adaptation also *create* jobs. In what is not a zero-sum game, the low-cost, as well as the high-productivity, countries stand to gain overall. However, for this to happen, increased and improved training and education are required but even more fundamentally a return to higher growth rates. Such growth is, however, held back by a deflationary bias imparted to the European economies by insufficient policy co-ordination and by the attempts to satisfy the criteria for monetary convergence for the projected EMU (41). This second point is also made by Pointner and Schneider (p. 73).

Just before resigning as Finance Minister, Ferdinand Lacina spoke of the deflationary consequences of the exaggerated fear European policy-makers have of inflation, a fear which leads to unnecessarily high levels of unemployment, budget deficits and interest rates. All this has the distributional effect of a disproportionate growth of incomes from property. A better economic policy balance could be achieved if the "Maastricht criteria" included an employment target. He pointed out that, in contrast to most European central banks, the Austrian Nationalbank was not hypnotised by "stability fetishism" and was utilising the available national margin in economic policy (42).

The conclusions of the ILO are in sharp contrast to the prescription of a new ultra-liberal orthodoxy that latterly appears to be shared by many governments and international organisations such as the IMF and the OECD. What they recommend to meet the challenge of unemployment is the weakening of trade unions, and the full decentralisation of wage bargaining so as to lead to a thoroughly deregulated labour market implying *lowering* of wages, of non-wage labour costs, of social (including unemployment) benefits, of employment protection and redundancy pay, all for the purpose of lowering the costs of businesses and thus making them internationally more competitive. This might, at least conceptually, be effective in the short term for a *single country*; how it could conceivably increase competitiveness if *all countries* so lowered costs at the same time, remains unexplained, as also who will be able to buy the "competitively-produced" goods, if mass incomes are reduced everywhere.

It is interesting to note that the features that the Austrian labour market exhibits are the very opposite of those prescribed by the neo-liberals, and yet it re-

cords the lowest unemployment levels in western Europe (43). Wages in Austria are clearly not low in European terms, nor are non-labour costs nor social provisions and benefits; nor are employment protection and redundancy provisions weak; trade unions are strong and central pay bargaining is the norm. One is tempted to argue that, against the current ultra-liberal "conventional wisdom", it is these very features that allow wage flexibility both generally and in respect of specific firms, and help to *maintain* employment. Clearly, flexibility is not synonymous with deregulation and lower labour standards. As to the suggestion that giving up the centralised system of wage bargaining: while this could conceivably cut the price of labour, it could also damage the social consensus (44). In any case, the key factor in locational advantage is not low wages (that tend to go with low productivity). What matters are the advantages of stability which Austria exhibits, what the Swiss call their "neutrality dividend" and their "social stability dividend".

The ILO analyses a wealth of theoretical considerations and empirical findings which are relevant to the features of the Austrian employment system and which show that it is no fluke, that Austria's is one of the few economies that have "been better able to adjust wages consistent with the objectives of full employment and low inflation (45). As to employment protection: this can reduce the volatility of employment fluctuations, and "it may even *raise* total employment over the economic cycle (46). A study is quoted which distinguishes between *labour-market* deregulation (that may lead to a high number of low-skill, low-wage jobs) and deregulation in the *product market* that "will lead to job creation across the board" (47). Where deregulation is considered, it is "important that social partners be involved" as "social concertation" is needed (48). Flexibility does not seem antithetical "either to the presence of strong unions, or to high degrees of economy-wide co-ordination" (49). Overall the institutional system of wage determination "may help to explain the relative success . . . of Austria": it may have provided a "relative competitive advantage in recent years" (50).

### The Centrality of ESP and its Legitimacy

The "concertation" referred to by the ILO, the ESP system, has been central to Austria's policy-making and to its economic success. Its *modus operandi* is discussed in Chapter One (pp. 33 ff). For its effectiveness, it has at all times depended on the recognition of its legitimacy not only by the main political players but also by the population at large. For most of the time, this was forthcoming, though never uncritically.

Its earliest, still crude, manifestation – the Lohn-Preis-Pakte – was not universally popular and became decreasingly so over the years of its operation. But the character of the arrangement changed fundamentally after that: if at first it had been all about convincing wage-earners that they had to make the greater sacrifices for the common good, from then on it gave them a significant input into general policy-making. And it helped to impart key ingredients of success – consensus, compromise and "long-termism" – to the Austrian economy.

As the partnership grew up and increased in scope, complexity and sophistication, criticism tended to become confined to fringe positions on the left and the right: the patent success of ESP in keeping the social, industrial and political peace and in easing the way to steadily growing prosperity associated with growth, full employment and an ever-widening system of social provision, was

reflected in its ultimately achieving near-general acceptance. Surveys in the 1970s and 1980s and one as late as 1992 showed almost identical approval rates of roughly two-thirds, with disapproval still no more than 7% of respondents (p. 42). Memories of the conflictive inter-war period and its horrendous consequences were still strong.

Since "Wirtschaftspolitik" was published, however, a survey of October 1994 (51) showed a much more ambiguous public view. Domestic and international economic, social and political changes had now become apparent. The number of respondents that believed that on the whole ESP had been "of disadvantage to Austria" had sharply risen to 24%. Even so, only 5% wanted it abolished: 94% wanted to keep it, but most wished to see (generally unspecified) reforms. Consistently adapting to new conditions and requirements has in fact been a feature of ESP over the decades, the latest being agreed in November 1992, but that has clearly not received general recognition.

The replies were contradictory. While a reformed ESP continues to be welcomed overwhelmingly, the four key constituent bodies have not had such a good press. Even though well over 50% "have a high opinion" of them, an unprecedented 27% to 40% expressed a "low opinion": most significantly, 71% oppose automatic and compulsory membership of the Chambers of Labour, of Business and of Agriculture. The real contradiction between this view and the general view expressed at the same time that the ESP should be maintained lies in the fact that it is the very all-inclusiveness of the Chambers (with all members electing the leading organs at regular intervals) that makes them effective by giving them the authority to speak for the sectors of society which they represent. Equally, universal membership alone can provide them with the financial resources needed to carry out the tasks of research, scrutiny, advice and political representation of employees' interests. It is likely that the new negative expression of opinion in actual fact relates not so much to the Chambers and the ESP as to a general loss of influence of the two main political parties with which the ESP and the Chambers are identified.

ESP is a mechanism of consensus and co-operation between social classes („Wir alle sitzen auf *einem* Ast") and the organisations that represent them, of class compromise between two forces neither of which had throughout the Second Republic been strong enough nor willing to attempt to dominate. (Bruno Kreisky approved of the statement that ESP had transferred the class struggle from the streets to the negotiating table) (52). In practice the mechanism is operated by representatives of two political parties which have also over long periods been joined in government coalitions. This had further strengthened the compromise and its translation into public action. In periods of single-party governments, additional responsibility and importance fell to the ESP system. The two parties represented in the heyday of ESP up to 95% of the voting population. By the time of the election of 1990, the proportion had fallen substantially and, by that of 1994, even further, to 63% (53). If one can trust later opinion polls, their support appears to have continued to decline.

What had happened over some considerable time, but has recently become evident, was that, as all over Europe, party loyalties are weakening and voters are becoming "footloose". Associated with ongoing general West European and some specifically Austrian socio-economic and socio-political developments and issues, the two parties lost some of their internal coherence and some of their respective clientèles to newer parties, one of which has been "able cleverly to use" the existential fears of the "older and less educated" people who feel most threatened by the changes brought by the accelerated process of moderni-

sation, and which in 1994 polled nearly 23% of the electorate (54). This is a party which attracts a "protest vote", but whose populist right-wing leadership proclaims the objective of radically altering the political consensus and the structures of the Second Republic and of establishing a Third (unspecified) Republic, which many Austrians associate with a "Führer-state". It is this party which feels that it is not given adequate recognition in the ESP set-up.

### Conclusion

We are living through a period of New Right dogma and intoxicated "market mania", the worst of which Austria has up to now resisted, but from which it is evidently not immune: "Wirtschaftspolitik" is – in its scholarly and understated way – a blast of sanity.

In the crucial current debate about how "the market" can be made socially friendly and accountable, instead of being socially divisive and destructive (and so also less efficient economically) there may just possibly be a chance to give the market economy "a human face": books like "Wirtschaftspolitik" make a positive and important contribution.

"Wirtschaftspolitik" reminds us how high levels of employment and low levels of unemployment are a crucial test for the quality of an economy; how beneficial organised co-operation between economic and social partners in policy co-ordination has been and how it still has an important job to do. It is books like this which help to clear the mind.

In the opinion of the author of this article, we do not yet have a final verdict in the trial on the way the Austrian, indeed the European market economies and their way of policy-making, will be going. The jury is still out. But let us not forget that the verdict depends on us: it is we who are the jurors.

Wolfgang Brassloff

### Notes

- (1) This will be referred to as "Wirtschaftspolitik" throughout the article.
- (2) There *have* been some authors who wished, against the current orthodoxy, to re-introduce "institutions" into economics and in Britain one can now observe growing numbers of those who realise that, to solve the problem of a persistently underperforming economy, structural, political, social and institutional, not mere economic policy changes are needed. Will Hutton's critique of the economy, for instance, is titled: "*The State We're In*".
- (3) Page numbers in brackets refer to pages in "Wirtschaftspolitik".
- (4) What may have contributed to the absence of such a wider perspective is that "Wirtschaftspolitik" is a companion to a more comprehensive work published some years earlier. Abele et al. (1982), latest edition (1989).
- (5) There are indications that the Bundesbank is now reconsidering its position, while most central banks have long ago abandoned monetary targets as a (failed) panacea. Roll (1995) 67.
- (6) Allfield et al. (1991) 222 ff.
- (7) Some authors have for a long time now gone much further in their critique of the "equilibrium model" as a meaningful representation of economic reality, questioning

- not only the relevance of its assumptions. The possibility of the existence of not a *unique* but of *multiple* equilibria and the fact that in the traditional model economic agents act in a world in which there is no *future* and therefore no *uncertainty* also disqualify many of the conclusions. This, in turn, underlines even further the justification of public intervention/policy. See f. i. Rothschild (1981), Ormerod (1994) Chapters Three and Four and Hutton (1995) 235 ff.
- (8) Additional data from OECD sources and Bank Austria (1995) 4.
  - (9) A collection of studies covering almost all European countries permits international comparison of the position of women in economy and society. Wörsching (1995). For Austria see Brassloff (1995).
  - (10) New such markets are being created, among them the one for derivatives. It is exploding in terms of the value of instruments traded and of the losses that can and are being incurred by financial and other enterprises which speculate in them. In view of the astronomically high sums involved, it is more than doubtful that it makes the contribution to the *stability* of world finance and goods markets that are claimed for it.
  - (11) Fischer (1993) 173.
  - (12) See Chaloupek, Mesch (1993).
  - (13) Indicative planning was quietly abandoned, the German social market economy was maintained but greatly modified by the introduction of counter-cyclical demand management and the more "vulgar" (to use Joan Robinson's phrase) interpretations of Keynesianism came under increasing pressure.
  - (14) For instance: the raw material and oil-price shocks of the 1970s, the rising wage expectations of a labour force that had enjoyed the unique experience of decades of full employment and of job security, the massive increase in international liquidity caused by the outflow of dollars due to foreign investment by US multinational corporations and the spiralling US trade deficit mainly caused by the Vietnam war. The proper response appeared in most west European countries to be a switch to contractionary policies at first having attempted an expansionary policy stance in response to demand deflation caused by the strong oil and raw materials price hikes and a transfer of purchasing power to some OPEC countries with small absorptive capacities.
  - (15) Seidel (1985) 33.
  - (16) Seidel (1985) 33.
  - (17) Rhomberg (1985) 58. For a full discussion "Austro-keynesianism" see Weber, Venus (1993).
  - (18) Fischer (1993) 170 f.
  - (19) Fischer (1993) 165.
  - (20) Calculated from various issues of OECD Economic Outlook.
  - (21) Personal communication to author of this article by a then director of the Nationalbank.
  - (22) Britain also entered the exchange rate mechanism of the EMS at a quite unrealistically high exchange rate, given the state of its economy. Britain and Italy were later forced out of the system and sharply devalued their currencies.
  - (23) Calculated from various issues of OECD Economic Outlook and OECD Employment Outlook.
  - (24) Joseph Rowntree (1995); Davies (1995); Persson (1994).
  - (25) Fischer (1993) 173.
  - (26) BMAS (1993) 173 f.
  - (27) OECD (1994) 18 f.
  - (28) Davis (1992) 21.
  - (29) Davis (1992) 24.
  - (30) Seidel (1985) 26.
  - (31) OECD (1993), 17.
  - (32) OECD (1994) 18 ff.
  - (33) OECD (1994) 116.
  - (34) Fischer (1993) 171.
  - (35) See his international initiative: The Kreisky-Commission and its full employment programme for the 1990s. Kreisky (1989).

- (36) Scharpf (1983) is quoted in this context by Seidel (1985), 33. See also Fischer (1993) 165.
- (37) The then Minister, Erwin Lanc, is reported as saying, "We have today better labour market data because we developed at that time an appropriate culture. Our entrepreneurs do not make people redundant as rashly as elsewhere". Hannes Androsch, the then Finance Minister, is a dissenting voice, saying that at the time employment security had been overdone in the government's approach to jobs. Both are quoted in "Profil" (20. 2. 1995).
- (38) Additional data calculated from OECD sources.
- (39) ILO (1995) 173 f.
- (40) ILO (1995) 140. See also Note 42.
- (41) ILO (1995) 141 ff.
- (42) Reported in: *Der Standard* (25. 3. 1995).
- (43) This is not counting Luxembourg, which has an atypical employment structure.
- (44) This is the comment of a generally neo-liberal and anti-corporatist journal concerning Germany, but it would apply equally to Austria. *The Economist* (18. 3. 1995).
- (45) ILO (1995) 146.
- (46) ILO (1995) 155.
- (47) ILO (1995) 158, quoting McKinsey (1994).
- (48) ILO (1995) 158.
- (49) ILO (1995) 149.
- (50) ILO (1995) 148.
- (51) *Profil* 31. 10. 1994.
- (52) In his memoirs, he recalls describing ESP as "sublimation of the class struggle". Kreisky (1988) 395.
- (53) *Profil* 11. 10. 1994.
- (54) *Ibid.*

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