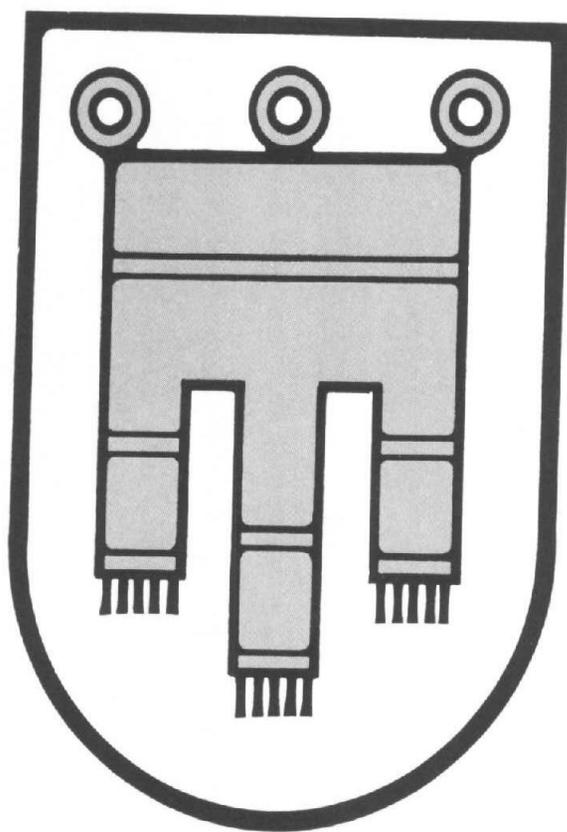


## Chapter 2. The Society and Its Environment



*Coat of arms of the province of Vorarlberg*

**AUSTRIA'S SECURITY AND PROSPERITY** during the second half of the twentieth century are a striking contrast to the instability and poverty of the first half of the century. Between 1914 and 1950, Austrians had five different forms of government and four different currencies. After enduring much hardship during World War I, they experienced the collapse of Austria-Hungary (also seen as the Austro-Hungarian Empire) and the proclamation of the Republic of Austria. In the early 1920s, they endured hyperinflation and in the 1930s the Great Depression. The end of Austria's fledgling democracy and the establishment of an authoritarian regime in 1934 were followed by the demise of Austria altogether when Nazi Germany occupied the country in 1938. The proclamation of the Second Republic in 1945 began a long period of peace and prosperity. However, the republic's first years were a difficult time of economic and social reconstruction that occurred while Austria was occupied by the Four Powers (Britain, France, the Soviet Union, and the United States). War, inflation, unemployment, poverty, authoritarian and totalitarian rule, and foreign occupation formed the average Austrian's experience during the first half of the twentieth century.

The new state of Austria that emerged out of the chaos of World War I faced such serious structural problems that many of its citizens doubted it could survive. Social and economic relationships that had evolved over centuries either ended or were greatly altered. Moreover, the regions of this small German-speaking "rump state" did not join together well to form a new nation. Austria's rural areas, populated predominantly by peasant-farmers, were underdeveloped, most notably in the Alpine regions of western and central Austria. They did not mesh well with the large urban and industrial centers in eastern Austria, especially Vienna, which had evolved to meet the markets and needs of an entire empire, not a small state. The virtual absence of an Austrian national identity merely aggravated concerns about the state's viability.

The events of the late 1930s and 1940s proved these concerns justified, but by 1955 Austria had regained its independence, laid the foundations for decades of sustained economic growth, and established a system of cooperation among rival political parties, interest groups, and government bodies that brought the country an unprecedented degree of stability. Stability did not bar change, however, and Austrian society changed greatly as a thriving,

continuously modernizing economy altered the way Austrians earned their living and the way they lived.

The number of Austrians engaged in agriculture and forestry fell from more than 60 percent at the end of World War II to 7 percent by the beginning of the 1990s. More and more Austrians came to live in urban areas, and over two-thirds of the country's population was concentrated in the valleys and lowlands of eastern Austria. The initial industrial growth was followed by a pronounced shift to the service sector, and peasant-farmers or blue-collar workers, who had frequently lived and worked under abject conditions, increasingly were replaced by white-collar, service-sector employees. By the early 1990s, this sector employed more than 50 percent of the labor force in a society that was predominantly middle class.

The country's population reflects the political and economic traumas that occurred between 1914 and 1945. Austria has been by turns a land of immigration and emigration. After the two world wars and during the Cold War, it was a haven for many refugees from Eastern Europe. Before and during World War II, however, many Austrians fled for racial or political reasons. During the 1960s and later, an increasing number of foreigners from southeastern and Eastern Europe settled in Austria. Their presence offset to some degree the negative growth rate of the country's indigenous population.

The Austrian family has also changed, both in size and in structure. During the last generation, it has become smaller. Traditional family values and life-styles are in a state of rapid transition, as evidenced by the increasing number of people living alone, childless marriages, and steadily increasing rates of divorce and illegitimacy. Although Austria is a predominantly Roman Catholic country, these changes show that religion no longer plays as important a role as in the past.

Social change has led to a much more open, democratic, socially mobile, and prosperous society in which there are few rigid class distinctions. Traditionally disadvantaged groups have had greater access to secondary and university education. Furthermore, Austria has a highly developed welfare state that provides a broad spectrum of social security and health care benefits. As a result, in the early 1990s the quality of life in Austria was rated the world's tenth best by Washington's Population Crisis Committee.

Austrians have also developed a new and unprecedented national consciousness. For the first time, they have come to see themselves as a distinct people separate from their German neighbors. They have also found a new European role as a neutral state between the East and the West. However, the anticipated and unanticipated

dynamics of West European and East European development—European economic and political integration and the opening of Eastern Europe—have changed the hopes and expectations Austrians have entertained, as well as the nature of their fears and anxieties.

## **Geography**

Austria is a small, predominantly mountainous country located in south-central Europe. It has a total area of 83,859 square kilometers, about twice the size of Switzerland and slightly smaller than the state of Maine. The landlocked country shares national borders with Switzerland and the tiny principality of Liechtenstein to the west (200 kilometers together), Germany (784 kilometers) and the Czech Republic and Slovakia (568 kilometers together) to the north, Hungary to the east (346 kilometers), and Slovenia (311 kilometers) and Italy (430 kilometers) to the south.

The westernmost third of the somewhat pear-shaped country consists of a narrow corridor between Germany and Italy that is between thirty-two and sixty kilometers wide. The rest of Austria lies to the east and has a maximum north-south width of 280 kilometers. The country measures almost 600 kilometers in length, extending from Lake Constance on the Austrian-Swiss border in the west to the Neusiedler See on the Austrian-Hungarian border in the east. The contrast between these two lakes—one in the Alps and the other a typical steppe lake on the westernmost fringe of the Hungarian Plain—illustrates the diversity of Austria's landscape.

Seven of Austria's nine provinces have long historical traditions predating the establishment of the Republic of Austria in 1918: Upper Austria, Lower Austria, Styria, Carinthia, Salzburg, Tirol, and Vorarlberg (see fig. 1). The provinces of Burgenland and Vienna were established after World War I. Most of Burgenland had been part of the Kingdom of Hungary, but it had a predominantly German-speaking population and hence became Austrian. Administrative and ideological reasons played a role in the establishment of Vienna as an independent province. Vienna, historically the capital of Lower Austria, was a socialist stronghold, whereas Lower Austria was conservative, and both socialists and conservatives wanted to consolidate their influence in their respective provinces. Each province has a provincial capital with the exception of Vienna, which is a province in its own right in addition to being the federal capital. In Vienna, the City Council and the mayor function as a provincial parliament and provincial governor, respectively.

## **Landform Regions**

The two best-known features of the Austrian landscape are the Alps and the Danube River (see fig. 5). The Danube has its source in southwestern Germany and flows through Austria before emptying into the Black Sea. It is the only major European river that flows eastward, and its importance as an inland waterway has been enhanced by the completion in 1992 of the Rhine-Main-Danube Canal in Bavaria, which connects the Rhine and Main rivers with the Danube and makes possible barge traffic from the North Sea to the Black Sea.

The major rivers north of the watershed of the Austrian Alps (the Inn in Tirol, the Salzach in Salzburg, and the Enns in Styria and Upper Austria) are direct tributaries of the Danube and flow north into the Danube Valley, whereas the rivers south of the watershed in central and eastern Austria (the Gail and Drau rivers in Carinthia and the Mürz and Mur rivers in Styria) flow south into the drainage system of the Drau, which eventually empties into the Danube in Serbia. Consequently, central and eastern Austria are geographically oriented away from the watershed of the Alps: the provinces of Upper Austria and Lower Austria toward the Danube and the provinces of Carinthia and Styria toward the Drau.

The Alps cover 62 percent of the country's total area. Three major Alpine ranges—the Northern Alps, Central Alps, and Southern Alps—run west to east through Austria. The Central Alps, which consist largely of a granite base, are the largest and highest ranges in Austria. The Central Alps run from Tirol to approximately the Styria-Lower Austria border and include areas that are permanently glaciated in the Ötztal Alps on the Tirolean-Italian border and the High Tauern in eastern Tirol and Carinthia. The Northern Alps, which run from Vorarlberg through Tirol into Salzburg along the German border and through Upper Austria and Lower Austria toward Vienna, and the Southern Alps, on the Carinthia-Slovenia border, are predominantly limestone and dolomite. At 3,797 meters, Grossglockner in Carinthia is the highest mountain in Austria. As a general rule, the farther east the Northern Alps and Central Alps run, the lower they become. The altitude of the mountains also drops north and south of the central ranges.

As a geographic feature, the Alps literally overshadow other landform regions. Just over 28 percent of Austria is moderately hilly or flat: the Northern Alpine Foreland, which includes the Danube Valley; the lowlands and hilly regions in northeastern and eastern



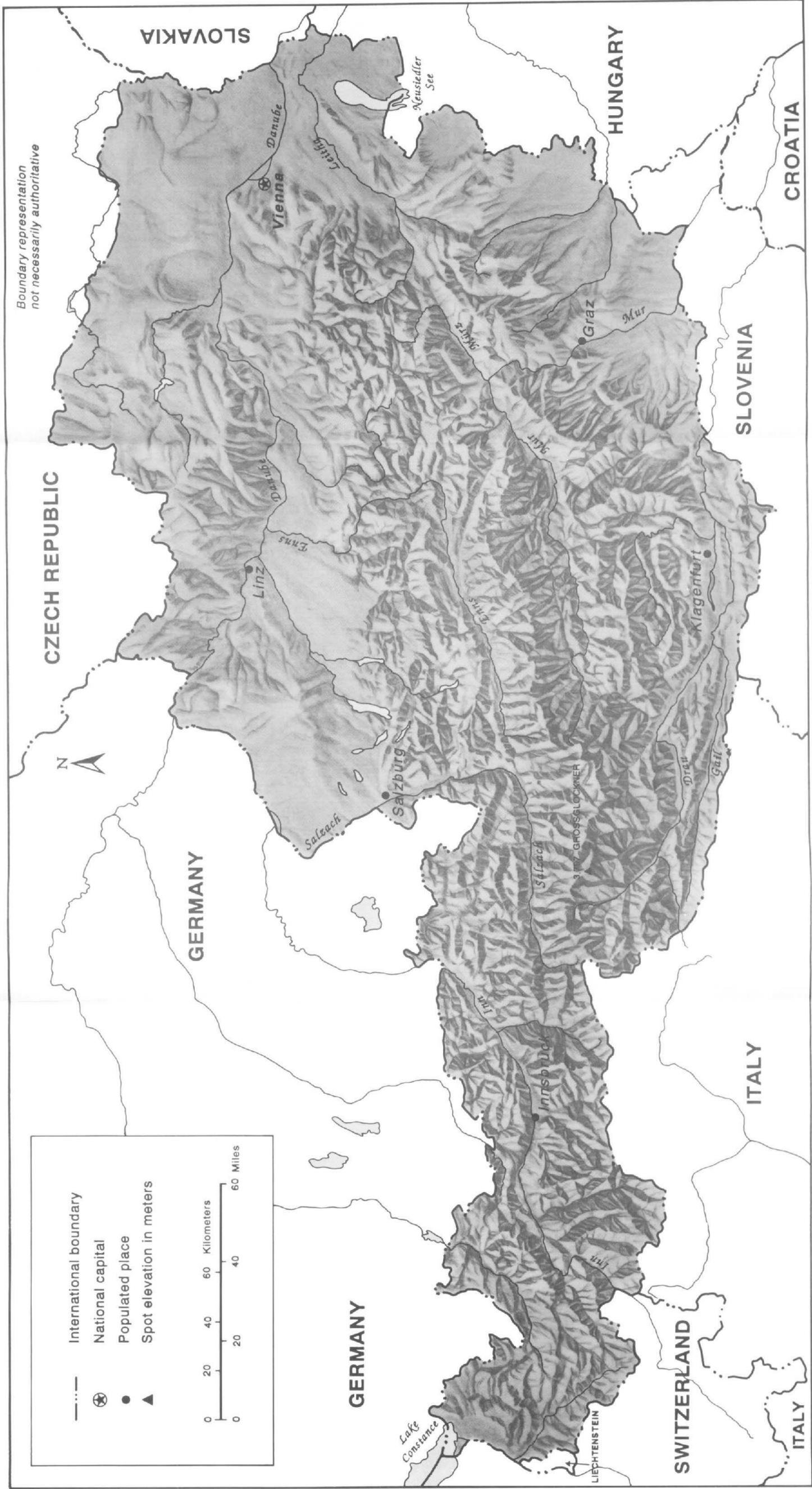


Figure 5. Topography and Drainage

Austria, which include the Danube Basin; and the rolling hills and lowlands of the Southeastern Alpine Foreland. The parts of Austria that are most suitable for settlement—that is, arable and climatically favorable—run north of the Alps through the provinces of Upper Austria and Lower Austria in the Danube Valley and then curve east and south of the Alps through Lower Austria, Vienna, Burgenland, and Styria. Austria's least mountainous landscape is southeast of the low Leitha Range, which forms the southern lip of the Viennese Basin, where the steppe of the Hungarian Plain begins. The Bohemian Granite Massif, a low mountain range with bare and windswept plateaus and a harsh climate, is located north of the Danube Valley and covers the remaining 10 percent of Austria's area.

### **Human Geography**

Land-use patterns in Austria change from Alpine to non-Alpine regions. Approximately one-tenth of Austria is barren or unproductive, that is, extremely Alpine or above the tree line. Just over two-fifths of Austria is covered by forests, the majority of which are in Alpine regions. Less than one-fifth of Austria is arable and suitable for conventional agriculture. The percentage of arable land in Austria increases in the east as the country becomes less Alpine. More than one-fifth of Austria is pastures and meadows located at varying altitudes. Almost one-half of this grassland consists of high-lying Alpine pastures.

Historically, high Alpine pastures have been used during the summer for grazing dairy cattle, thus making space available at lower altitudes for cultivating and harvesting fodder for winter. Many of the high pastures are at altitudes of more than 1,000 meters.

Although agriculture in mountainous areas was at one time economically viable, in recent decades it has survived only with the help of extensive subsidies. A concern of farmers in these mountainous regions is that membership in the European Union (EU—see Glossary) might entail a curtailment of these subsidies and the end of Alpine agriculture. If this occurs, many areas will be reclaimed by nature after centuries of cultivation.

Although the Alps are beautiful, they make many areas of Austria uninhabitable. Austria's so-called areas of permanent settlement—regions that are cultivated, continuously inhabited, and used for transportation, but do not include forests, Alpine pastures, or barren land—cover only four-tenths or 35,000 square kilometers of the country. The great majority of the area of permanent settlement is in the Danube Valley and the lowlands or hilly regions

north, east, and south of the Alps, where approximately two-thirds of the population live.

In the country's predominantly Alpine provinces, most of the population live in river valleys: Bregenz on the shores of Lake Constance in Vorarlberg; Innsbruck on the Inn River in Tirol; Salzburg on the Salzach River in Salzburg; and Klagenfurt on the Gail River in Carinthia. The higher the Alps are, the less inhabitable they become in terms of soil, microclimate, and vegetation. Conversely, the lower and broader the Alpine valleys are, the more densely populated they become.

Tirol illustrates most clearly the relationship between Alpine geography and habitation. As the most mountainous province (less than 3 percent of the land is arable), it is the most sparsely inhabited, with an area of permanent settlement of only 15 percent.

Because of the Alps, the country as a whole is one of the least densely populated states of Western and Central Europe. With ninety-three inhabitants per square kilometer, Austria has a population density similar to that of the former Yugoslavia.

Austria's national borders and geography have corresponded very little. Since the fall of the Roman Empire, the Alps and the Danube have not served to mark political boundaries. Even within Austria, provincial borders were only occasionally set by the ranges and ridges of the Alps.

Although the Alps did not mark political boundaries, they often separated groups of people from one another. Because in the past the Alps were impassable, inhabitants isolated in valleys or networks of valleys developed distinct regional subcultures. Consequently, the inhabitants of one valley frequently maintained dialects, native or traditional dress, architectural styles, and folklore that substantially differed from those of the next valley. Differences were great enough that the origins of outsiders could easily be identified. However, mass media, mobility, prosperity, and tourism have eroded the distinctness of Alpine regional subcultures to a great extent by reducing the isolation that gave them their particular character.

Despite the Alps, Austria has historically been a land of transit. The Danube Valley, for centuries Central Europe's aquatic link to the Balkan Peninsula and the "Orient" in the broadest sense of the word, has always been an avenue of east-west transit. However, Europe's division into two opposing economic and military blocs after World War II diminished Austria's importance as a place of transit. Since the opening of Eastern Europe in 1989, the country has begun to reassume its historical role. By the early

1990s, it had already experienced a substantial increase in the number of people and vehicles crossing its eastern frontiers.

Within the Alps, four passes and the roads that run through them are of particular importance for north-south transit. The Semmering Pass on the provincial border of Lower Austria and Styria connects the Viennese Basin with the Mürz and Mur valleys, thus providing northeast-southwest access to Styria and Slovenia, and, via Carinthia, to Italy.

The Phyrn Pass, between the provinces of Upper Austria and Styria, and the Tauern Pass, between the High Tauern Range and the Low Tauern Range of the Central Alps in Salzburg, provide access to the Mur Valley in Styria and the Drau Valley in Carinthia, respectively. The highways that run through these passes are important northwest-southeast lines of communication through the Alps. The Phyrn highway has been nicknamed the “foreign workers’ route” because millions of “guest workers” in Germany use it to return to their homes in the Balkans and Turkey for vacation. Many Germans and northern Europeans also use it in the summer months to reach the Adriatic coast. After the outbreak of hostilities in Yugoslavia in the summer of 1991, however, a substantial amount of this traffic was rerouted through the Danube Valley and Hungary.

The most important pass in the Austrian Alps is the Brenner Pass, located on the Austrian-Italian border in Tirol. At 1,370 meters, it is one of the lowest Alpine passes. The Inn Valley and the Brenner Pass historically have been an important and convenient route of north-south transit between Germany and Italy, and they provide the most direct route between Europe’s two most highly industrialized regions—Germany and northern Italy.

## **Climate**

The Alps serve as a watershed for Europe’s three major kinds of weather systems that influence Austrian weather. The Atlantic maritime climate from the northwest is characterized by low-pressure fronts, mild air from the Gulf Stream, and precipitation. It has the greatest influence on the northern slopes of the Alps, the Northern Alpine Foreland, and the Danube Valley. The continental climate is characterized by low-pressure fronts with precipitation in summer and high-pressure systems with cold and dry air in winter. It affects mainly eastern Austria. Mediterranean high-pressure systems from the south are characterized by few clouds and warm air, and they influence the weather of the southern slopes of the Alps and that of the Southeastern Alpine Foreland, making them the most temperate part of Austria.

One peculiarity of the Mediterranean weather systems is the föhn, a warm air mass that originates in the African Sahara and moves north rapidly, periodically raising temperatures up to 10°C in a short period of time. Many people respond to this rapid weather change with headaches, irritability, and circulatory problems. During the winter, the rapid warming that accompanies a föhn can thaw the snow cover in the Alps to such an extent that avalanches occur.

Given the importance of Alpine skiing for the Austrian tourist industry, December is the month during which the weather is watched with the greatest anticipation. As a rule, Atlantic maritime weather systems bring snow, and continental weather systems help keep it. However, a predominance of cold, dry continental systems or warm Mediterranean ones inevitably postpones the beginning of the ski season. In the summer, Mediterranean high-pressure systems bring warm, sunny weather.

### **Ecological Concerns**

Austrians face a number of ecological problems in the 1990s. One of the most pressing is the pollution caused by the staggering increase of traffic through the country. Traffic on the superhighway going through the Brenner Pass has, for example, increased from 600,000 vehicles per year in the early 1970s to over 10 million per year in the early 1990s. One-quarter of the traffic crossing Austria consists of semitrailers used for heavy transport. The opening of Eastern Europe has only exacerbated the problem of transit traffic.

The Alpine valleys through which much of this traffic passes are unusually vulnerable to ecological damage. Narrow valleys are not conducive to dissipation of noise or pollutants caused by motor vehicles. Inversions—cold layers of air that trap warm layers of air or warm layers of air that trap cold layers in the valleys and lowlands—also seasonally contribute to the magnitude of the pollution problem.

Austria has negotiated with the EU to set limits on the amount of commercial transit traffic, especially through Tirol. Work is also under way to develop a “piggy-back” system of loading semitrailers on to flatbed railroad cars in southern Germany and northern Italy, transporting them through Tirol by rail. Environmentalists have pushed for measures that are more far-reaching. They advocate, for example, digging a tunnel from Garmisch-Partenkirchen in southern Germany to Bolzano in northern Italy.

Pollution is also brought by the weather systems that determine the country’s climate. Atlantic maritime weather systems carry

*Church at Gargellan in the  
province of Vorarlberg  
Courtesy Embassy of Austria,  
Washington*



pollution into Austria from northwestern Europe. Austria's proximity to industrialized regions of former Communist states, with negligible or no pollution control policies or equipment, combined with the influence of continental weather systems, also has proved to be extremely harmful. Mediterranean weather systems transmit industrial pollutants from northern Italy.

As a result of domestic and foreign pollution, 37 percent of Austria's forests had been damaged by acid rain and/or pollutant emissions by 1991. The damage to forests has had dire consequences, including the decimation of forests that for centuries had protected many Alpine communities from avalanches, erosion, mud slides, or flooding caused by runoff.

The seriousness of the ecological problems confronting the country gave rise in the 1970s to an environmentalist movement. Political parties were formed, and representatives were elected to parliament (see *The Green Parties*, ch. 4). A referendum in 1978 closed down a newly completed nuclear power plant and turned the country away from the exploitation of nuclear energy. Public opposition in 1984 stopped the planned construction of a hydroelectric power plant in a wetlands region.

The country's long-standing commercial use of the Alps for recreational purposes has also come under examination. Extensive tourism places an inordinate amount of pressure on sensitive Alpine ecosystems. Ski runs damage forests, as do summer sports

such as off-trail mountain hiking or mountain biking. Many Alpine villages have also grown greatly because of the tourist industry. In extreme cases, they have up to twenty hotel beds for each inhabitant, a ratio that places a disproportionate seasonal burden on communal infrastructures and the environment. For these reasons, efforts have been made to introduce “green” or “soft” forms of tourism that are more compatible with the Alpine environment.

Part of the solution to Austria’s ecological problems is being sought in stricter environmental legislation at the domestic level. Ultimately, however, pan-European and global cooperation in the realm of pollution and emission control will be necessary to protect the country’s environment.

## **Austrian National Identity**

The absence of an Austrian national identity was one of the problems confronted when Austria became a country in November 1918 (see *The End of the Habsburg Empire and the Birth of the Austrian Republic*, ch. 1). Before 1918 there had been no tradition among German-speaking Austrians of striving for national independence as a small German-speaking state separated from Austria-Hungary or separated from Germany. Within the context of the multiethnic and multilingual empire, the great majority of the inhabitants of what was to become Austria considered themselves “Germans” insofar as they spoke German and identified with German culture.

Strong provincial identities that stemmed from the provinces’ histories as distinct political and administrative entities with their own traditions existed for this reason. Tiroleans, for example, identified more with their province than with the new nation-state. As a result, the idea of an “Austrian nation” as a cultural and political entity greater than the sum total of provinces, yet smaller than the pan-German idea of the unification of all German speakers into one state, virtually did not exist in 1918. The Austrian historian Friedrich Heer described the confusion surrounding Austrians’ national identity in the following manner: “Who were these Austrians after 1918? Were they Germans in rump Austria, German-Austrians, Austrian-Germans, Germans in a ‘second German state,’ or an Austrian nation?”

Furthermore, Austrians had serious doubts about the economic and political viability of a small German-speaking state. Two alternatives were envisioned for Austria: either membership in a confederation of the states formed out of Austria-Hungary or unification with Germany as a legitimate expression of Austrian national self-determination. Neither alternative was realized. Efforts to form

a “Danube Confederation” failed, and the Allies prohibited Austria’s unification with Germany in the treaties signed after World War I. As a compromise between these alternatives, Austria was a “state which no one wanted.”

After 1918 many Austrians identified themselves as being members of a “German nation” based on shared linguistic, cultural, and ethnic characteristics. Since unification with Germany was forbidden, most Austrians regarded their new country as a “second” German state arbitrarily created by the victorious powers. During the troubled interwar period, unification with a democratic Germany was seen by many, not only by those on the political right but across the entire political spectrum, as a solution for Austria’s many problems.

Nazi Germany’s annexation (*Anschluss*) of Austria into the Third Reich in March 1938 proved to be an impetus for the development of Austrian national consciousness (see *The Anschluss and World War II*, ch. 1). Austrians increasingly focused on the historical and cultural differences between Austrian and German traditions—and the uniqueness and singularity of an “Austrian nation”—and on the idea of an independent Austrian state. It is one of those quirks of history that the experience of being “German” in the Third Reich was instrumental in awakening feelings of Austrian nationalism for many Austrians, who, by the end of World War II, wholeheartedly endorsed the idea of Austrian independence from Germany. This idea involved rejecting the concept of one “German linguistic and cultural nation” for the sake of two German-speaking nations: one German and the other Austrian.

The reestablishment of Austrian independence in 1945 set the conditions for the development of a new Austrian national identity (see *Restored Independence under Allied Occupation*, ch. 1). Allied policy, which formulated the reestablishment of an independent Austrian state as a war objective and distinguished between the treatment of Austrians and Germans and the Allied occupation of Austria from 1945 until 1955 contributed to promoting attitudes of national cohesiveness and a desire for independence. After the State Treaty of 1955 arranged for the end of the Allied occupation and a subsequent proclamation of Austria’s permanent neutrality, Austrians increasingly identified themselves with their country and saw it as a state with traditions and a history distinct from those of Germany. Although a persistent right-wing minority in Austria continued to insist on “Germanness” as being one of the attributes of being Austrian, ever more Austrians came to identify with the Austrian nation in the decades after World War II.

Seventy-nine percent did so by 1990, compared with 47 percent in 1966. In this respect, Austria is a “young nation.”

## **Demography**

The demographic history of Austria corresponds to the general changes that have taken place in other industrial nations, but with a number of regional and historical differences. An increasing life expectancy, a declining fertility rate (or a lower birth rate), and a greater concentration of population in urban areas are trends Austria shares with other advanced industrial nations. The cataclysmic events of World War I and World War II, the substantial population movements—both forced and voluntary—during the interwar period and after World War II, the influx of foreign workers starting in the 1960s, and the opening of Eastern Europe beginning in the late 1980s all affected the size and structure of Austria’s population.

## **Demographic Development**

Between 1900 and 1991, the country’s population grew from 6,004,000 to 7,795,800 (see table 2, Appendix). War deaths and birth deficits during each of the world wars and the consequences of the Great Depression profoundly influenced the development of Austria’s population. Approximately 190,000 men were killed in action in World War I. Increased mortality among the civilian population as a result of the hardships of war and the immediate postwar period and extremely low birth rates resulted in a population decrease of 100,000 between the censuses of 1910 and 1923. Postwar immigration of German-speaking and Jewish populations from the successor states of Austria-Hungary to the Republic of Austria and emigration from Austria after the war basically offset each other. Economic and political crises in the first half of the 1930s caused 72,000 Austrians to emigrate to non-European countries. The largest contingent of emigrants, 37,000, were from the province of Burgenland and went primarily to the United States, mainly for economic reasons.

After Austria was annexed by Nazi Germany in March 1938, an estimated 130,000 Austrians, the great majority of whom had Jewish origins, emigrated from Austria. More than 65,000 Austrian Jews died in the concentration camps and prisons of the Third Reich; 35,000 non-Jewish Austrians shared a similar fate or were executed after trials. An estimated 250,000 Austrians were killed in action during World War II; 25,000 civilians were killed as a result of bombing or military action in Austria. Some of these losses

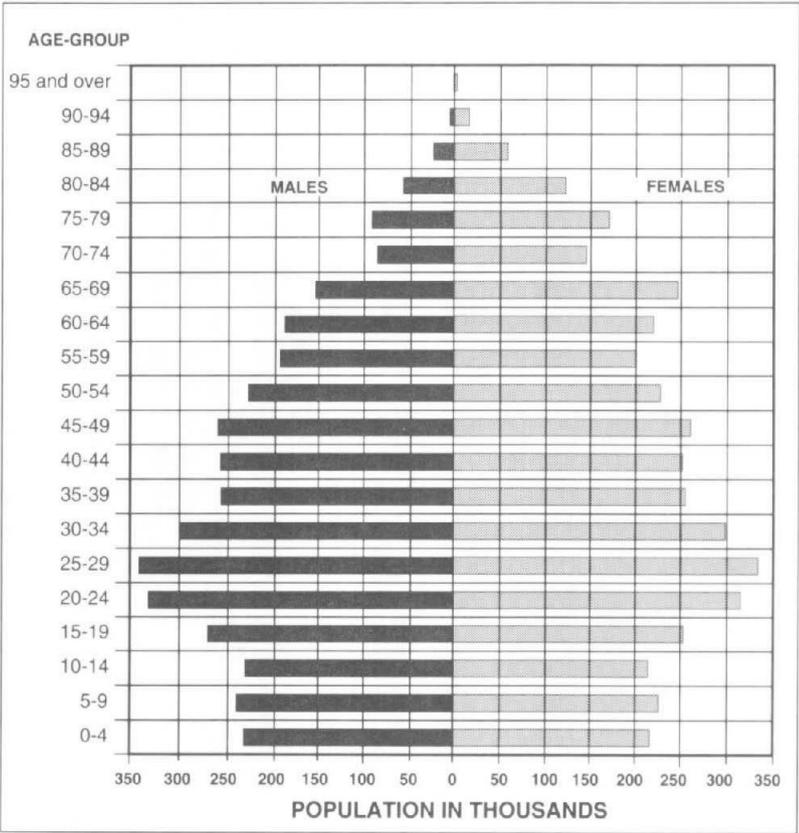
were offset by Nazi population policies that promoted motherhood and large families for racial reasons.

After the war, Austria became a destination for ethnic Germans, who fled from or were driven out of their homes in Czechoslovakia, Romania, and Yugoslavia. Other refugees and “displaced persons,” who were either uprooted by hostilities or victims of the expulsions sanctioned by the Allies and carried out by East European governments immediately after the war, also came to Austria. Between 1945 and 1950, about 400,000 immigrants—ethnic Germans from Eastern Europe and other non-German speaking refugees—settled in Austria and eventually became Austrian citizens.

The increase of birth rates in Austria during the 1950s corresponded with the trends in most other West European countries. Between 1950 and 1992, the infant mortality rate in Austria dropped from over 61.3 per 1,000 live births to 7.5 per 1,000, an indication of improvements Austrian health authorities had made in prenatal and postnatal care. During the 1960s, Austria experienced an unprecedented population growth related to an increase of births over deaths and a large influx of foreign workers. After the mid-1960s, however, there was a substantial and continuous drop in the fertility and birth rates in Austria, generally referred to as the “pill drop-off.” In 1974 this trend was further influenced by the legalization of abortion during the first trimester of pregnancy. Since the mid-1970s, Austria—after Italy and the Federal Republic of Germany (West Germany)—has had the third lowest fertility rate in the world: 1.44 children per woman in 1990, a rate substantially lower than the replacement rate of 2.09.

In the early 1980s, some demographers predicted that the population of Austria would decline from 7.5 million to its 1965 level of 7.25 million by 2010. This scenario was substantially revised when in the mid-1980s Austria’s population experienced a spurt of dramatic growth. Projections in 1990 anticipated a net growth of Austria’s population by 500,000 to 8 million by 2010. An increase in immigration and the higher fertility rate of foreign workers accounted for the greatest part of Austria’s net population growth in the early 1990s.

Within Austria there are substantial variations in regional patterns of population growth among the indigenous population, in contrast to the immigrant or foreign population. After World War II, Austria’s eastern provinces—Lower Austria, Vienna, and Burgenland—had lower rates of fertility than the other provinces in the country. Throughout the 1960s and the 1970s, there was a clear “east-west watershed” in population growth. The west had



Source: Based on information from Austria, Österreichisches Statistisches Zentralamt, *Statistisches Handbuch für die Republik Österreich, 1991*, Vienna, 1991, 24.

*Figure 6. Population by Age and Gender, 1990*

higher rates of fertility, while the east's lower rates of fertility led to a stagnating or declining population (see table 3, Appendix). The economic and social reasons for these patterns of development were complex and included the Soviet occupation of eastern Austria from 1945 to 1955 and the depopulation of regions along the Iron Curtain, the traditionally weak economic infrastructure of predominantly rural areas in eastern and southeastern Austria, and the conservatism and deeply rooted Roman Catholicism of western Austria.

In 1970 the average life expectancy was seventy years (sixty for males and seventy-three for females). By 1990 the average life expectancy was almost seventy-six years (seventy-two for males and seventy-nine for females). The increasing life expectancy and the fall

in the number of births have meant that Austria's population is aging (see fig. 6; fig. 7). One of the major concerns under these circumstances is the burden placed on the Austrian social security system: to what extent will a constant, or shrinking, labor force be able to maintain an increasing number of pensioners?

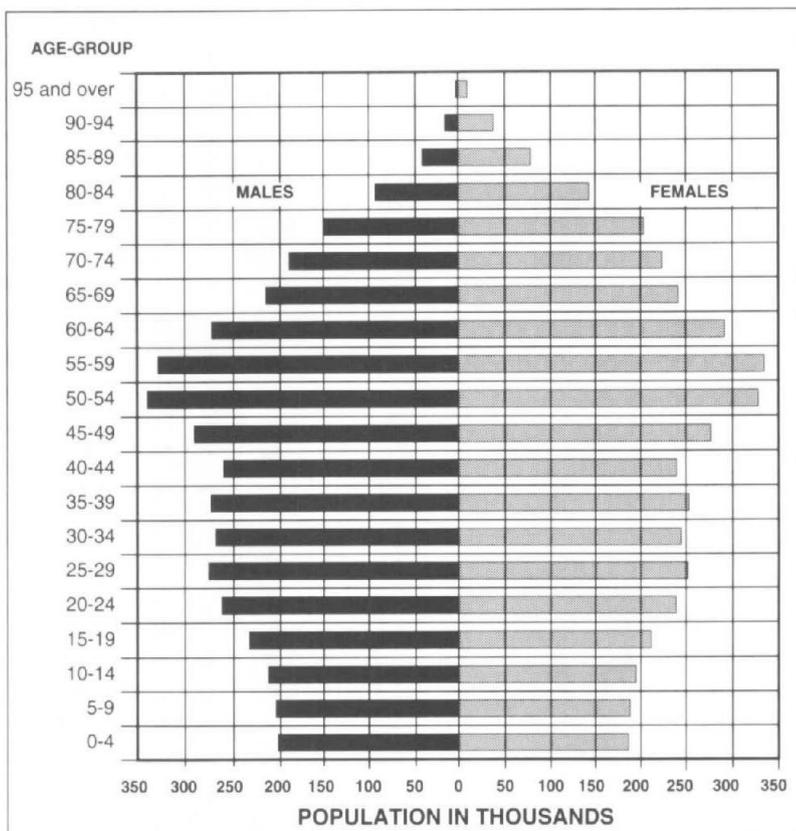
The overall decline of fertility among Austria's indigenous population is similar to developments in other advanced industrial nations in Europe. The decline is caused by a complex set of factors, including the increased use of contraception and abortion, and the increased employment of women outside the home, and changing values and attitudes toward marriage, family, and childbearing.

### **Immigration**

Austria's position in Central Europe after World War II—by 1948 about 1,225 kilometers, or 46 percent, of its frontiers were with communist states—and the proclamation of Austrian neutrality in October 1955 made Austria Europe's most important country of east-west transit, transmigration, and the claiming of refugee status. Between 1945 and 1990, approximately 2.6 million people came to Austria as immigrants, transmigrants, or refugees. The great majority of them stayed in Austria only for short periods, and some 550,000 used Austria exclusively as a land of transit. Approximately 1.4 million people were transmigrants who lived in Austria before emigrating to other countries or returning to their countries of origin. About 650,000 people, over half of whom were not ethnic Germans or native German speakers, settled permanently in Austria, the great majority of whom became citizens.

Although Austrians traditionally viewed their country as a neutral land of transit and political asylum, they did not see Austria as a land of immigration like the United States, Canada, or Australia. This perception, however, does not correspond to the fact that more than 10 percent of the country's citizens in 1990 had not been born in Austria and that in the early 1990s more than 500,000 legal foreigners, predominantly guest workers, lived in the country.

Waves of immigration were caused by political events in neighboring countries. After the Hungarian Revolution of 1956, for example, over 250,000 Hungarians fled to Austria, 180,000 of whom eventually applied for asylum. In August 1968, after the Warsaw Pact invasion of Czechoslovakia ended the "Prague Spring," 162,000 Czechs and Slovaks fled to Austria. Although the majority of them eventually returned to Czechoslovakia, 12,000 applied for asylum. In Poland the banning of the Solidarity Movement in December 1981 caused between 120,000 and 150,000 Poles to go to



Source: Based on information from Austria, Österreichisches Statistisches Zentralamt, *Statistisches Handbuch für die Republik Österreich, 1991*, Vienna, 1991, 24.

*Figure 7. Population by Age and Gender, Projected 2020*

Austria, and 33,000 of them applied for asylum. The opening of Hungary's borders during the summer of 1989 breached the Iron Curtain, and 40,000 East Germans used Austria as a land of transit to emigrate to West Germany.

In addition to European immigrants, since 1972 Austria has accepted contingents of asylum seekers from a number of countries—Chile, Argentina, Uganda, Iran, and Afghanistan—under the auspices of international agreements. Austria was also the main land of transit for 250,000 Jewish emigrants from the Soviet Union beginning in 1976 until the advent of direct Soviet immigration to Israel in 1990.

The number of individuals seeking political asylum in Austria rose from fewer than 5,000 in 1982 to more than 27,000 in 1991.

Before the Iron Curtain fell at the end of 1989, the granting of political asylum in Austria to refugees was relatively liberal. Once democratic governments were established in the former communist states of Eastern Europe and borders were opened, however, Austria began to pursue a more restrictive asylum policy. A distinction came to be made between political refugees and so-called economic refugees, who sought more lucrative employment or better living conditions. As a result, the number of those seeking asylum fell to 16,200 in 1992.

The number of people seeking to immigrate to Austria had increased so greatly by the early 1990s that the nation's army, the Bundesheer (Federal Army), was called in to assist customs and border authorities in patrolling the country's borders. After the fall of communism, these borders were virtually open for a time. By 1992 as many as 100,000 illegal immigrants were in Austria. In addition, for humanitarian reasons, Austria had accepted well over 50,000 refugees from the former Yugoslavia, who had either fled or were expelled from their homes in the course of hostilities that began in 1991. Most of these refugees were Bosnians.

The presence of a large number of foreign workers in Austria also affected population trends. The size of this group fluctuated according to the state of the country's economy. From the mid-1960s through the early 1970s, a period of rapid domestic economic growth, Austria's domestic labor force was not large enough to satisfy the demands of its growing economy, and foreign workers were brought in to meet the labor shortage. Most were unskilled Yugoslavs and Turks who assumed menial jobs with low salaries. As a result of this influx, the number of foreign workers in Austria increased from fewer than 50,000 in 1965 to some 220,000 in 1974. The recession of the second half of the 1970s and early 1980s had reduced their number to 140,000 by 1984. Periods of growth later in the decade raised it to 264,000 by 1991.

Despite these fluctuations, guest workers and their dependents had become a permanent feature of Austria's population and accounted for 80 percent of the 550,000 legally registered foreign inhabitants in Austria in 1991. The remaining 20 percent consisted of asylum seekers and refugees who had fled from the conflict in the former Yugoslavia.

A shrinking population caused by lower birth rates was Austria's greatest demographic concern in the 1970s and early 1980s. Although the low birth rate among Austria's indigenous German-speaking population continues to be an issue, many Austrians are also concerned about the growing number of foreigners in Austria. To offset the low birth rate, Austria needs a projected net annual

growth of approximately 25,000 people per year in order to maintain population at a stable level. Most of this growth will come from foreigners living in Austria or from immigrants.

### **Emigration**

In the early 1990s, the number of Austrians living and working abroad—approximately 430,000—was somewhat lower than the number of foreigners in Austria. Since the 1950s, West Germany had been the most frequent destination, and in 1990 about 181,000 Austrians resided there, attracted by prospects of better wages and greater career opportunities. In the same year, 29,000 Austrians lived in Switzerland and 10,000 in Italy. The great majority of the remainder lived outside Europe, predominantly in North America and South America. In contrast to foreign workers in Austria, Austrians working abroad frequently were highly skilled and well educated.

### **Social Minorities**

The ethnic or national backgrounds of many Austrians reflect the multinational heritage of the Habsburg Empire. During the late nineteenth and early twentieth centuries, a substantial amount of migration occurred within Austria-Hungary to the German-speaking provinces of Austria. Austria's western and Alpine provinces were affected much less by migration because their low levels of industrialization and urbanization offered few employment opportunities. Before 1918 Czech and Jewish migration influenced the composition of Austria's population to the greatest extent, although all the empire's peoples participated in it. The migrants to Austria from other parts of the empire were usually assimilated into German-speaking Austrian society in a generation or two. However, traditional religious prejudices and racist doctrines of the late nineteenth century prevented a full acceptance of Jewish migrants.

The post-World War I peace conferences that established the borders of the Republic of Austria created a relatively homogeneous German-speaking state (95.3 percent of the populace) but left German-speaking minorities in Czechoslovakia and Italy. Although the 3 million German-speaking inhabitants of the borderlands of Bohemia and Moravia had been subjects of the Habsburgs for centuries, their national orientation was German, and it would not be accurate to see them as an Austrian minority outside of Austria.

The establishment of the Austrian-Italian frontier at the Brenner Pass involved the dismemberment of the province of Tirol and

created an Austrian—or, more specifically, German-speaking Tirolean—minority of 200,000 persons in South Tirol that was incorporated into the Italian region of Trentino-Alto Adige. While Italy was controlled by the Fascists (1922–45), German-speaking South Tiroleans were subjected to Italianization campaigns, and during World War II they were given the “option” of Italianization or emigration as “settlers” to areas occupied by Nazi Germany.

After World War II, a popular movement in South Tirol agitated for the region to be incorporated into Austria, but the Allies did not support these aspirations. An agreement in 1947 between Italy and Austria provided South Tiroleans with a special autonomous status. The realization of this status became a continuing point of contention that sometimes erupted into violence between South Tiroleans and Italians and caused friction between Vienna and Rome. However, in 1992 political representatives of the German-speaking South Tiroleans and the Italian authorities in Rome succeeded in drafting legislation that is likely to satisfy South Tirolean claims for autonomy as an Italian province (see *Regional Issues*, ch. 4).

### **Official Minority Groups**

Within Austria a distinction is made between “official ethnic groups”—Slovenes, Croats, Hungarians, and Czechs and Slovaks—who are legally defined and recognized as minorities, and other social groups, such as Roma and Sinti (commonly known as Gypsies), Jews, and foreign workers. These other groups do not have a special legal status as “Austrian ethnic groups” but are *de facto* minorities.

Although Austria was the most homogeneous of the successor states carved out of Austria-Hungary, it had a number of indigenous ethnic and linguistic minorities in the southern and eastern rural borderlands: Slovenes in Carinthia; Croats, Slovaks, and Hungarians in Burgenland. An urban minority of Czechs and Slovaks were also concentrated predominantly in Vienna. These groups accounted for 4.7 percent of Austria’s population after World War I.

The Croats represented the largest single official minority in Austria. The Croat enclaves in Burgenland were the result of the Habsburgs’ wars with the Ottoman Empire in the sixteenth and seventeenth centuries. The Croats fled north to avoid Turkish subjugation, and after the Habsburgs defeated the Turks, Croats were settled in Burgenland to compensate for the depopulation the wars had caused.

The drafting of the post-World War I frontiers of Burgenland also created Austria’s smallest minority. Areas east of the Leitha

River historically had been part of the Kingdom of Hungary, although they were predominantly inhabited by German speakers by 1918. Negotiations of the national frontiers between Austria and Hungary led to Burgenland's becoming a province within Austria. Thus, the province's Hungarian population became an Austrian minority.

The Slovenes of southern Carinthia, Austria's second largest ethnic group, were the descendants of the ancient Slavic population that initially inhabited the southern slopes of the Alps and the Drau River Basin. Beginning in the early Middle Ages, these Slavs were displaced by German speakers. After both World War I and World War II, the newly formed state of Yugoslavia had aspirations of incorporating into it the areas of southern Carinthia inhabited by Slovenes. A Yugoslav invasion of Carinthia in 1918 was followed by a plebiscite in the areas in question in 1920 that resolved territorial claims with a clear vote for Austria. Tensions between the Slovene minority and the German-speaking majority in Carinthia increased during World War II because of Nazi racial policies and the military actions in southern Carinthia of Slovene partisans operating under the directions of Marshal Josip Broz Tito's National Liberation Army.

After World War II, neither the Allies nor the Austrian authorities were willing to meet renewed Yugoslav demands to redraw the Austrian-Yugoslav border. A partial response to Yugoslav demands was Article 8 of the State Treaty of 1955, which granted official minority status to the Slovenes in Carinthia and the Croats in Burgenland. Relations between the Slovenes and the German speakers of Carinthia remained strained in the following decades, more than was the case anywhere else in Austria. One reason for this hostility was the persistence of right-wing and German nationalist attitudes among sections of the German-speaking population.

The Croats and Hungarians of Burgenland and the Slovenes of Carinthia were usually peasant-farmers located in peripheral regions. The Czechs and Slovaks who still spoke their native languages as first languages presented a stark contrast to these groups. This minority descended mainly from migrants who left predominantly rural areas of southern Bohemia, Moravia, and Slovakia in the late nineteenth and early twentieth centuries to settle in industrial centers such as Vienna, Graz, Linz, and Steyr, and in areas in northern Styria. There were so many Czech migrants in Vienna that the imperial capital was said to be the "second largest Czech city" after Prague. In these urban and industrial settings, immigrants were soon assimilated.

Austrian censuses use the criterion "language of everyday communication" to determine who belongs to one of the official ethnic



*Street in Trausdorf an der Wulka in the province of Burgenland  
Courtesy Embassy of Austria, Washington*

groups. The Ethnic Groups Law of 1976 sought to protect and promote the distinct identities of officially recognized minorities and arranged for bilingual education in their languages. Despite such measures, however, all of Austria's officially recognized minority groups have declined markedly in size. Between 1910 and 1980, the number of Croats and Hungarians who declared themselves as members of their respective ethnic groups dropped by 50 percent, the number of Slovenes by 75 percent, and the number of Czechs and Slovaks by 95 percent (see table 4, Appendix).

The decline of indigenous minority groups in Austria stemmed from a variety of causes. Part of the decline resulted from pressure to assimilate to German-speaking Austrian culture before and after World War II, as well as from Nazi racial policies in Austria, which distinguished between "superior" and "inferior" races. Assimilation, however, was also caused by the modernization of Austria after World War II through an increase in economic and social mobility that drew younger generations away from traditional ethnic and linguistic enclaves, life-styles, and identities.

### **Other Minorities**

Austria contains other minority groups that are not defined as such by law but are perceived as minorities by the general population:

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Gypsies, Jews, and foreign workers. Gypsies and Jews have been in Austria for centuries, although a sizable number of Jews came to Vienna during the nineteenth century from other parts of the Habsburg Empire. The presence of a large number of foreign workers dates from the 1960s.

### *Gypsies*

Roma and Sinti, or Gypsies as they are generally called, arrived in Austria in the fourteenth century. An eastern, nomadic people, originally from India, they wore colorful clothes, had their own language and customs, and exchanged goods for survival. Men usually either made pots and other brass objects or were musicians, while women told fortunes or sold handmade goods and fruits from their wagons.

A Gypsy's life centered on the family and the larger group, with individual achievement playing an insignificant role. Marriage with a non-Gypsy typically meant exclusion by the community. Disapproval or punishment by the community was a much more serious reprimand to a Gypsy than any legal action by the state.

The attitude of Gypsies toward work and saving differed from that of the majority group in that they generally aimed at earning enough to meet "the needs of the day." When food or money were needed, the Gypsy code permitted as a last resort stealing from wealthier people. Preferring to feel free and unhindered, Gypsies attached little importance to the accumulation of property, choosing instead a life of wandering and bartering. Only later during their time in Austria did they build semipermanent dwellings. Even so, Gypsies preferred to live among themselves on the outskirts of towns and cities.

Because of these habits and attitudes, Gypsies were mistrusted by the Austrian population. Gypsies were seen as lazy, disorderly, and dirty, and regarded as thieves, criminals, and prostitutes. In the eighteenth century, laws were enacted that banned their migrant way of life and established "colonies" for them.

By the late 1930s, an estimated 11,000 Gypsies lived in Austria, predominantly in the province of Burgenland. Because of Nazi racial doctrines, more than half of them were deported to concentration camps during World War II. By the war's end, only an estimated 4,500 Austrian Gypsies survived.

At the beginning of the 1990s, as many as 40,000 Gypsies lived in Austria, mostly centered in the provinces of Vienna and Burgenland. Although they more often speak German than the traditional Romany or Sinti languages, they are by no means assimilated into the larger society. Many Gypsies attend Austrian schools, but

their academic performance is below average, and they see schooling as a hindrance to freedom. Young men who have completed apprenticeships are described by their employers as hard-working and honest. They generally do not become long-term employees, however, particularly if they are living away from their families. Young women usually work in factories or as kitchen help.

### *Jews*

Jews have also lived in Austria for centuries, at times enduring hostility and repression. At other times, the Jewish community has flourished and enjoyed a high degree of tolerance. Joseph II (r. 1780-90) lifted restrictions that had barred them from particular trades and education, and despite widespread prejudice against them, Jews achieved positions of eminence in business, the professions, and the arts in the nineteenth and early twentieth centuries. The Jewish community in Austria expanded greatly in the second half of the nineteenth century when Jews from other parts of the empire came to settle there, mostly in Vienna. Most of these so-called Eastern Jews came from the province of Galicia, an area located in southern present-day Poland and in western present-day Ukraine. The province contained about two-thirds of the Habsburg Empire's Jewish population.

After the Anschluss, the Nazis systematically applied their racial policies to the country's Jews. Approximately 100,000 Austrian Jews managed to emigrate from Austria before World War II began, but more than 65,000 Jews died in concentration camps and prisons of the Third Reich. As a result, Austrian Jewry was virtually annihilated. After World War II, few surviving members of Austria's Jewish community returned to Austria, and Austrian authorities made no concerted official efforts to repatriate them.

As of 1990, only a little more than 7,000 Jews were registered with the Jewish Orthodox Religious Community in Vienna. This figure included recent Jewish immigrants from the Soviet Union and Eastern Europe but excluded Jews who did not declare their religious affiliation. Because the only statistical information on the number of Jews in Austria is available on a confessional basis, accurate figures on the number of Austrians with Jewish backgrounds are not available. It is generally assumed that this group is larger than the officially registered one.

### *Foreign Workers*

Foreign workers represent the largest de facto minority in Austria, although they frequently are not perceived as such because they are "foreigners" and "guest workers." Their cultural and

linguistic characteristics set them off from the indigenous population, however, and make them a distinct minority. Present in substantial numbers since the 1960s, foreign workers have become a permanent feature of Austrian society.

Initially, many guest workers came to Austria without their families and eventually returned to their countries of origin after having saved some money. In this respect, they were similar to “seasonal” laborers. However, the “rotation” of foreign workers—the return of some to their countries of origin offset by the influx of others to take their jobs—was gradually replaced by the permanent settlement of foreign workers and their families.

Foreign workers who had the required residence visa and work permit were entitled to reside permanently in Austria; their documents were generally renewed. In addition, once foreigners had worked and lived continuously in the country for ten years, they could apply for Austrian citizenship. (Under other conditions, such as political asylum, the waiting period for application could be reduced to four years.) Between 1970 and 1990, over 133,000 foreigners became naturalized Austrian citizens, the majority of whom were long-term foreign workers.

The Employment of Foreigners Law passed in 1991 limited the number of foreign workers who could be employed in Austria to 10 percent of the domestic labor force. The Resident Alien Law of 1993 reduced the number of foreign workers, that is, workers from outside the EU and the European Free Trade Association (EFTA—see Glossary) still further—to 9 percent of the total work force of about 3.5 million. As a result of these laws, approximately 300,000 foreigners can work in Austria. Because many of these workers have dependents, Austrian officials assume foreigners could come to constitute approximately 10 percent of the total population.

Citizens from the former Yugoslavia, predominantly Serbs, account for approximately 50 percent of the foreign workers in Austria. Turks are the second largest group, making up approximately 20 percent of the foreign work force, followed by Germans at 5 percent. Poles, Czechs, Slovaks, Hungarians, and Romanians make up between 3.5 and 4.0 percent each.

Foreigners usually live in urban and industrial centers, most notably Vienna. Although foreigners accounted for just over 6 percent of the total population in 1990, the foreign population of Vienna increased from 7.4 percent in 1981 to 13.2 percent in 1990. Because of the large number of foreigners living in the capital and the low birth rates of indigenous Austrians, at the beginning of the 1990s one-fourth of the children born in Vienna were foreigners.

Despite their essential contribution to the economy and the fact that they are more law-abiding than the indigenous population, foreign workers are generally not held in high esteem. This prejudice is caused by the low pay and social status of their jobs, their lower level of education, and an often limited ability to speak German. Tensions also arise because of their foreign appearance and customs. Some resentment also stems from the social costs their presence entails. For example, the children of these workers are an additional burden for schools, and there are concerns about how well these children are being educated. Determining the national identities of these children is often difficult because they are not familiar with their parents' homeland yet have the status of "foreigners" in Austria.

The degree or quality of assimilation into the larger society is the most serious problem presented by long-term foreign workers. It is not known whether they will remain a minority or gradually come to be seen as Austrian. Generally speaking, workers from the former Yugoslavia show a greater facility for integration or willingness to assimilate—especially in the second generation—than Turks, whose Islamic beliefs tend to make integration more difficult.

Although the arrival of these foreign workers has promoted the upward mobility of Austria's indigenous lower classes by filling the jobs having the lowest pay and social prestige, a new ethnic lower class has been created. The future social mobility and integration of foreign workers will determine to what extent Austria will have an "imported" racial problem in the future.

### **Attitudes Toward Minorities**

Although Austria had a negligible Jewish population by the early 1990s, anti-Semitism remains a prejudice among some segments of the population. Social scientists disagree about the reliability of surveys taken during the 1980s, but the consensus among specialists is that between 7 and 12 percent of the population of Austria holds consistently anti-Semitic attitudes and can be considered "hard-core" anti-Semites. Around 25 percent of the populace is mildly anti-Semitic, and approximately 60 percent is neutral or philo-Semitic. Surveys also reveal that anti-Semitic sentiments are more pronounced among older Austrians than younger ones, increase as one moves from the left to the right of the political spectrum, and tend to be more pronounced in rural areas.

Surveys also reveal that there was a decline of explicitly anti-Semitic sentiments among some sections of the Austrian population during the 1980s. The decline could derive from the worldwide controversy surrounding the nomination and election of Kurt

Waldheim as Austrian president in 1986 and the public discussions of the fiftieth anniversary of the Nazi Anschluss in 1988. Both events caused a critical reevaluation of the role of Austrians in the Third Reich, as well as an open debate about Austrian anti-Semitism.

The opening of Eastern Europe beginning in 1989 and increased immigration to Austria were events that also influenced the structure of Austrian attitudes, anxieties, and prejudices. The special status Austria enjoyed as a neutral state between the two power blocs gave Austrians a sense of security that disappeared after 1989. It was replaced by the widespread concern in the early 1990s that Austria would be overwhelmed by foreigners as a result of open borders. For example, a survey in 1992 found that 38 percent of those polled believed that the greatest threat facing Austria was its being overrun by eastern refugees. The weakest social groups in Austria, the elderly and the retired, and low-income groups—who had the impression that they were competing with foreign workers—tended to feel most threatened by the changes that accompanied Austria's new position in Europe.

The role of immigration became a very sensitive political issue because of the erroneous but common perception that legal immigrants and foreign workers are a burden instead of a demographic and economic benefit. The influx of illegal or "economic refugees" from the former communist states of Eastern Europe exacerbated the situation. An increase in crime stemming from illegal refugees who entered Austria as "tourists" led to increasingly hostile attitudes toward all foreigners from Eastern Europe, the Balkan Peninsula, and Turkey and the propagation of negative stereotypes. The results of a Gallup poll taken in the fall of 1991 showed strong xenophobic sentiments toward Gypsies, Serbs, Turks, Poles, and Romanians that considerably surpassed anti-Semitic attitudes in Austria. The manner in which Austrians learn to cope with immigration and integration will likely play an important role in domestic politics in the future.

## **Social Structure**

Austrian society was traditionally stratified and had a low degree of social mobility. As a result, social distinctions were clear. Social relations between aristocrats and commoners, masters and servants, large landowners and peasant-farmers, and employers and employees were hierarchical and well defined, and the use of titles as a reflection of rank or social status was important. Austrians born into specific social groups or classes had few opportunities to improve their social and economic standing and identified themselves strongly with their inherited social positions, which were

reinforced by education (or the lack thereof), attitudes toward religion, and political convictions.

At the beginning of the nineteenth century, the three predominant social classes in Austria were aristocrats; "citizens" or burghers in towns and cities, who had special charters of rights and privileges; and peasant-farmers—"free farmers" in western Austria who owned and tilled their own land and peasant-serfs in eastern Austria. Reforms had been introduced during the last decades of the eighteenth century to bring about a greater degree of social equality, but legal equality was not established in the Austrian half of Austria-Hungary until the constitution of 1867 was promulgated. Even at the beginning of the twentieth century, society still consisted of a very small upper class composed of an old aristocracy of "blue bloods" and a recently ennobled and new aristocracy of wealth, a small middle and entrepreneurial class (approximately 15 percent), a growing working class (approximately 25 percent), and a class of peasant-farmers (approximately 55 to 60 percent).

During the troubled interwar period, a time of political unrest and economic hardship for most Austrians, the country's main social groups remained rigidly segregated and there was a high degree of identification of specific classes with corresponding political ideologies and worldviews. The resulting "*Lager*," or "camp," mentality was seen in the embrace of the urban working class of social democracy while the rest of the country became proponents of conservative Roman Catholic Christian politics or, to a much lesser degree, European-style liberalism (see *Political Dynamics*, ch. 4).

After World War II, however, the structure of Austrian society changed substantially. The white-collar middle class expanded greatly during four decades of unprecedented prosperity. The number of farmers and workers declined as they or their children were able to benefit from the postwar era's social mobility and find better employment. Many low-status jobs were taken by foreign workers from southeastern Europe. An increasingly white-collar service economy reduced the previous social inequalities and blurred traditional class distinctions. Education became the most important vehicle of upward social mobility, and a more open education system made it more available than ever before. Attitudinal barriers to social mobility did not disappear to a corresponding extent, however. Coming from an "established" or older family still played an important role in the social position Austrians were able to assume in society.

The long period of prosperity and social mobility weakened the *Lager* mentality that had characterized the interwar period. Beginning in the 1980s, electoral patterns indicated that the traditional

political allegiances of specific classes to corresponding political parties and ideologies had deteriorated. This relaxation of political ties permitted the formation of new political parties that profited from a growing pool of “floating votes.”

## **Family Life**

In the late nineteenth century, large sections of the Austrian population were effectively excluded from the institutions of marriage and family because they lacked the property and income necessary to participate in them. In Alpine and rural communities, for example, property ownership was a traditional prerequisite for marriage that neither day-laborers nor household servants of landowning farmers could meet. Among urban and industrial working classes, poverty was so widespread that it made the establishment of independent households and families difficult.

During the course of the twentieth century, however, marriage and family have become increasingly common, especially after World War II, when the “economic miracle” brought prosperity to nearly everyone. For the first time in Austrian history, there was almost uniform access to these basic social institutions. Because of this, the postwar period up through the 1960s represented a “golden age” of the family in Austria. More than 90 percent of the women born between 1935 and 1945 have married—a percentage higher than any generation before or since. The “two-child family” was considered an ideal.

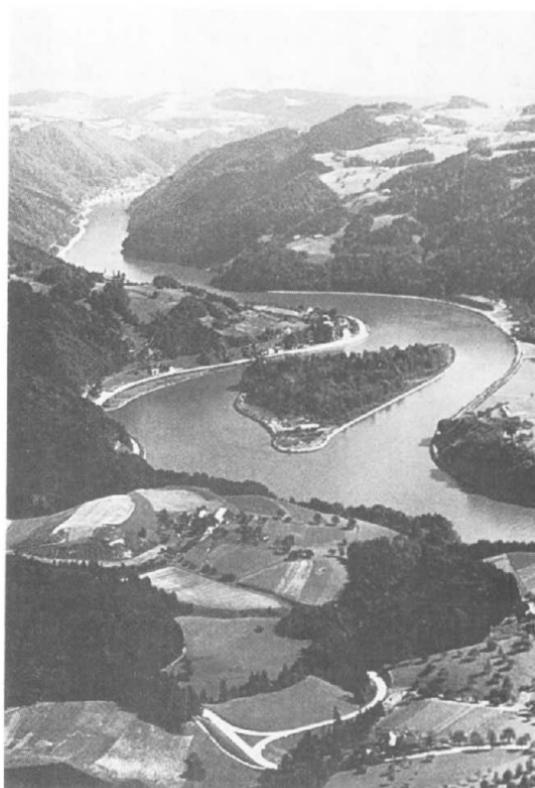
## **Family Developments after the 1960s**

Beginning in the 1970s, a number of trends appeared that represented a dramatic change in attitudes toward the ideals of marriage and family. There was a sharp drop in the birth rate and a decrease in family size, accompanied by a greater prevalence of people who had never married, people who were divorced, single-parent families, cohabitating couples, and marriages without children.

In the early 1990s, fewer Austrian women were bearing children—an estimated 20 to 30 percent will never have a child—and those who have children are bearing fewer. After the end of the “baby boom” of the early 1960s, the Austrian fertility rate dropped steadily from 2.82 to an all-time low of 1.44 in 1989 (then increased marginally to 1.50 by 1991). Family size has shrunk correspondingly. Marriage without children was twice as common in 1990 (32.9 percent) as in the previous generation, and the number of families having three or more children dropped by more than half (to 10.7 percent). Families having one or two children accounted for roughly one-third and one-fourth of families, respectively, in



*The Lünersee in the province  
of Vorarlberg is used  
to produce electricity.  
Courtesy Embassy of Austria,  
Washington*



*View of the Danube near Grein  
in the province of Lower Austria  
Courtesy Austrian National  
Tourist Office, New York*

the early 1990s. Large families are most common among farmers, who have a historical and economic tradition of having many children, and among working-class women having little education.

Between 1970 and 1990, the number of single-parent families increased almost five times faster than the traditional two-parent families. In 1990 there were 235,000 single-parent families in Austria, about 15 percent of all families. Nearly 90 percent of single parents were women. Some of these single-parent households resulted from women's conscious choice to bear children without marrying. More often, however, divorce was the cause; more than one-half of single parents were divorced. About one-third of the single parents were unmarried, and about one-tenth were widows or widowers.

One of the consequences of these trends was that the average size of an Austrian household dropped from 2.9 in 1971 to 2.6 persons in 1990 and is expected to drop further. Almost 60 percent of the population lived equally divided between one- and two-person households in 1990. A large number of single-person households result from women's long life expectancy, which causes them to outlive their spouses.

The frequency of marriage has also declined since the 1960s. Of the women born in the late 1930s, only 8 percent remained single, compared with an estimated 25 percent of women born in the 1960s. One reason for the rise in the unmarried population is the increasing number of educated women who have professional and economic alternatives to traditional wife-mother roles. Another reason for the smaller number of marriages is that cohabitation without marriage has become more frequent and socially acceptable.

Austrians are also marrying later. In 1991 the mean age of marriage was 25.6 years for women and 28.0 years for men, an increase over earlier decades. In 1981 about 59 percent of women and 82 percent of men were single between the ages of twenty and twenty-five, compared with 70 percent and almost 90 percent, respectively, at the end of the decade. For those between twenty-five and thirty years of age, the figures showed a similar rise in the numbers of the unmarried—33 percent of women and over 50 percent of men were still single at the end of the decade, compared with 25 percent and 40 percent, respectively, in 1981.

The declining number of marriages is accompanied by an increased frequency of divorce. The divorce rate in Austria increased from 15 percent in the early 1960s to more than 33 percent in the early 1990s. Divorce granted on the basis of "no fault" or mutual consent became legal in Austria in the early 1980s. The divorce rate was highest in Vienna and lowest in Tirol, an indication that

traditional and religious values are least binding in urban areas and more persistent in a traditional Alpine setting. Women who are employed outside of the home and have their own sources of income demonstrate a greater readiness to divorce than “traditional wives.”

More than one-third of all divorces in Austria occur within the first five years of marriage; thereafter, the frequency of divorce decreases with the length of marriage. In a survey in the early 1990s, more than one-half of people polled identified extramarital sex, selfishness, and inflexibility as the primary causes of divorce.

Illegitimacy has also become more frequent. Beginning in the 1960s, the percentage of illegitimate births increased steadily, from 11.5 percent in 1965 to 25 percent in 1991. For first-born children, the rate was over 33 percent. These figures reflect tolerant attitudes toward illegitimacy in many regions in the Alps where illegitimate children were a traditional aspect of the Alpine agrarian way of life. Wage-laborers and servants within the households of landowning farmers frequently were unable to marry, but their offspring enjoyed a high degree of social acceptance because illegitimacy was common and provided the landowners with the next generation of laborers. Although the traditional agrarian structure of these regions has changed considerably, the tolerance of illegitimacy remains. In other parts of Austria not having comparable traditions, illegitimate birth is not stigmatized to the same extent as it was earlier. More than half of the illegitimate births in Austria are legalized by marriage, and the great majority of second- and third-born children are legitimate. The fact that the social welfare system provides more extensive benefits for single mothers than for married ones also can be interpreted as a financial incentive for initial illegitimacy in some cases.

These changes in Austrian life-style patterns are viewed by some Austrians with great apprehension, and they interpret the increasing rate of illegitimacy, cohabitating, single-parenting, and divorce and the decreasing birth rate as reflections of a crisis for the traditional religious and social values on which the family is based. However, the diversification of life-styles also can be interpreted as an inevitable consequence of the modernization of a traditional society, as well as part of the development of a more pluralistic society within which no particular life-style enjoys a position of predominance.

### **Status of Women**

A patriarchal family structure based on a traditional gender-specific division of labor characterizes attitudes toward marriage

and family. By the early 1990s, however, a greater emphasis on marriage as a partnership had become more common among the younger generation, especially among the urban middle class. A 1976 law establishes the principle of equal rights and duties for married men and women, as well as equal rights and responsibilities for caring for children.

The Equal Treatment Law of 1979 makes various forms of discrimination against women illegal. Amended a number of times since it was first passed, the law seeks to establish equal rights for women, especially in the workplace. It posits, for example, the principle of equal pay for equal qualifications and sets up commissions for the arbitration of complaints and violations related to pay, promotion, and sexual discrimination and harassment. The Women's Omnibus Law, which went into effect in 1993, is a further measure to reduce discrimination against women. One of its goals is increasing the employment of women in government agencies in which they make up less than 40 percent of the staff. The law also directs that women who have been denied promotions because of their gender or have suffered sexual harassment receive compensation.

The Austrian concept of "equal treatment" differs substantially from the United States idea of "equal rights." Austrian legislation not only aims at establishing equality in realms where there is discrimination against women, but it also attempts to provide women with additional benefits related to the inequities inherent in the gender-specific division of labor. Thus, it tries to establish benefits to compensate for "unpaid work" in the household, the dual burden of employment and child-rearing many women bear, and single-parenting. In other words, "equal treatment" involves interpreting equality literally in some spheres and attempting to compensate for the gender-specific inequality of burdens in others.

Despite the improvement of the legal position of women in Austria since the mid-1970s, traditional role models prevail. Whether women are employed outside the home or not, many Austrian men consider the great majority of housework and child-rearing tasks to be "women's work." For example, 80 percent of the married women surveyed at the end of the 1980s were solely responsible for laundry, 66 percent for cooking, and 51 percent for cleaning. Almost 20 percent of Austrian men do no household tasks. However, 75 percent of married men assume responsibility for shopping and other activities outside the home, a reflection of the division of labor in the traditional family between work inside and outside the home.

Although education is the primary determinant of income in Austria, a person's gender also plays a role. At the end of the 1980s, the average monthly net income for an employed woman was S12,858 (for value of the schilling—see Glossary), or S11,161 for a blue-collar worker and S14,790 for a white-collar employee. The average monthly net income for an employed man was S19,175, or S17,522 for a blue-collar worker and S24,734 for a white-collar employee. The pay differentials between men and women are lowest for those employed as civil servants (8 percent), compared with the private sector, where a range of 20 to 40 percent for blue-collar workers and white-collar employees prevails. Although sex discrimination is responsible for some of the male-female salary differentials, men traditionally are better trained than women. More women in the labor force are unskilled workers than are men: 38 percent of women versus 25 percent of men. Additional vocational training is much more common among men than among women: 50 percent for men versus 28 percent for women.

Highly educated women are more likely to be employed than those with less education. Around 84 percent of women between the ages of thirty and fifty-five having university degrees are employed, compared with only 53 percent of women who have been in school for only the required nine years. The number of men and women in the labor force who have completed secondary or university educations is approximately the same: 10 and 7 percent, respectively. Nevertheless, equal qualifications among men and women are not a guarantee of equal advancement in professions. For example, at the end of the 1980s only 16 percent of women having university or advanced degrees held leading positions as salaried employees or civil servants. Thus, despite the improvement of the legal status of women, the income differential between men and women has not decreased considerably since the early 1980s, and the implementation of equal rights legislation has proved difficult in practice.

## **Religion**

During the Roman Catholic Counter-Reformation of the sixteenth and seventeenth centuries, the Habsburgs were the leading political representatives of Roman Catholicism in its conflict with the Protestantism of the Protestant Reformation in Central Europe, and ever since then, Austria has been a predominantly Roman Catholic country. Because of its multinational heritage, however, the Habsburg Empire was religiously heterodox and included the ancestors of many of Austria's contemporary smaller denominational groups. The empire's tradition of religious tolerance

derived from the enlightened absolutism of the late eighteenth century. Religious freedom was later anchored in Austria-Hungary's constitution of 1867. After the eighteenth century, twelve religious communities came to be officially recognized by the state in Austria: Roman Catholic; Protestant (Lutheran and Calvinist); Greek, Serbian, Romanian, Russian, and Bulgarian Orthodox; Jewish; Muslim; Old Catholic; and, more recently, Methodist and Mormon.

The presence of other communities within the empire did not prevent the relationship between the Austrian imperial state and the Roman Catholic Church—or the “throne and the altar”—from being particularly close before 1918. Because of this closeness, the representatives of secular ideologies—liberals and socialists—sought to reduce the influence of the Roman Catholic Church in such public areas as education.

A relatively complicated series of treaties (or concordats) between the Republic of Austria and the Vatican defined the role and status of the Roman Catholic Church. After 1918 the Roman Catholic Church maintained considerable influence in public life. For example, many members of the church hierarchy explicitly supported the Christian Social Party (Christlichsoziale Partei—CSP). Members of the Social Democratic Workers' Party (Sozialdemokratische Arbeiterpartei—SDAP) responded to this partisanship in the interwar period by being explicitly anticlerical. Some Roman Catholics were committed to a form of “political Catholicism,” which was anti-Liberal and anti-SDAP. Because of these sympathies, they supported the authoritarian regime that erected a one-party “Christian Corporatist State” in 1934.

After the Anschluss in 1938, the Roman Catholic Church initially pursued a policy of accommodation with the National Socialist German Workers' Party (National-Sozialistische Deutsche Arbeiterpartei—NSDAP, or Nazi Party), but by 1939 it began to assume an oppositional stance. In the decades after World War II, the Roman Catholic Church abstained from publicly and actively supporting any one political party. An exception to this restraint was the church's involvement in the controversy surrounding the legalization of abortion in Austria in the early 1970s. For its part, the Socialist Party of Austria (Sozialistische Partei Österreichs—SPÖ) developed more accommodating attitudes toward the Roman Catholic Church than were common before World War II.

According to the 1991 census, a majority of Austrians (77.9 percent) belonged to the Roman Catholic Church. This is a decline from the 1971 figure of 87.2 percent. The number of Protestants also declined in the same period. The number of Lutherans, or members of the Augsburg Confession, declined from 5.7 percent

in 1971 to 4.8 percent in 1991 according to the census, and Calvinists, or members of the Helvetic Confession, declined from 0.3 percent to 0.2 percent in the same years.

In 1938 the Jewish population of Austria numbered more than 200,000, most of whom lived in Vienna. After the Anschluss, the community was almost wiped out by emigration and the Holocaust. By 1990 the community amounted to about 7,000 and consisted largely of postwar immigrants instead of Austrian-born Jews.

Owing to the influx of foreign workers from Turkey and the former Yugoslavia, the Islamic and Serbian Orthodox communities experienced considerable growth in Austria in the 1970s and the 1980s. However, many of these foreign workers do not officially register with their respective religious organizations, and accurate information about the size of these communities is not available.

The influence of the Roman Catholic Church, although still formidable because of its historical position in Austrian society and network of lay organizations, receded in the postwar period. The form of nominal Roman Catholicism many Austrians practice is called "baptismal certificate Catholicism." In other words, most Roman Catholics observe traditional religious holidays, such as Christmas and Easter, and rely on the church to celebrate rites of passage, such as baptisms, confirmations, weddings, and funerals, but do not participate actively in parish life or follow the teachings of the Roman Catholic Church on central issues. This trend can be seen in the low rate of regular church attendance (less than one-third of Catholics) and the high rates of divorce and abortion in the 1980s and early 1990s.

Within Austria there are regional patterns of religious conviction. Generally, provinces with strong conservative and agricultural traditions, such as Tirol and Vorarlberg, followed by Lower Austria and Burgenland, have higher percentages of Roman Catholics than the national average, and parish churches still fulfill a social function in many smaller communities. Religious affiliation is lower in urban centers, however, and Vienna has the lowest percentage of any Austrian province.

The decline in the number of Austrians professing religious affiliation and the increase in the number who have no religious affiliation—4.3 percent in 1971 and 8.6 percent in 1991—may be interpreted as an increase in the secularization of Austrian society. Renouncing church membership and being without religious affiliation was one of the anticlerical, historical traditions of the SPÖ. In general, Austrians without religious affiliation tend to be associated with the SPÖ, whereas "active" Catholics tend to be

connected to conservative parties and hold conservative political views.

The increase in the number of Austrians without religious affiliation should not be interpreted as an exclusively political gesture, however. Recognized religious organizations in Austria finance themselves by “taxing” their members directly with a so-called church tax, which amounts to approximately 1 percent of their income. Austrians who do not actively participate in their religious communities frequently officially withdraw from them in order to avoid paying this tax.

## **Education**

Austria has a free public school system, and nine years of education are mandatory. Schools offer a series of vocational-technical and university preparatory tracks involving one to three additional years of education beyond the minimum mandatory level (see table 5, Appendix). The legal basis for primary and secondary education in Austria is the School Law of 1962. The federal Ministry for Education is responsible for funding and supervising primary and secondary education, which is administered on the provincial level by the authorities of the respective provinces.

The country’s university system is also free. The General Law for University Education of 1966 and the University Organization Law of 1975 provide the legal framework for tertiary education, and the federal Ministry for Science and Research funds and oversees education at the university level. Twelve universities and six academies of music and art enjoy a high degree of autonomy and offer a full spectrum of degree programs. Established in 1365, the University of Vienna is Austria’s oldest and largest university.

Federal legislation plays a prominent role in the education system, and laws dealing with education effectively have a constitutional status because they can be passed or amended only by a two-thirds majority in parliament. For this reason, agreement between the ÖVP and the SPÖ is needed to pass or amend legislation relating to education.

Private schools that provide primary and secondary education and some teacher training are run mainly by the Roman Catholic Church and account for approximately 10 percent of the 6,800 schools and 120,000 teachers. Roman Catholic schools have a reputation for more discipline and rigor than public institutions, and some are considered elite institutions. Because there is no tradition of private university education in Austria, the state has a virtual monopoly on higher education.

The history of the Austrian education system since World War II may be characterized as an attempt to transform higher education from a traditional entitlement of the upper social classes to an equal opportunity for all social classes. Before the School Law of 1962, Austria had a “two-track” education system. After four years of compulsory primary education from the ages of six to ten in the elementary school, or *Volksschule* (pl., *Volksschulen*), children and their parents had to choose between the compulsory secondary level for eleven- to fourteen-year-olds called the middle school, or *Hauptschule* (pl., *Hauptschulen*), or the first four years of an eight-year university preparatory track at higher schools of general education (*Allgemeinbildende Höhere Schulen*—AHS). AHS is an umbrella term used to describe institutions providing different fields of specialization that grant the diploma (*Reifeprüfung* or *Matura*) needed to enter university.

Before the 1962 reform, the great majority of children—more than 90 percent—attended the compulsory *Hauptschule*, where they were divided according to their performance in elementary school into two groups: an “A group,” which was directed toward two- to four-year vocational-technical training schools after graduation from the *Hauptschule*; and a “B group,” which was required to complete one additional year of compulsory education before entrance into apprenticeship programs or the work force. The remaining elementary-school graduates—less than 10 percent—enrolled in the AHS at age eleven. Children attending these university-track schools also had to choose a specific course of study.

The rigidity of the two-track system required that the most important educational decision in a child’s life—with all of the implications it had for the future—be made at the age of ten. The decision depended to a great extent on the parents’ background, income, and social status. Children from agricultural backgrounds or of urban working-class parents generally attended the *Volksschule* and the *Hauptschule* and then entered the work force. Children having lower-middle-class backgrounds frequently received vocational-technical training after the *Hauptschule*, while children from the upper-middle and upper classes, boys in particular, attended the AHS, which gave them access to university-level education.

The early selection process meant that children of the largest segment of the population, farmers and workers, were grossly underrepresented at higher schools and universities, whereas the children of a relatively small segment of the population, those who had attended higher schools or the universities, were overrepresented. Consequently, the education system tended to reproduce or to

reinforce traditional social structures instead of being a vehicle of opportunity or social mobility.

The School Law of 1962 and subsequent amendments require that all state-funded schools be open to children regardless of birth, gender, race, status, class, language, or religion. The law also attempts to introduce more flexibility into the traditional two-track system and to provide students with a greater degree of latitude within it so that educational (and hence career) decisions can be made at an older age. Although the primary and secondary school system continues to be fundamentally based on the two-track idea, after a series of reforms in the 1970s and 1980s, ten- to fourteen-year-olds are no longer streamed into A and B groups in the *Hauptschule*. Graduates of this kind of school also have the opportunity to cross over into certain branches of the AHS track at the age of fourteen or to attend a series of different "higher vocational-technical schools" (*Berufsbildende Höhere Schulen* and *Höhere Technische Lehranstalten*), which have five-year programs of specialization (see fig. 8).

Shifts in enrollment patterns reflect these changes in the school system. In the mid-1960s, less than 10 percent of all students finished the university preparatory AHS track, and more than 66 percent of them were male. By the early 1990s, more than 30 percent of all students finished the AHS track and just above 50 percent of them were female. Furthermore, a second educational path was developed that permitted some students without a diploma from the university-track AHS to enroll in a university.

As a general rule, the quality of *Hauptschule* education is high, especially in rural areas and small communities where the schools have maintained their traditional social importance and where attendance at an AHS involves commuting considerable distances, or, for the inhabitants of more remote areas, boarding. In urban centers with a full spectrum of educational opportunities, the *Hauptschule* has become less popular, and parents who earlier would not have enrolled their children in an AHS have begun doing so. The increased enrollments have overburdened the AHS and created a shortage of students at the *Hauptschulen* and at vocational-technical schools (see table 6, Appendix).

In some areas, this trend has been strengthened by the number of children of foreign workers in the compulsory schools. In 1991, for example, almost 30 percent of school-age children in Vienna were the children of foreign workers. In some districts of the city, these children exceeded 70 percent. Although the children of long-term foreign workers frequently speak German well, the numbers of classes in which students with inadequate mastery of German

are overrepresented has overburdened the *Hauptschule* system and made it a less desirable alternative than in the past. Therefore, special remedial and intercultural programs are being developed so that the compulsory school system in Austria can continue to fulfill its educational and social roles.

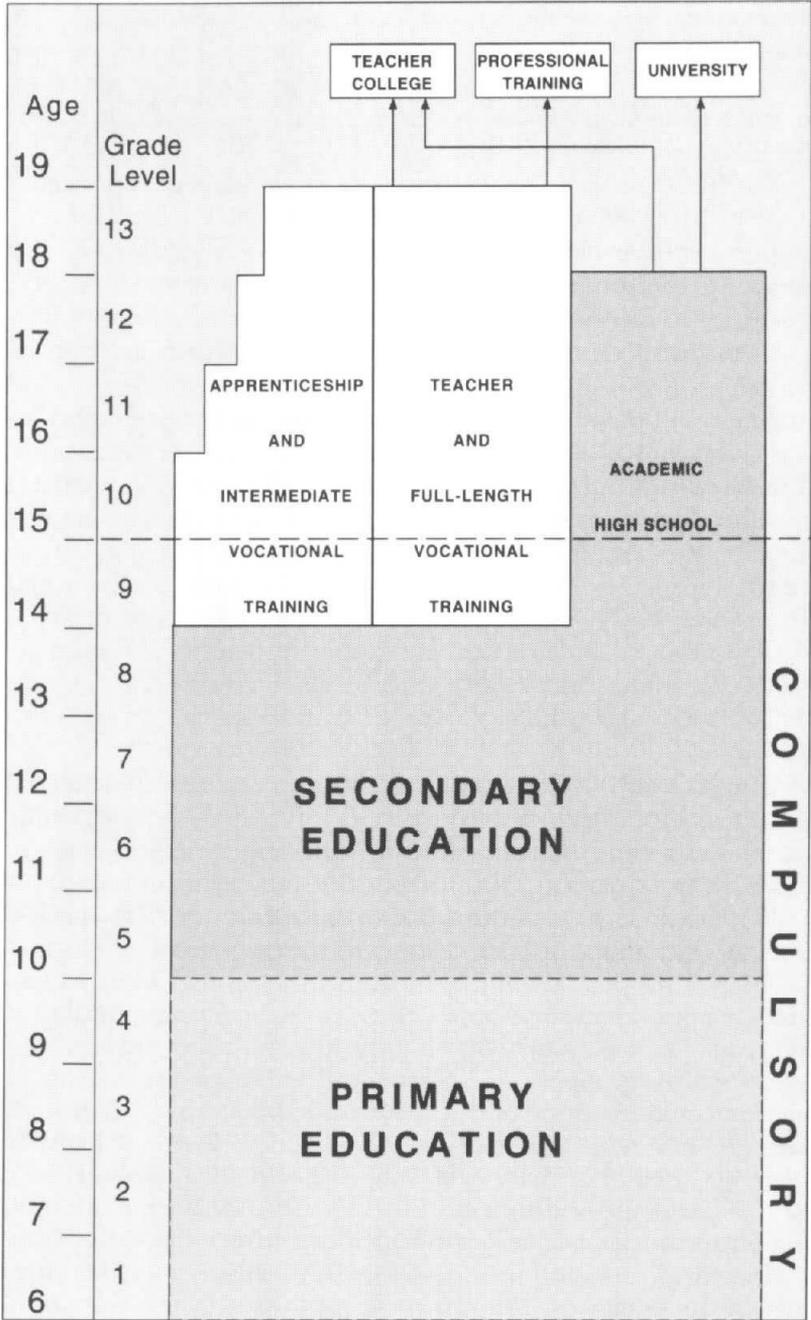
The SPÖ has continued to press for further reforms of the school system. It argued for an abolition of the two-track system for ten- to fourteen-year-olds and for combining the *Hauptschule* and the first four years of the AHS into a new comprehensive middle school. As of 1993, however, because of the resistance of other political parties, this alternative has been limited to a number of experimental schools.

As a result of the reforms since the 1960s, the university system has changed from one serving the elite to one serving the masses. The increasing number of students at Austrian universities reflects the liberalization of educational policy at secondary and higher levels. Between the 1955–56 and 1991–92 academic years, the number of students enrolled in institutions of higher education increased from about 19,000 to more than 200,000 (see table 7, Appendix). The number of students beginning university-level education after having completed the AHS program also increased and amounted to 85 percent in 1990, compared with 60 percent in the mid-1960s.

The reforms have also meant that university education ceased to be a male privilege. Between the 1960–61 and 1991–92 academic years, the number of female students enrolling in universities rose from 23 to 44 percent. Yet, although women account for almost half of the students at university level, only 2 percent of the professors at institutions of higher learning were women in 1990.

Despite the increase in the numbers of university students and the greater presence of women, universities remain primarily the domain of middle- and higher-income groups. The number of students with working-class backgrounds has doubled from 7 to 14 percent, and the number of these with agricultural backgrounds increased from less than 2 percent to more than 4 percent between 1960 and 1990. But children of white-collar workers, civil servants, and the self-employed accounted for more than 80 percent of enrollments at Austrian institutions of higher education in the early 1990s.

Increased accessibility to university-level education has a number of consequences. The dramatic expansion in the number of students has led to overcrowding at many institutions. Some critics maintain that the increasing number of students diminishes the overall quality of university-level education despite increases in federal investment. One obvious problem was that more than 50



Source: Based on information from Austria, Federal Press Service, *Austria: Facts and Figures*, Vienna, 1990, 119.

*Figure 8. Structure of the Education System, 1993*

percent of students enrolled at the universities in the 1980s did not successfully complete a degree program. Complex reasons account for this high drop-out rate. Some students enroll simply to acquire student benefits. Others study for the sake of personal enrichment without intending to get a degree. Some are unable to complete their studies for financial reasons. Although a university degree provides students with a substantial amount of social status and better income opportunities, there has been an increase in "academic unemployment," especially among degree-holders in the humanities and social sciences.

Debates about educational policy in Austria frequently are the result of different perspectives related to the strengths and weaknesses of the traditional education system. Proponents of the two-track secondary system, for example, defend it as performance oriented and criticize the leveling of achievement or lowering of standards the introduction of one compulsory middle school would involve. Conversely, opponents of the two-track system criticize its rigidity and inherent absence of equal opportunity. Consequently, such bipolar terms as *performance* and *leveling*, *elite* and *mass education*, and *achievement* and *equal opportunity* prevail in educational debates. In some respects, Austrians of different political and educational policy persuasions may expect too many different things from one university system. They expect it to provide general education, as do state university systems in the United States, and "Ivy League" performance at the same time.

## **Social Security**

The origins of the contemporary Austrian social security system date back to the end of the nineteenth century, when rudimentary forms of social security were introduced for specific occupational groups. Workers, employees, civil servants, farmers, and the self-employed each paid into a different social security plan. Workers and employees in Vienna, for example, paid into a different social security fund than did civil servants in Vienna or farmers in Tirol. The main thrust in the development of the country's social security system in the twentieth century has been the creation of a unified social insurance policy for all occupational groups.

The organization of the social security system is complex. The General Social Insurance Act of 1955, which has been repeatedly amended, sets social security policy and makes decisions on such matters as the level of social security payments and the kind and extent of benefits. However, tax revenues are collected and benefits are dispersed by individual insurance agencies or "carriers" for specific occupational groups. In this respect, the social security

system is a national plan in terms of federal legislation but is not centrally funded or administered.

The extent of social security coverage and the number of benefits increased in Austria steadily from the end of World War II until the early 1980s. As a result, Austria was among the most highly developed welfare states in the world and had a complicated system of direct taxes on employers and employees and indirect taxes that financed a broad spectrum of benefits.

After the early 1980s, social policy entered a phase of consolidation characterized by difficulties related to funding extensive social security programs, growing levels of unemployment, stagnating economic growth, increasing budget deficits, and the demographics of an aging population. However, as of 1993, Austria had managed to maintain its high level of social security without major reductions in benefits.

### **Employment, Unemployment, and Pension Benefits**

As of the early 1990s, the standard work week in Austria was forty hours, although some occupational groups have negotiated a thirty-eight-and-one-half-hour week. Minimum wages and salaries are negotiated by trade unions and the representative bodies of employers, and individual professional groups negotiate increases in wages, salaries, or benefits on the basis of collective bargaining. Salaries are paid fourteen times a year, and two special payments, usually on June 1 and December 1, are taxed at lower rates than regular salaries. In addition, Austrians are entitled to five weeks of paid vacation annually.

All people gainfully employed, employees as well as the self-employed, are subject to compulsory insurance, which includes unemployment, disability, retirement, and provisions for surviving dependents. The right to draw unemployment is contingent on having worked for at least one year. Unemployment benefits range from 50 to 70 percent of the recipient's previous net pay and are limited to a period of seven months. After this period expires, the unemployed can qualify for a series of different support programs depending on need.

As of the early 1990s, the legal retirement age was sixty-five years for men and sixty years for women. However, only 10 percent of men and 50 percent of women actually work until those ages because they may qualify for disability pensions or take advantage of provisions that allow contributors to retire after paying into a pension fund for thirty-five years. Retirement pensions are generally calculated on the basis of the level of income during the last ten years of payment and the overall length of the period of contribution.

For example, if a person's "full working life" is forty-five years, he or she receives a pension equivalent to about 80 percent of his or her previous net income, which is adjusted on a regular basis to compensate for subsequent increases in the cost of living. A widow receives 60 percent of her late husband's pension.

More than two-thirds of the expenditures for pensions are directly covered by payments of employers and employees into pension funds, and the balance is funded by the federal budget. However, given Austria's liberal early retirement practices and demographic trends, the ratio between the active work force and retired persons in Austria is deteriorating and could reach 1:1 by the year 2020. Because of this trend, experts recognize that a reform of the pension system is inevitable, and the financing of social security benefits, which were introduced under fortuitous conditions of economic and demographic growth in the 1960s and 1970s, is becoming an increasingly pressing issue. A reduction of the level of benefits or the introduction of a "flat-rate" pension, which does not take previous salary and contribution differentials into account, are two possible alternatives.

### **Health and Health Insurance**

In the late 1980s and early 1990s, the most common causes of death were cardiovascular diseases, followed by cancer. Accidents were the next most common causes of deaths in males. Respiratory diseases and liver problems were also significant causes of deaths (see table 8, Appendix).

The traditional Austrian diet is high in fats, carbohydrates, and sugar. Smoking is common—20 percent of women and 40 percent of men smoke. Most adults regularly consume alcohol, in particular beer and wine. An estimated 250,000 Austrians are alcoholics, and the incidence of alcoholism is twice as high among men as it is among women. As a result of these unhealthy habits, the incidences of cardiovascular diseases and cirrhosis of the liver are among the highest in Western Europe.

Beginning in the mid-1980s, Austrian health authorities attempted to make the general public more aware of the dangers of cholesterol, smoking, and alcohol. The government introduced a program of preventive check-ups under the auspices of various health insurance plans. As of 1990, however, only negligible inroads had been made into traditional patterns of consumption, which were more pronounced among men than women and contributed to the higher incidence of fatal disease and the lower life expectancy of men in Austria.

Austria ranks behind Hungary and Finland as a country with one of the highest suicide rates in Europe. Although some psychologists attribute the high rate to the national psyche—such as an inability to openly carry out conflicts or the tendency to direct aggression toward oneself—there is no generally accepted explanation for this phenomenon. As elsewhere, men in Austria are almost three times more prone than women to commit suicide.

Public health authorities have had to deal with the spread of acquired immune deficiency syndrome (AIDS) since 1983, when the first cases were noted. As of mid-1993, slightly more than 600 Austrians had died of AIDS. The number of those infected with the human immunodeficiency virus (HIV) was not known at that time, but estimates range between 8,000 and 14,000.

By 1990 state-required health insurance covered 99 percent of the population in Austria. Austrians also are required to pay into compulsory health insurance plans, which are similar to pension plans and are funded by employer and employee groups organized by professions. Foreign workers also are covered by these programs. Active employees and the self-employed, their dependents, the retired, and the socially disadvantaged qualify for medical coverage that includes out-patient treatment, medication, some dental work, surgery, and hospitalization in the so-called general class (general wards as opposed to private rooms). With the exception of minimal flat-rate charges for filling prescriptions and 10 percent of the overall charge for the hospitalization of dependents, out-patient and in-patient treatment is free for individuals covered by the health insurance plans.

Out-patient treatment is almost exclusively handled by physicians who have contracts with specific insurance agencies, and patients are free to seek the physician of their choice provided the physician has a contract with the patients' respective insurance agency. Although many physicians are in private practice, the great majority of them rely on these contracts—which regulate fees for services rendered—to generate the income they need to maintain their practices. This arrangement means that Austrian medicine is not "socialized" in the sense that physicians are employees of the state. However, the system is similar to a national health plan insofar as fees are regulated, and there is an exceptionally high degree of coverage for the population at large. A drawback to this system is that because physicians are free to establish their practices wherever they choose, medical coverage is poorer in rural areas than in urban centers.



*Folk dancers in traditional dress  
Courtesy Austrian National Tourist Office, New York*

## **Family Benefits**

Austria maintains an extensive support scheme for families. For example, it is illegal for pregnant women to work eight weeks before their due date and eight weeks after their delivery, and they receive their full net pay during this period. Parents of newborns can take two years of maternity or paternity leave or split the leave time between both parents. They receive a monthly support payment of \$5,100 (\$7,500 for single mothers or low-income couples) during that time. Employers also are required to rehire them in positions of equal pay and status after the leave period is over. Special payments totaling \$15,000 are made for all children between birth and their fourth birthday. In addition, all mothers receive a monthly child-maintenance allowance of \$1,400 for children up to age ten, at which time the allowance is increased to \$1,650 for children up to age twenty-one if the child is living at home, in school,

or unemployed. These payments increase to \$1,950 and are made for children up to age twenty-seven if the child is attending vocational training or enrolled in a university program.

Special provisions exist for single-parent and large low-income families. Single mothers and low-income families having more than two children are most likely to be confronted with severe economic hardship, and benefits for many members of these groups need to be improved to prevent them from slipping below the poverty level. However, the policy of providing higher benefits for unwed mothers is controversial. Because unwed mothers who cohabit with their partners receive the same benefits as single mothers, the higher benefits for single mothers create a financial incentive that can encourage illegitimacy. Married couples with children are eligible for fewer benefits and view themselves as disadvantaged in comparison with unwed, cohabiting parents.

## **Housing**

After World War II, Austria's standard of housing was low, a reflection of the historically low quality of urban and rural housing, the poor economic development of Austria in the interwar period, and the destruction during World War II. Overcrowding was widespread, especially in urban centers and among the working classes, and many living units did not have such modern conveniences as running water, toilets, bathing facilities, or central heating. In 1951, for example, only one-third of the country's living units had running water; less than 31 percent had a toilet on the premises; and only 11 percent had bathing facilities. Stoves using coal, oil, or wood as fuel were the most common forms of heating.

Since then, however, Austrian housing has improved considerably. The number of living units has increased by 53 percent, although the population grew by just over 10 percent, and almost all of the living units built since 1945 have all modern conveniences. Furthermore, improvements have been made in many of the living units built before World War II, although there remains a clear gap between the overall standards of old and new buildings. Seriously substandard housing—living units with running water, but without toilets or bathing facilities on the premises—has been reduced to less than 10 percent of the total. Most of this housing is found in cities. Low-income groups, such as the elderly, unskilled workers, and foreign workers, are the most frequent inhabitants of substandard housing.

As of the early 1990s, just over 55 percent of all Austrians owned their own homes or apartments, either as private individuals or under the auspices of ownership cooperatives. The rate of home

ownership is higher in rural areas than in urban areas and higher in western and central Austria than in the east. In urban areas, apartment houses are much more common than single-family dwellings. Renting is more common in cities and in eastern Austria. Renters have considerable legal rights that make the termination of leases difficult and that provide for the regulation of rents. The construction and ownership of apartment buildings by the municipal government are common in cities, such as Vienna, which traditionally have social democratic municipal governments.

By 1990 almost 10 percent of Austrians had a "second residence," used predominantly for recreational purposes. These second homes range from garden plots with huts (*Schrebergarten*), located on the outskirts of the cities, to old houses in rural communities and newly built one-family houses in the country.

At the beginning of the 1990s, around 25 percent of an average Austrian household's expenditures was for housing (mortgage or rent and utilities). Another 25 percent went for food (including alcohol and tobacco), and a further 16 percent was spent on transportation (including automobile payments). About 9 percent was spent on furnishings, 11 percent for clothing, education, or recreation, and the remainder for miscellaneous activities.

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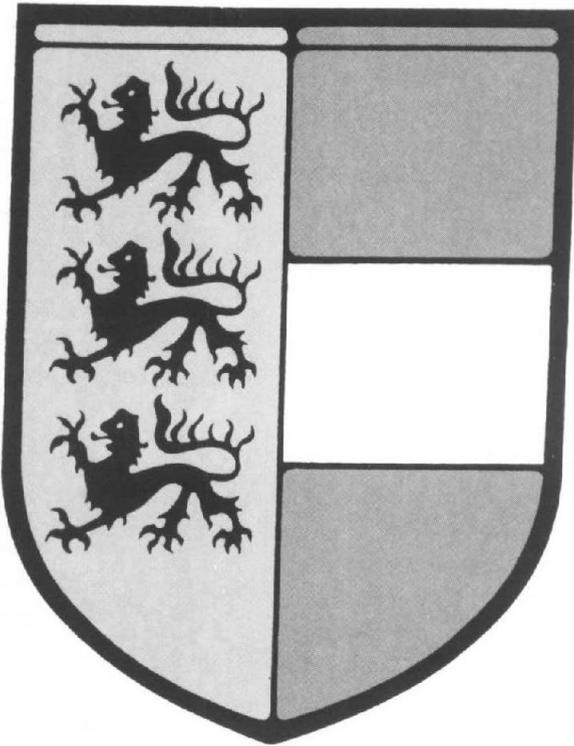
No scholarly work in English treats Austrian society as a whole. John Fitzmaurice's *Austrian Politics and Society Today* examines the development and roles of Austria's most important sociopolitical organizations. Although they are somewhat dated, a number of chapters from *Modern Austria*, edited by Kurt Steiner, are good historical and in-depth introductions to various aspects of Austrian society. Specific chapters in *Austria: A Study in Modern Achievement*, edited by Jim Sweeney and Josef Weidenholzer, offer a less detailed but more current analysis of many facets of Austrian society. Lonnie Johnson's *Introducing Austria* provides readers with some general insights into the dynamics of the development of Austrian society as a whole.

The Austrian government is responsible for a range of informative publications. The Federal Press Service's small book *Austria: Facts and Figures* is a good overview of the country's society, economy, and politics. The service also publishes a series of brochures in English and German that deal with specific aspects of Austrian society such as immigration, religion, education, and social security. These publications are available from Austrian embassies, consulates, and cultural institutes around the world. The annually

## *Austria: A Country Study*

revised *Survey of the Austrian Economy* from the government's Austrian Museum for Economic and Social Affairs in Vienna contains some social data. Scholarly publications in German from the Österreichisches Statistisches Zentralamt contain much information about Austrian society. Particularly valuable are *Sozialstatistische Daten* and *Statistisches Jahrbuch für die Republik Österreich*, both of which appear on a regular basis. (For further information and complete citations, see Bibliography.)

## Chapter 3. The Economy



*Coat of arms of the province of Carinthia*

THE AUSTRIAN ECONOMY MIGHT best be characterized by the old German phrase *klein aber fein*, or—in the loose English equivalent—“small but beautiful.” Austria is a small European country in terms of gross domestic product, area, and population. Yet, since the end of World War II, it has achieved a remarkable record of growth, even when international conditions have not been at their most favorable. Austria has done this by concentrating on manufacturing the products of the second industrial revolution—such as high-quality machine tools, chemicals, and other producer goods—and exporting them largely to the countries of Western Europe, especially Germany.

Austria has achieved considerable autonomy in many important economic areas. It is almost self-sufficient in food production, largely through careful development and husbanding of resources and through an extensive program of subsidies. Judiciously planned exploitation of the hydroelectric power-generating capacity of the Alps has lessened the country's dependence on imported fossil fuels. Austria has also been able to train an efficient and dedicated work force, although it has come to rely on foreign workers for some essential tasks.

Austria nonetheless remains fully engaged in the European and global economic environment. It must import fuels—especially oil, coal, and gas—and certain industrial raw materials and as a result has had a consistent trade deficit. But, because the country is one of the most attractive states in Europe to foreign tourists, Austria is generally able to keep its current account in balance.

The Austrian government has long recognized that the country and the economy cannot function without trade and without access to other markets and sources. Therefore, Austria has always wanted to join customs unions and free-trade areas. It was a founding member of the European Free Trade Association (EFTA). Because it could not join the European Community (EC), owing to its pledge of political neutrality, it helped form the European Economic Area, out of the EC and EFTA, in late 1992. In 1989 it had applied to join the EC and is regarded as a prime candidate for admission into the organization, known since late 1993 as the European Union (EU), in 1995.

Austria saw many opportunities opening to the East as the Iron Curtain fell and as the former communist economies turned to the West for trade and guidance. As a result, Austria ranks among

the top Western nations in opening joint ventures with East European states and has made a variety of trade agreements with those states as well as with the states that had declared their independence from what was Yugoslavia. Some of the links that Austria established and reestablished antedated World War I and thus offer a potential for the re-creation of historical financial and commercial links.

Since the end of World War II, the Austrian economy has functioned in a comfortable niche among the smaller West European states. It has been sheltered from intense international competition because it is only a small market, although the price of many Austrian goods is higher than international prices. The Austrian system of economic and social consensus, characterized by the term *social partnership*, has functioned effectively to permit a high standard of living for its citizens and especially for its labor force. The chambers of commerce, agriculture, and labor, together with the trade unions, have joined and supported a considerable framework of institutions and regulations that make Austria a model for relations between public and private institutions.

Despite its carefully designed and effectively functioning system, the economy has not been immune to external realities. It was severely shaken by the "oil shocks" of the 1970s and by the sharp global recession at the beginning of the 1980s. The accumulation of public-sector deficits imposed a heavy burden of debt service on the economy. Austria's recovery from that recession did not fully begin until the mid-1980s, although the recovery advanced smoothly after that and accelerated during the late 1980s before the economy suffered another recession beginning in 1990.

With the end of the Cold War and the consolidation of Europe, the economy faces the problems of greater exposure to outside influences and potential outside competition. As this opening occurs, the Austrian economy also must cope with the potential buffeting arising from the EU adoption of the Maastricht Treaty as well as with other pressures resulting from developments since the ending of the division of Europe. The Maastricht Treaty's provision for a common European currency could compel West European countries and central banks to pursue more cautious fiscal policies and more restrictive monetary policies than in the past. Although the Austrian government and the central bank have long pursued such restrictive policies in order to keep the country's currency, the schilling, on a par with the German deutsche mark, the pressures on other currencies could intensify while the deutsche mark establishes itself as the dominant currency of Europe. This could jeopardize Austrian markets in the EU.

Austria's membership in the EU could also open Austrian markets more directly to the competition of large West European companies that not only enjoy economies of scale but also are more able than Austrian companies to withstand the rigors of long-term competition. And, the fall of the Iron Curtain has opened Austria to greater competition from Central and East European states having lower production costs. Conversely, Austrian exporters also have a wider playing field on which to show their wares. Thus, Austrian planners have both many opportunities and many problems to contemplate as they try to maintain and extend the prosperity and economic success that their country has enjoyed in the postwar period.

## **Economic Growth and Government Policy**

### **Historical Background**

After World War I and the breakup of Austria-Hungary (also seen as the Austro-Hungarian Empire), Austria faced serious problems of economic and social adjustment in finding a means of livelihood for its 6.5 million people, one-third of whom lived in Vienna. Without an adequate agricultural and mineral base in the territory left to it and with the old trading relations of the relatively self-sufficient empire and customs union broken, Austria found itself without adequate food supplies for its population and without sufficient coal for its industry. At the same time, its industrial capacity was excessive for the reduced home market. Relief credits grudgingly given by the Allies kept the country from complete chaos for a time, but devastating inflation in the early 1920s brought it close to economic collapse. Finally, in 1922, a League of Nations commission agreed on a program of international financial support that brought currency stabilization and a balanced budget.

Under the austerity program that ensued, considerable progress was made toward economic reconstruction. Because of the austerity, however, it was also a period of high unemployment and political and social unrest (see *The First Republic*, ch. 1). When the worldwide depression that began in 1929 put an end to this brief period of economic progress, Austria was ripe for the disorders of the 1930s and for the annexation (*Anschluss*) by Germany in 1938 (see *The Anschluss and World War II*, ch. 1). This takeover brought an unanticipated measure of economic recovery to Austria as a result of the German buildup of war potential. In order to serve Nazi goals of conquest, most of the existing Austrian industries were expanded and modernized, and several new industrial complexes were established.

Austria emerged from World War II with its economy shattered. The loss of life and the damage to industry and transportation had decreased production to only one-third of its prewar level. Reestablishment of the economy was both hampered and helped by the division of Austria into four Allied occupation zones after the war and by the ensuing ten-year period of foreign occupation. The presence of foreign troops encouraged the Austrian people into a more cooperative attitude toward each other and toward their leaders than that which had prevailed in the interwar period. As a result, the uncompromising divisiveness that had dominated Austrian economic, social, and political life between the wars gave way to a spirit of cooperation that extended well after the occupation ended (see Restored Independence under Allied Occupation, ch. 1).

During the occupation, the primary objective of the Soviet Union seemed to have been the exploitation of the Austrian economy. Although the Western Allies had successfully prevented the exaction of outright reparations from Austria, they agreed to give the Soviet Union “full and unqualified title” to all German assets in eastern Austria, that is, the part of Austria under Soviet occupation. Soviet leaders put the broadest possible interpretation on the term *German assets* and dismantled and removed to the Soviet Union much of the movable industrial equipment. Fixed installations were formally confiscated and put into production to serve Soviet interests. When the occupation ended with the signing of the State Treaty in May 1955, the Soviet Union had under its control some 450 firms with 50,000 employees—about 10 percent of the Austrian industrial labor force. Under the terms of the treaty, Austria agreed to make reparation payments to the Soviet Union in oil, other goods, and cash to compensate for the return of these Soviet-controlled assets. The payments, which were completed in 1963, totaled \$7.1 billion (for value of the schilling—see Glossary).

The Western Allies, in contrast, invested considerable effort, money, and material under United States leadership in reconstructing the Austrian economy. The initial effort consisted primarily of relief goods channeled through the United Nations Relief and Rehabilitation Administration (UNRRA). This program, involving over US\$300 million from the United States alone, was replaced in 1948 by the European Recovery Program (commonly known as the Marshall Plan). Under the plan, the United States provided US\$962 million in aid in the form of consumer goods, raw materials, and capital equipment. The total amount of foreign aid received by Austria between 1945 and early 1955 was US\$1.6 billion.

The contrasting policies of the Soviet Union in the eastern zone and those of the Western Allies in the rest of Austria had significant



*Vineyard at Retz in the province of Upper Austria  
Courtesy Embassy of Austria, Washington*

implications for the future of the Austrian economy. In the first place, most United States aid went for economic reconstruction in the Allied occupation zones, rather than in the Soviet areas, to prevent its suffering the fate of capital assets already in Soviet hands. This meant, in turn, the creation of employment opportunities in western Austria that, together with the more relaxed living conditions and political freedoms, stimulated a steady movement of the population westward from Soviet-occupied eastern Austria. Thus, the industrialization of the Austrian hinterland, which had started for military purposes during the Nazi occupation, was further advanced. Finally, the more constructive behavior of the Western Allies encouraged cooperation with Austria's coalition government and created an atmosphere of continuing cooperation, virtually guaranteeing a Western orientation for Austria's economic policies after the occupation.

Within the limited scope of economic matters left for Austrian determination during the occupation, two major developments carried over into the postoccupation period and had significant influence on the future course of the economy. The first was the nationalization of a large segment of Austria's heavy industry. The second was the establishment of a mechanism for coping with inflationary pressures through joint agreements on wages and prices reached by the representatives of business, agriculture, and labor.

The nationalization acts of July 26, 1946, and March 26, 1947, were designed to effect the systematic reconstruction of the basic materials industries after the heavy damages suffered during the war, to channel their output and services toward the reconstruction of other elements of the Austrian economy under impartial government direction, and to maintain some degree of Austrian control over these assets during the occupation. Although the Soviet Union objected to the nationalization laws insofar as they applied to former German properties, the other Allies were able to override Soviet efforts to block these laws. The Soviet Union did prevent their application in the Soviet Zone. As a result, about half the enterprises there, including the entire petroleum industry, were kept from Austrian control until after the occupation ended.

About seventy industrial enterprises and plants were selected for nationalization. The enterprises and plants included the most important lignite mines, the largest iron and steel works, the nonferrous metals mining and smelting works, the most important petroleum extraction and processing installations, a number of firms involved in steel construction and in mechanical engineering, a major chemical concern, and a major shipping company. Outside the manufacturing sector, the three largest credit institutions and

the most important electrical energy installations were also nationalized.

The problem of compensation to the former owners, which had been left undetermined by the original legislation, was covered by laws passed in 1954 and 1959. Under this legislation, compensation was largely covered by issuing federal bonds to the former owners. These bonds, together with the small cash sums paid out, amounted to about \$515 million.

The second economic event of fundamental importance was establishing mechanisms to settle wage-price disputes. The initial wage-price agreements were stimulated by unusual inflationary pressures in 1947, which had increased prices nearly threefold since the end of the war. Possibly with the specter of the inflationary period of the early 1920s in mind, four key interest groups—the chambers of commerce, agriculture, and labor and the Austrian Trade Union Federation (*Osterreichischer Gewerkschaftsbund—ÖGB*)—joined forces. They established the Economic Commission, negotiated a schedule of fixed prices for essential goods and services, and adjusted wages and pensions to that schedule. Although the Economic Commission had no legal standing and compliance was voluntary, the first of these agreements, covering the period from August through October 1947, was sufficiently successful to lead to a series of renewals over the next four years. These agreements slowed, but did not stop, the rate of inflation, which averaged 35 percent annually until 1951. Additional stabilization measures were necessary that year, including credit restrictions, an increase in the bank rate, and such fiscal measures as cuts in government spending and increases in taxes. Most important, however, these measures were accompanied by voluntary price reductions and a postponement of wage demands arrived at through the wage-price agreement procedure. This brought a degree of price stability, in marked contrast to the inflationary explosion of the comparable period after World War I.

At the time of the signing of the State Treaty in May 1955, the economy had largely recovered from the effects World War II. The gross domestic product (GDP—see Glossary), in constant prices, had more than doubled since 1946, the first full year of peace, and was 47 percent above that of 1937, the last full year of Austrian independence. Although industrial facilities in the Soviet Zone that had been returned to Austrian control were in poor condition—particularly the oil fields—most of the industrial structure in the Allied occupation zones had been revived and modernized, largely through the application of Marshall Plan funds. Relative price stability had been achieved, and the 1955 unemployment rate of

5.8 percent, although high by subsequent standards, was at least an improvement over the 1953 rate of 8.8 percent and was tending downward. Finally, Austrian independence arrived at a time of growing European prosperity as the full effects of the Marshall Plan were being felt. Thus, Austria was able to take its place in the economy of Western Europe and to share in the prosperity that characterized the postwar period.

### **Developments During the 1970s and 1980s**

After a relatively smooth course throughout the 1960s, Austria was deeply affected by several international developments during the early 1970s. Like the Federal Republic of Germany (West Germany), it revalued its currency upward by 5 percent, but this proved insufficient in light of the weakness of the United States dollar.

In August 1971, when the Bretton Woods system (see Glossary) collapsed and the price of gold was no longer maintained at US\$35 per troy ounce, the Austrian government reaffirmed its decision to maintain the stability of the schilling even if it meant a potentially deteriorating competitive position with the dollar. Thus, the schilling remained closely linked to the deutsche mark through the interest rate policies of the Nationalbank (the Austrian central bank).

The Austrian economy could not help being affected, however, by the subsequent turmoil in international trade and finance, the "oil shocks," inflation, and the downturn at the end of the 1970s. By 1975 growth had slowed and inflation had risen because of higher fuel prices. Unemployment had begun to increase and would have risen faster if government-owned industries had not made an effort to maintain employment. The current account, which had remained in balance for most of the postwar period, deteriorated significantly. In addition, the budget deficit rose.

In 1979 and 1980, the Austrian economy began to improve somewhat. Growth resumed and unemployment fell. But exports did not rise as hoped, the budget deficit remained high, and the boom was short-lived. Another downturn appeared, to be overcome only at the expense of considerable fiscal stimulus in 1983 and 1984 when the government budget deficit rose from 4 to 5.5 percent of GDP. After several years of high deficits, the cost of servicing the national debt began to serve as a brake on further expansionary fiscal policies. Although unemployment remained low by the standards of other industrialized states and although the Austrian economy came through the various crises better than most economies, these developments provided little consolation for most Austrians. The only good news was that exports were rising, although the current

account remained negative as the strength of the dollar drove energy import costs sharply upward.

It was only in 1985, well after global interest rates had declined from their post-1980 highs, that the economy began moving forward again at an acceptable pace. Even then, growth came more slowly and unevenly than in the 1950s and 1960s, in part because the expense of servicing the accumulated public deficit (which by then had risen to almost one-half of GDP) remained a brake on the economy as a whole. When rapid growth resumed in 1988, it took many observers by surprise. At that point, the rising trend of unemployment experienced since 1981 began to decline, and the volume of investment and exports grew sharply.

### **The New Policies**

In 1987 the government had decided that the Austrian economy needed certain structural reforms if it were to remain competitive in Europe and in the world. The new coalition government, formed by the Socialist Party of Austria (Sozialistische Partei Österreichs—SPÖ) and the Austrian People's Party (Österreichische Volkspartei—ÖVP), was spurred to take action as a result of two significant factors: the passage by the European Community (EC—see Glossary) of the Single European Act, designed to lead to a much closer economic union of EC member states; and Austria's poor growth rate, which lagged behind that of the European members of the Organisation for Economic Co-operation and Development (OECD—see Glossary). Those reforms were aimed principally at fiscal and financial stability for the government sector and at greater efficiency for the private sector. The government later reinforced these measures in order to meet the requirements for establishing the European Economic Area (EEA—see Glossary).

The measures included steps aimed at reducing the fiscal deficit as a share of GDP. The budget deficit began to be brought down to the target level of 2.5 percent of GDP, although somewhat more slowly than the planners had hoped. The government also announced a comprehensive restructuring of the state-owned Austrian Industries, the giant national company that had taken over most of the heavy industry left to Austria by the retreat of the Germans after World War II.

The restructuring efforts moved apace for several years after the government decision of 1987. The single most important area from the standpoint of the government was the reduction of the ever-growing federal share of the economy. A series of measures were

implemented to cut the federal share of GDP from 23 to 21 percent and to reduce the provincial and municipal governments' share of GDP from 17.4 to 16.8 percent between 1986 and 1990.

One of the principal objects of reducing the size of the federal government was to control the interest burden of the government sector, a burden that had risen rapidly during the early 1980s. Another was to reduce the government sector's gross indebtedness. The first of these measures had little effect because the interest burden had risen from 18.0 percent of total government tax revenues to 23.5 percent by 1991. The second measure was more successful because the ratio of the new deficit to GDP stabilized at about 2.5 percent, but the government sector's gross indebtedness nonetheless continued to rise, reaching the level of 56.5 percent of GDP by 1991. For a government that contemplated joining the EC and the European Monetary Union (EMU—see Glossary), that level was dangerously high. It was almost as high as the limit of 60 percent that the EC had set in December 1991 as the maximum level acceptable for states that wished to join the EMU.

One reason the government had difficulty managing its own budget was that more than 85 percent of the central government budget expenditures were committed to nondiscretionary items, such as civil service salaries and social security benefits. The government consistently found itself severely constrained in trying to reduce or even to control the remaining discretionary elements.

As for Austrian Industries, some reduction in personnel was accomplished as part of the reform, but the slump in global steel and chemical markets left considerable uncertainty as to whether more restructuring might not be needed. Privatization also made some headway with the sale of the mint to the Nationalbank in 1989 and a reduction in the government's share in Austrian Airlines and several major financial institutions.

While efforts to amend and strengthen the cartel law to increase domestic competition moved slowly at first, certain steps were taken. Among them was the decision to adapt the public monopoly regulation to the standards of the EEA. In November 1991, the last foreign-exchange controls were lifted, thus opening the economy further to foreign competition in financial services and liberalizing cross-border financial transactions. The new Stock Exchange Act of 1989 was designed to increase openness and flexibility.

The most difficult objective of structural reform was reducing government subsidies. Some success was achieved between 1987 and 1990, when federal subsidies as a percentage of GDP fell from 2.2 percent to 1.9 percent and when general government subsidies

dropped from 2.9 percent to 2.4 percent. But questions arose as to whether progress of this kind could be continued.

Nonetheless, the government was able to enact a major reform in the tax system in 1989. The reform entailed gross tax reductions of about \$45 billion. It lowered personal income tax schedules, reducing the top rate from 62 to 50 percent and the lower rate from 21 to 10 percent, while widening the tax base. The reform also abolished the progressive corporate tax schedule and adopted the earlier 30 percent bottom rate as the standard corporate tax rate (compared with the earlier top rate of 55 percent). The tax reform raised incentives and spurred growth.

European integration played a central role in the drive toward structural reform of the Austrian economy. The EEA treaty's provisions on regulation and liberalization forced far-reaching changes in the form of increased economic opportunities and competition. It also forced the removal of many barriers that had sheltered important sectors from international competition, especially nontariff barriers.

Importantly, unit labor costs—which had almost doubled during the 1970s—held steady throughout much of the 1980s, peaking in 1987 when the new reforms were announced. By the end of the 1980s, lower labor costs had improved the competitive position of Austrian exporters to a level they had not enjoyed for some time. Wages and salaries per unit of output, which had risen steadily from a scale of 100.0 in 1970 to a scale of 205.9 by 1982, rose only gradually to 216.3 in 1987 and then declined to 208.2 in 1990.

Austria's economic environment changed dramatically during the late 1980s and early 1990s with the opening of the Iron Curtain. Many of the trade agreements that Austria had made with formerly communist states behind the Iron Curtain suddenly became null and void, opening new opportunities but also requiring Austrian resources to help invest in those states as well as to offer credit in order to finance exports. In addition, Austria lost some export markets because the German economy registered a sharp decline in the early 1990s as the cost of German unification had to be financed largely by debt and as the German central bank (the Bundesbank) began raising interest rates to reduce the risk of inflation.

The loss of export markets affected Austria adversely, as did the spillover effect of high German interest rates on Austria's own interest rates. GDP growth fell from 4.6 percent in 1990 to a level of only 2.0 percent in 1992 and was expected to decline further. Unemployment rose, especially among foreign workers. Although it appears likely that the recession will not be as long as that of

the early 1980s, the slump again shows that Austria remains tied to developments in neighboring countries and cannot rely entirely on its own resources and policies in an uncertain global environment.

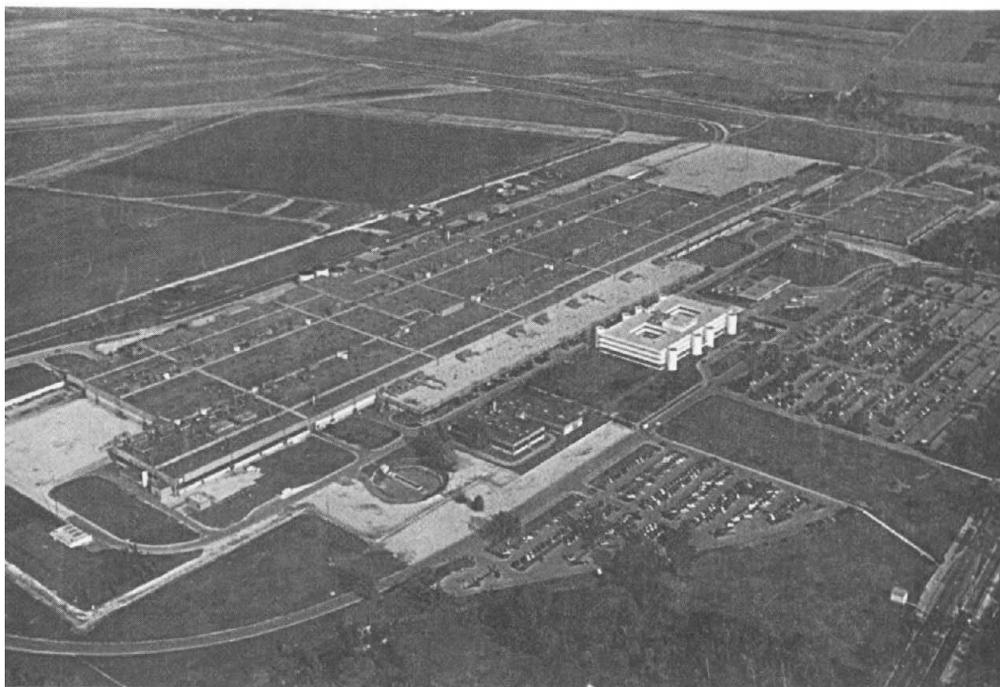
### **The Magic Pentagon**

The Austrian government and Austrian economic institutes and analysts have long evaluated the country's economic policies and general economic situation on the basis of five standards, which are termed the *magic pentagon*: keeping the GDP growth rate as high as possible; maintaining the current account balance as high as possible; keeping employment as high as possible; holding down the inflation rate as much as possible; and keeping the government deficit as low as possible. The objective of government policies is to keep some of these measures as high as possible and some as low as possible. Austrian statistics sometimes show the five different objectives as five arrows emanating from a central core, with lines connecting the current statistics on each of those arrows so that they form a pentagon. The purpose of government policy is to make the pentagon as large as possible, recognizing that there might at times be some required trade-offs among the different objectives.

One of the most important elements in the policy mix is a determination to combat inflation—not an easy task, especially given the significant fiscal deficits during parts of the 1970s and 1980s. To fight inflation and keep the schilling strong and stable, the government relies heavily on attaching the schilling to the deutsche mark and following the policies of the German Bundesbank. These practices, on the whole, have kept inflation at acceptable levels. Low inflation has tended to reduce the demands for higher wages. Consumer price increases held steady around the late 1980s but crept up in the early 1990s to 3.3 percent. Producer prices increased at a slower rate, but wages rose even faster. As a result of the government's policy, Austria has had one of the lowest inflation rates in Europe, and the schilling has consistently been one of Europe's strongest currencies.

### **The Subsidy Policy**

Austrian federal subsidies, both direct and indirect, stabilized as a share of GDP during the late 1980s. Direct subsidies were estimated to average about 0.4 percent of GDP, and indirect subsidies were estimated at about 1.3 percent of GDP. The subsidies began changing during the late 1980s from generally defensive subsidies intended to preserve traditional industries to more specifically



*The Liebherr plant at Bischofshofen in the province of Salzburg produces high-quality industrial equipment.*  
*The General Motors plant outside Vienna*  
*Courtesy Luftreportagen Hausmann, Vienna, and ICD Austria, New York*

targeted programs such as special subsidies for research and development, innovation, and environmental protection. The Innovation and Technology Fund was established, and in 1989 the government conducted a special review to reduce subsidies to certain traditional industries and to tourism.

Agricultural subsidies were well below the EC average during the late 1970s, but they rose during most of the 1980s. By the end of the decade, they had reached a level slightly above the EC average. In addition, the government subsidized investment and debt service for nationalized industries and covered occasional losses for those industries.

To reduce the burden of the nationalized companies on the state budget, the government began a systematic effort to privatize its share in those companies in the late 1980s. Some of the privatization efforts included the sale of the mint to the partially privately owned Nationalbank. The government's share in Austrian Airlines was reduced to a small majority ownership, and 49 percent of the state electricity company was sold. The federal government's share in the Creditanstalt-Bankverein and the Österreichische Länderbank was reduced to 51 percent. In other instances, however, privatization took place through the sale of state assets to other government-owned or government-directed organizations, rather than to the private sector. For this reason, the program did not generate as much income as originally anticipated.

The level of regulation and subsidization, combined with the significant national ownership of major industries, makes production and consumption costs high. On average, consumer prices in Austria are between 10 and 20 percent higher than in European Union (EU—see Glossary) member states. They are even higher than in Germany, which is also noted for its high prices. Direct comparisons indicate that productivity in Austria is lower than in Germany but that markups for consumer retail sales and profit margins in the distribution system are higher.

These figures raise a number of important questions for Austrian economic planners as they prepare for the economic unification of Europe after the collapse of the Soviet Union's satellite system. The competitive pressures against Austrian producers and workers will likely increase in a widened EU, especially if states having low costs, such as those of Eastern Europe, are admitted.

### **Foreign Workers in Austria**

One of the constant factors on the Austrian manufacturing scene since the 1960s has been the employment of foreign workers. Some of them were refugees from Eastern Europe who chose to remain

in Austria and were permitted to do so. Others were from Turkey or farther away. In 1973 the number of foreign workers had reached some 227,000, or about 8.7 percent of the work force. After that, as Austria's own boom began to slow after the first "oil shock" and the global slowdown during the mid-1970s, the Austrian government began reducing the number of foreign workers to protect the positions of Austrian workers. In 1978 the number of foreign workers had been reduced to about 177,000. In the 1980s, the number had dropped to approximately 140,000 to 150,000, or about 5 to 6 percent of the labor force. As in other West European countries, foreign workers in Austria performed and continue to perform many tasks not wanted by Austrian workers.

The number of foreign workers began rising rapidly in 1989, as the borders with Eastern Europe became more porous, and almost doubled by 1990. The number of foreign workers actually peaked during the middle of 1991 at about 280,000, or more than 8 percent of the work force. The Austrian government began taking vigorous border-control and administrative measures in order to prevent further entry of these workers into the labor force. The number began dropping during the last several months of 1991, as it had during the 1970s when the government intervened, but there was no certainty that the government would be as successful during the 1990s as it had been during the 1970s because of the more open borders between Eastern and Western Europe. What was more probable was that the rise in Austrian unemployment during the early 1990s, as a result of the Austrian recession, would reduce the number of foreign workers. The unemployment rate among those workers is higher than among native Austrians. Although certain elements of the Austrian economy, especially hotels and restaurants, cannot function without foreign workers, many Austrians resent the employment of foreigners when many Austrians are without work (see *Attitudes Toward Minorities*, ch. 2).

### **Principal Economic Interest Groups**

The major participants in the Austrian economy are represented in national economic policy determination by a number of official and voluntary organizations. The most important of these are the chambers of commerce, agriculture, and labor. These are public corporations legally responsible for the representation of the interests of their constituent groups. Because of their legal and official status, membership in the chambers is compulsory for all enterprises, farmers, and wage and salary earners. There are also specialized chambers in various professional fields and in some

provinces for agricultural workers, although these chambers are not as important in the operation of the economy.

The chambers function as semipublic bodies with broad responsibilities. For example, before the government can present any draft legislation to parliament, the bill must be sent for appraisal by the chambers. The chambers are organized so that they fully represent each of the appropriate professional and other groups involved in their particular sector of the economy. Because of Austria's relatively small size, the chambers constitute instruments for contact and exchange of information at every level of the economy. Therefore, they function not only as pressure groups from the outer reaches of the economy toward the center but also as communication belts that relay the decisions from the center to the regions.

Several other important voluntary organizations also play significant roles in economic policy decisions. These include the Austrian Trade Union Federation (Österreichischer Gewerkschaftsbund—ÖGB), an umbrella organization representing labor; the works councils that represent labor in enterprises; and the Federation of Austrian Industrialists (Vereinigung Österreichischer Industrieller—VÖI), representing management.

### **The Chambers of Commerce**

Originally established under the Habsburg Empire in 1848, the modern chambers of commerce operate under legislation passed in 1946. They serve as the legal representatives of all persons engaged in crafts (small-scale production), industry, commerce, finance (banking, credit, and insurance), transportation, and tourism. Each of these six functional activities is handled by a separate section within the nine provincial chambers and in the parent body, the Federal Chamber of Trade and Commerce, commonly referred to as the Federal Economic Chamber (Bundeswirtschaftskammer). The most important functions of the chambers arise from their authority to interpret laws and regulations affecting the interests of their members and from their right to advise the Nationalrat (National Council) and review draft legislation.

### **The Chambers of Agriculture**

The chambers of agriculture are the principal bodies representing agricultural interests. There is no federal body comparable to the Federal Economic Chamber, but the Conference of Presidents of the Chambers of Agriculture is the de facto representative of the nine provincial chambers in all matters undertaken at the national level. The provincial chambers, in addition to their

representational role, function at the local level to modernize and promote agricultural production.

### **The Chambers of Labor**

The chambers of labor, which are public corporations, differ from the labor unions, which are private voluntary organizations, principally in their official character. They were legally established in 1920 to give labor what employers had had since 1848 in the chambers of commerce and thereby to provide labor with a representative voice in the preparation of legislation affecting employees' social, economic, vocational, and cultural interests. The principal governmental function of the chambers is to advise on draft legislation and administrative regulations directly or indirectly affecting labor. Thus, the fields in which they are concerned can include food supply, public health, tariffs and trade, use of leisure time, adult education, employer-employee relations, job safety, social insurance, and the labor market.

Labor, like agriculture, has no chamber at the federal level. The Vienna chamber, however, carries out most of the federal-level functions and maintains a general secretariat for the Chamber of Labor Conference (*Arbeitskammertag*). This body consists of a large staff of experts having advisory roles in economic policy, statistics, law, and consumer protection.

### **The Professions**

The Regulation of the Professions (*Gewerbeordnung*) plays as important a role as do the chambers. The term *Gewerbe*, which can theoretically mean any kind of economic activity except large-scale production and services, is a concept that descended to modern Austria from the medieval system of crafts, guilds, and services. The term has no English equivalent but can best be described as the exercise of a particular profession or economic activity.

The *Gewerbeordnung* is a system of regulations that ensures a profession is exercised in a prescribed manner. The system, which regulates about 220 forms of economic activity, establishes standards covering the following: entry into a profession; operating regulations; methods for limiting price competition; rules governing permissible advertisement; exclusive franchises and licenses; shop-opening and price competition rules; market access controls; capital requirements; and local monopolies. In a variety of instances, the rules also provide for exemption from cartel law regulations (although the cartel law does not prohibit cartels but their abuse). Firms covered by these and similar regulations account for about 40 percent of total value added and investment in Austria and 45

percent of total employment. These firms are involved in such matters as professional services, wholesale and retail trade, insurance, banking, capital services, telecommunications, energy, and transportation.

The effect of the rules is to reduce competition in certain fields and to shelter those already admitted in these fields from excessive access as well as predatory practices by others, especially by larger firms. In a small country such as Austria, with many small villages and communities, the system serves largely to preserve the existing structure of economic activity and the position of local service providers who were established first in a community. It also protects consumers and others against fraudulent or unqualified service providers.

The chambers are the principal instruments that obtain protection or other forms of sheltered operation, largely because the chambers participate actively in the political process and are in the best position to make group or sector concerns felt at the national or provincial level. Some of these arrangements, such as sectoral support programs for transportation, mining, cement, or paper, are still in effect, while others, such as those for textiles, clothing, leather, and paper, have been abolished.

### **The Austrian Trade Union Federation**

Although union membership is not compulsory, about three-fifths of employed persons belong to one of the fifteen major labor unions. These fifteen unions constitute the Austrian Trade Union Federation (Österreichischer Gewerkschaftsbund—ÖGB). The total membership of the ÖGB was more than 1.6 million persons at the end of 1991.

The fifteen unions making up the federation represent four major groups: nine unions represent skilled and unskilled workers organized by industry, including farm and forestry workers; four unions represent public employees, including transport and communications workers; one union serves the arts and professions; and another union, the second largest in membership, represents private white-collar salaried employees. Because the latter is the only union not organized on industry lines, all wage earners in an enterprise ordinarily belong to the same union. The smallest union, the Union of Arts, Journalism, and Professions, had 16,310 registered members in 1989. In the same year, the largest union, the Union of Commercial, Clerical, and Technical Employees, had 340,348 registered members.

## **Works Councils**

In addition to the trade unions, and theoretically separate from them, are the works councils, which exist at the plant level as the elected representatives of all plant employees, whether or not they are union members. According to law, the works councils look after the economic, social, health, and cultural interests of employees. This, in practice, means involvement in matters of discipline, safety, sanitation, dismissal, and transfer, as well as the handling of grievances and the implementation of collective bargaining agreements. Works councils in corporations also have a voice in management, electing two members to the corporate board of directors with all the rights and duties of other directors.

Although these various bodies representing labor are theoretically separate, they work closely together, not only because of overlapping interests and responsibilities but also because labor leaders tend to be functionaries of both the unions and the chambers. At higher levels, they are frequently members of parliament as well. At lower levels, the elected members of the works councils in the plants are almost invariably union members and are usually union officials as well.

Despite an apparent superfluity of bodies representing the interests of labor, the division of primary responsibilities between them is fairly clear. The chambers represent a worker's interest on the economic policy level, the works councils are concerned with a worker's everyday interest at the plant level, and the unions serve primarily as collective bargaining agents. In this function, a specific union usually conducts the actual negotiations, and the ÖGB has the ultimate power of approval and reserves for itself the negotiating authority for agreements that pertain to all employed persons.

## **The Federation of Austrian Industrialists**

The principal private-sector organization is the Federation of Austrian Industrialists (Vereinigung Österreichischer Industrieller—VÖI), founded in 1941. In the late 1980s, its membership consisted of about 2,400 firms employing about 420,000 persons. Although the VÖI does not have the legal status of the Federal Economic Chamber, it occupies one of that chamber's two seats on the Social and Economic Affairs Committee of the Parity Commission for Prices and Wages (commonly known as the Parity Commission). Because the VÖI represents the interests of most large-scale private-sector industry, it essentially controls the industry sector of the Federal Economic Chamber. It also deals directly on behalf

of its members with the appropriate ministries and committees of the Nationalrat. Like the chambers, the VÖI submits recommendations on proposed legislation. It is also active in handling relations between domestic industries and foreign industrial associations.

## **Social Partnership**

After World War II, the government, as well as industry and the trade unions, realized that the country could not afford to repeat the continuous social, political, and economic conflict that marked the 1920s and 1930s, when the country moved from one crisis to another until Adolf Hitler's Anschluss in 1938. They wanted to avoid ruinous social and industrial conflict, strikes, lockouts, and the kind of persistent social battles that had contributed to the paralysis of the Austrian economy and its body politic during the inter-war years.

To find a solution, the government and its political and economic institutions reached back to earlier concepts that also had an influence on Austrian thinking and Austrian history. One was the papal encyclical *Rerum Novarum* of 1891, which had envisaged a working class that would be gradually absorbed into a property-owning class, not through social conflict but through constructive social cooperation. Another was the Austrian tradition of the Labor Advisory Council (*Arbeitsbeirat*), which had functioned as a section of the Ministry for Commerce from 1898 to the outbreak of World War I and which offered a model for the pragmatic participation of the labor movement in the functions of the state and the general direction of the economy.

After World War II, these concepts coincided with the practical exigencies of the moment to force representatives of social groups to work together to cope with the combination of unemployment, inflation, and widespread poverty and misery. The ÖGB and the reestablished business organizations of the three main economic chambers played central roles in working out a series of wage-price agreements between 1947 and 1951. Those agreements, and the negotiations that led to them, were based on a mutual recognition that no social group could benefit if it imposed its demands at the expense of the collapse of the state and its economy—a collapse that often seemed all too near in the immediate postwar years.

The social partnership system works on the basis of a mutual recognition of three principles. The first is that the three main economic groups—industry, agriculture, and labor—will be properly represented through four mutually recognized organizations—the chambers of commerce, agriculture, and labor, and the ÖGB—that represent their interests and that can take the responsibility

for decisions. The second is that economic decisions can be legitimately made outside the ideologically competitive political atmosphere of parliament, thus in effect depoliticizing crucial matters related to the Austrian standard of living. Third, the principle of consensus will function in such a manner that no social group is ignored, and no social group will prolong the struggle once an agreement has been reached.

The core consultative instrument of the social partnership is the Parity Commission. The commission consists of seven members of the government—the chancellor, three ministers, and three state secretaries—and two representatives each from the Federal Chamber of the Economy, the Presidential Conference of the Austrian Chambers of Agriculture, the Council of the Austrian Chambers of Labor, and the ÖGB. This distribution of seats on the commission gives the interest organizations a majority. Experts in various areas attend the meetings in an advisory capacity. The Parity Commission's decisions must be unanimous, because the commission is not based on law, and participation is completely voluntary.

The Parity Commission began its work in 1957 on the basis of an exchange of letters between the president of the Federal Chamber of the Economy and the president of the ÖGB. Its original purpose was to slow down a troubling wage-price spiral, but it later expanded into much broader discussions on the general trends of the European and Austrian economies and what would be the best response to these trends. The commission has subcommittees on wages and prices. In addition, the commission includes the Advisory Committee for Economic and Social Questions, which was established in 1963 to provide the basis for an objective approach to economic policy and to conduct studies required by the Parity Commission.

The Parity Commission, however, only deals with the central questions of the economy. It establishes the general principles for solving economic problems and disagreements. Below it, at the industry level, the interest-group associations of the various chambers or the trade unions negotiate the separate and legally binding agreements governing employers or employees. The agreements are reached on the basis of the broad principles and criteria set by the Parity Commission.

Some forms of social partnership involve little or no participation of government organs. The so-called self-administration associations require the cooperation of interest associations in such structures as social insurance institutions, agricultural boards, labor-market bodies and tribunals, and in other institutions where agreements between potentially conflicting interest groups must be

reached. Those institutions more often deal with social than with economic questions, but the participants in the negotiations usually evaluate the broad economic situation and the policies agreed on in the Parity Commission as they negotiate.

Beyond the mechanics of the Parity Commission and the bitter memories of futile class conflict, however, other elements also work to produce an atmosphere of cooperative consciousness. One of these elements is the virtually universal recognition by all Austrians that theirs is a small state and a small economy in a world full of larger and potentially more competitive actors. Austria cannot afford self-indulgence because it would immediately risk its survival.

Another cause for cooperation rather than unbridled competition is the large public and foreign ownership of Austrian firms. At the beginning of the 1990s, state-owned firms constituted a total of 32.8 percent of all Austrian companies, and foreign-owned firms constituted an additional 25.1 percent, leaving only about 35 percent in private hands, with an additional 7 percent in scattered holdings.

The Austrian trade union movement is forced to moderate its demands for wage increases because of the close affiliation between the Austrian schilling and the German deutsche mark. The stability policy of the German Bundesbank thus also has an effect in Austria. Given this fact, the trade unions cannot usually argue that runaway inflation threatens the standard of living of the Austrian worker.

The social partnership has been successful in maintaining a cooperative spirit and in avoiding industrial strife. After World War II, for example, Austria had fewer strike-minutes lost per worker than any major economy. In many years, no strikes have occurred at all. However, there has been debate about whether the social partnership and the work of the Parity Commission and other bodies have impeded progress and if stability could become stagnation. The danger exists that new production and communications systems, as well as progressive organizational structures, will not be introduced quickly and that the social partners will find it convenient to protect established jobs and processes rather than to revise or even revolutionize them.

## **Structure of the Economy**

Like other industrial societies, Austria found its agricultural and industrial sectors declining as the services sector expanded (see table 9, Appendix). The change in the relative importance of the sectors was most pronounced during the 1970s. Changes in the 1980s continued earlier trends. Whereas services and industry had nearly



*A railroad car manufactured by Jenbacher Werke  
Courtesy Austrian Federal Economic Chamber, Vienna*

equal shares of GDP in 1970, by 1990 industry's share was less than half that of services. Agriculture's share has declined steadily, so that by 1990 it was no longer significant economically but still had social importance (see The Agricultural Sector, this ch.).

Employment trends have followed shifts in the relative importance of the three sectors (see table 10, Appendix). Agriculture's share of employment fell by more than half between 1970 and 1990. Industry employed about 47 percent of the work force in the late

1960s and 37 percent in the late 1980s. The services sector employed roughly the same portion of the work force as industry in the late 1960s but by the late 1980s employed nearly 60 percent of the work force.

Despite the increasingly powerful role played by the services sector, however, most of the major firms remain in industrial production. Services, like agriculture, are usually performed locally and by medium- or small-sized firms. Thus, a listing of Austria's twenty largest firms in 1991 showed mainly industrial companies, with the exception of such state-owned firms as railroad and postal agencies and several large retail organizations.

Most Austrian firms are small. An analysis of nonagricultural concerns in 1988 showed that well over half the nonfarm labor force was employed by firms with fewer than 100 employees. About 500,000 Austrians worked in medium-sized firms having between 100 and 499 employees, and only 140 firms had more than 1,000 employees.

The largest single enterprise in Austria is Austrian Industries, a holding company created in 1987 to take over and manage the assets that had been nationalized by the Austrian state after World War II. An enterprise of about 75,000 employees, in 1993 it was divided into four branches that respectively managed the steel, metal, petroleum, and diversified operations of the company. The latter includes mining and the manufacture of various kinds of machinery, as well as other less easily classifiable activities of the holding company. As intended, it has moved vigorously to become a competitive enterprise despite its nationalized origins, discarding some unprofitable activities and investing abroad or in Austria in other areas of activity.

The ten largest Austrian enterprises in the early 1990s, based on turnover, were Austrian Industries, Österreichische Post/Telegrafverwaltung (national postal service), VÖEST-Alpine (steel), Österreichische Mineralölverwaltung (ÖMV) (petroleum and other mineral resources), Konsum Österreich (KÖ) (retail trade), Österreichische Bundesbahnen (Austrian Federal Railroad), Porsche Holding (vehicles), AL Technologies (diversified), Billa (trade), and Austria Tabakwerke (national tobacco monopoly). Of these enterprises, three are subsidiaries of Austrian Industries, two are state public-service monopolies, and the remainder are owned either by foreigners or by small share holder-members (such as the retail trade firm KÖ). None of these businesses except Austrian Industries has played a significant international role.

With the exception of Austrian Industries, even Austria's largest companies are small on an international scale. Only four Austrian

companies were listed in the *Financial Times* "European 500" for 1992. Two were banks, the Creditanstalt-Bankverein (number 215 on the list) and Bank Austria (275). The third was OMV (288), the mineral and oil exploration and exploitation arm of Austrian Industries. The fourth was a construction company, Wienerberger Baustoffindustrie (318). Austrian Industries was not listed because it is not a private company. If it had been listed, it would probably have been among the top fifty.

Austria has never had a great entrepreneur-capitalist tradition. Many firms function within the Austrian market or within regions. In part because of the bitter experiences of inflation and the depression between the world wars, most Austrians do not attempt risky ventures but instead concentrate on geographic areas or on specific products where success is fairly certain. One of the challenges facing Austrian enterprises as they move into the European Economic Area (EEA) and into the European Union (EU) Single Market will be competing effectively against the giant firms that operate throughout Europe and have many more resources than virtually any Austrian firm could hope to command.

### **The Agricultural Sector**

Although agriculture's share of the economy declined steadily after World War II, agriculture continues to represent an important element of the economy because of its social and political significance. The Chamber of Agriculture remains on an equal level with the chambers of commerce and labor, although its members produce only a fraction of the GDP that industrial and commercial workers produce.

### ***The Government Role***

In Austria, as in most other Western countries, the government has played an important role in agriculture since the end of War World II. The government has concentrated on mitigating social, regional, economic, and even environmental consequences of the sector's decline, as well as delaying the decline itself.

Agricultural policy has been carried out with different objectives and with different laws and policies depending on the times. In the early postwar years, the most important objectives were survival and self-sufficiency. As a poor country, Austria needed to be able to feed itself if its population was to survive.

By the 1950s, however, the policy was changing to a more global perspective, while keeping intact the traditional farm economy. The government wanted to protect domestic production, stabilize agricultural markets, protect farmers' incomes, and improve the

sector's ability to compete in Austria and abroad. Increasingly, the government began to believe in the importance of maintaining rural society as an objective in its own right, for social reasons, and to protect the environment and encourage tourism. Because of these aims, agricultural policy, more than any other economic policy, reflects a mixture of economic and noneconomic objectives and concerns. The principal aim, however, is to preserve the existing number of farms as much as possible.

Within the structure of the social partnership, various organizations work to maintain farm incomes and thus farm existence, among them the Grain Board, the Dairy Board, and the Livestock and Meat Commission. These organizations set basic support prices, taking into account domestic costs and local supply and demand, with only weak linkages to world market prices.

The boards and commission use a variety of measures to achieve their broad purposes. Among these measures are import restrictions, such as border controls and entry controls—some of which may be bilaterally negotiated—and variable import duties.

If import restrictions are not sufficient to maintain prices because of excess production, the surplus is exported at subsidized prices (with the subsidies usually coming from federal or provincial authorities). Authorities also apply production controls, such as sales quotas or limits, on the size and density of livestock holdings. Quotas exist for many different products, with the quotas usually fixed on the basis of past production. Price and quality controls and limits also exist, especially with respect to different prices for different grades of wheat or milk. The government can also pay direct income supplements, but these payments are generally restricted to certain mountain farming zones and other equally disadvantaged areas. Subsidies are mainly paid by the federal government but may in some instances be paid by provincial governments.

Because of the complex system of price supports and market access limitations, the exact share of subsidy costs to the government and to consumers is virtually impossible to calculate. Experts estimate that the total cost to the federal and other governments for agricultural and forestry support during the late 1980s was approximately \$16 billion a year, a level that would have been roughly at the same level as that of many other Organisation for Economic Co-operation and Development (OECD) governments but slightly higher than the EC average.

The economic research institute *Österreichisches Institut für Wirtschaftsforschung* (WIFO) estimated after a major 1989 study that about 71 percent of the cost of agricultural support was borne by consumers in the form of higher prices, with the taxpayers

carrying the remaining 29 percent through such different programs as direct and indirect federal and provincial subsidies or various kinds of market regulation.

Austria's decision to enter the EU will have certain effects on its agriculture and forestry. Support prices in Austria are higher than those set under the EU's Common Agricultural Policy (CAP), although the two systems are in many ways similar. Austrian government-borne subsidy costs are at about the same level as those in the EU, but consumer-borne subsidy costs are higher, so that food prices in Austria average about 30 percent higher than those in the EU. Full integration into the EU will thus compel a number of adjustments in Austria. These adjustments may be even more severe if they become effective at the same time that some East European countries with lower production costs enter the EU. Much depends, of course, on any reforms that may take place in the CAP.

### *The Structure of Agriculture*

Despite the government's efforts to sustain agriculture, by 1991 not one province had as much as 10 percent of the population involved in agriculture and forestry. At the beginning of the 1970s, all but two provinces (Vienna and Vorarlberg) had more than 10 percent of their populations involved in farming. This contrasted markedly to the situation in 1934, when all but those same two provinces had more than 30 percent of their populations working in agriculture. Over this period of two generations, the decline in the Austrian farm population was as fast as any in the Western world.

Of Austria's total area of almost 84,000 square kilometers, about 67,000 square kilometers are used for farming and forestry. Roughly half of that area is forest, and the remainder is arable land and pasture.

Agriculture and forestry accounted for about 280,000 enterprises in 1986, with the average holding being about twenty-three hectares. There were about 4,500 corporate farms. Beyond those farms, however, only a third of all farmers were full-time farmers or farming companies. Over half the farming enterprises were smaller than ten hectares; nearly 40 percent were smaller than five hectares. Just as the number of farmers has long been in decline, so also has been the number of farms.

Family labor predominates, especially in mountainous areas and on smaller farms. Only a third of all farm and forestry enterprises were classified as full-time occupations in 1986. A full half of these enterprises are spare-time, that is, less than half of household labor is devoted to farming or forestry. The remainder are part-time.

Farms up to ten hectares are more often tended by part-time and spare-time farmers rather than by full-time farmers. For most farm owners and workers, nonfarm income is as important as, if not more important than, farm income.

Despite the decline in the number of farmers and agriculture's share of GDP since 1960, agricultural output has risen. As of the early 1990s, Austria was self-sufficient in all cereals and milk products as well as in red meat. This gain was achieved because of the considerable gains in agricultural labor productivity.

The value of agricultural and forestry output is heavily concentrated in field crops, meat, and dairy products, with most of it coming from animal husbandry. Because large parts of Austria are mountainous, only the lowland areas of eastern Austria and some smaller flat portions of western and northern Austria are suitable for crop production and more intensive forms of animal husbandry. The remainder of the land is used for forestry and less intensive animal husbandry, most of which takes advantage of mountain pasturage.

## **The Industrial Sector**

### *Industry*

Industry in Austria is diverse but consists mainly of traditional industries of the second industrial revolution. It is concentrated in various processing industries, each of which has long specialized in its particular sector and had often gained a global reputation for high standards of production and service.

Industry exists throughout the country. Textile production represents the principal industrial activity of the mountainous west, whereas machinery production occurs principally in the east, as does production of glass, electrical goods, and chemicals (see fig. 9). Heavy industry tends to be located around Vienna and in several central river corridors. Iron and steel production is concentrated around Linz and Leoben.

Although industrial production is an important component of GDP, most companies are small and privately owned. Almost half employ fewer than five workers. The larger companies are often state-owned, either directly or through Austrian Industries (see Structure of the Economy, this ch.).

The metals industries, both production and related manufacturing, accounted for 43.1 percent of industrial value added in 1991. Chemicals were the second most important segment with 12.6 percent, followed by foods and beverages with 11.8 percent; forest products and paper with 11.6 percent; textiles, leather, and clothing

with 7.7 percent; glass, pottery, and quarrying with 5.3 percent; mining with 4.7 percent; and petrochemicals with 3.2 percent.

Iron and steel are largely produced by Vereinigte Österreichische Eisen- und Stahlwerke (United Austrian Iron and Steel Works), commonly known as VÖEST-Alpine, one of the major components of Austrian Industries. The company pioneered a worldwide steel production method named the LD process (after the Austrian cities of Linz and Donawitz, where it was developed). Iron and steel production in turn formed the basis for other industries, such as mechanical engineering, machine tools, vehicle production, powder metallurgy, factory engineering and construction, and automobile components.

Chemicals and petrochemicals constitute another major industry, producing such items as synthetic textile fibers, pesticides, pharmaceuticals, plastics, and a wide range of fuels. Electrical engineering is another important component of Austria's industry and specializes in the production of precision and optical equipment and generators. Food also constitutes an important industry, ranging from milk produced in the mountains of western Austria to Viennese pastries.

### ***Efforts to Improve Competitiveness***

Like many other countries that had concentrated on industrial production and where industrial value added constituted an important element of national production as well as of national exports, Austria had to reevaluate its performance during the 1980s. The government commissioned a special report on the need for structural adjustment, and a number of steps were taken to make Austria more competitive worldwide.

Steps to increase competitiveness include privatization, greater incentives for research, and greater readiness to make decisions about curtailing subsidies where they are not warranted (especially for nationalized industries) and could drain resources from other potentially more competitive industries. Although industrial subsidies are harder to calculate than agricultural subsidies because of their greater range (from direct payments to accelerated depreciation allowances and the like), the government during the 1980s made special efforts to reduce those subsidies and encourage competitiveness. Some of these measures appear to have been at least in part effective, although they were not always carried out as fast as originally planned.

### ***Mining and Minerals***

Austria has unusually diverse mineral resources for a small

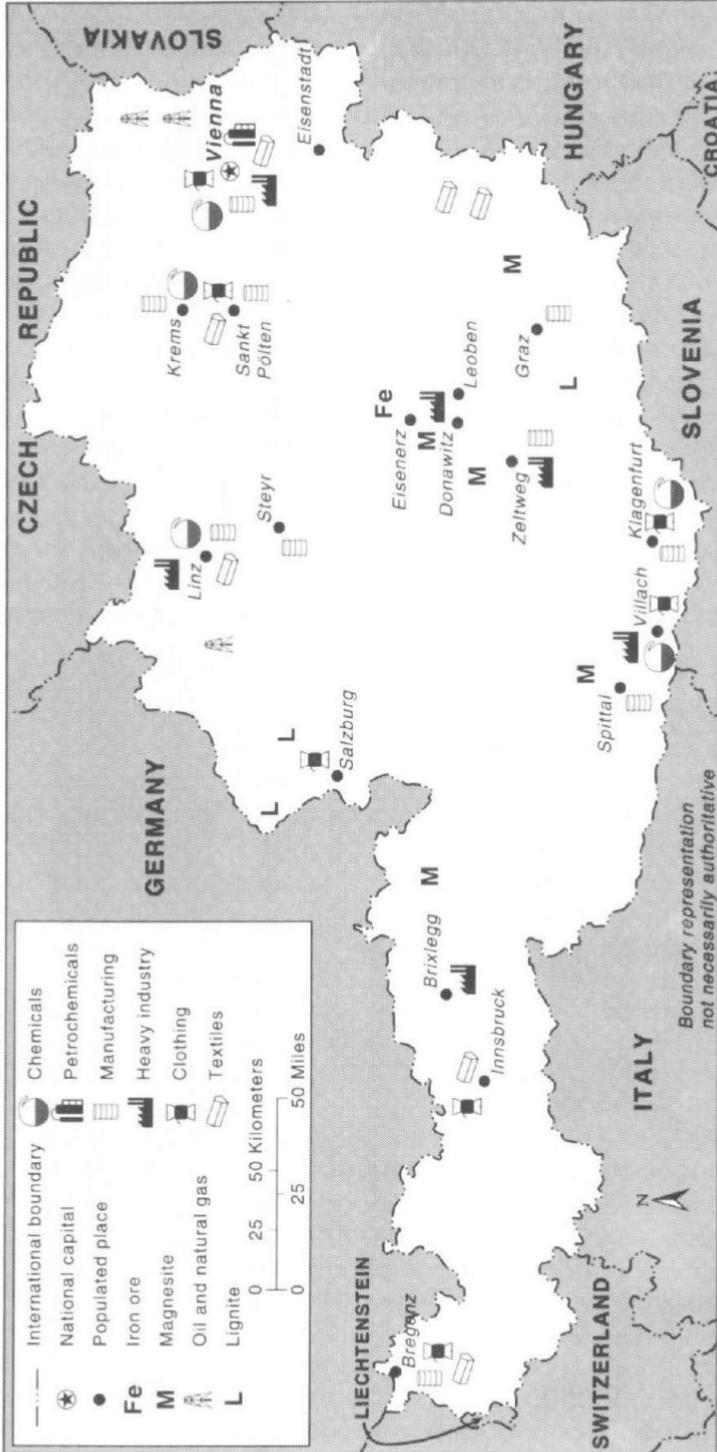


Figure 9. Economic Activity, 1993

country. It is the world's largest producer of magnesite. There are also significant deposits of lignite and iron ore and smaller deposits of wolfram, antimony, gypsum, graphite (lower grade), dolomite, talcum, kaolin, quartz, and salt. Minerals are found throughout the country, but most significant deposits are in Styria or in north-eastern Austria.

Mineral production accounted for only about 2 percent of GDP in 1990, having declined steadily in economic importance since World War II. However, it remains a significant source of income and employment in certain mountainous areas and in 1991 consisted of 109 firms employing about 6,700 persons. The principal mineral products in 1990 were lignite (2.4 million tons), iron and manganese (2.3 million tons), magnesite (2.0 million tons), gypsum (753,000 tons), and kaolin (474,000 tons).

## **Energy**

Austria is highly dependent on foreign sources for energy. In the early 1990s, it imported more than four-fifths of the petroleum and petroleum products it needed, four-fifths of the natural gas, and two-thirds of the coal, coke, and briquettes. About two-thirds of Austria's electricity is produced domestically from hydroelectric power plants, but most of the remainder is generated from imported fossil fuels. Despite extensive efforts to reduce power consumption after the first oil shock of 1973, Austrian reliance on foreign sources of power rose from 61 percent in 1970 to 70 percent in 1991. Nearly all imported natural gas comes from Eastern Europe, as does most imported coal.

Policies adopted during the 1970s and 1980s to conserve energy and to use it more efficiently were to some degree successful. Before 1973, for example, Austria's energy consumption exceeded the growth of its economy. In the 1973-90 period, however, the annual increase in energy consumption averaged only 0.8 percent while economic growth averaged about 2.4 percent a year.

Energy policies also aimed at decreasing the country's reliance on oil and coal and at moving more toward renewable and/or cleaner sources. Whereas petroleum, petroleum products, and coal had supplied 73 percent of Austria's energy sources in 1970, by 1990 their share had fallen to 57 percent, while the combined contribution of natural gas and hydroelectric power rose from 23 to 34 percent.

Although real consumption of petroleum and petroleum products has declined, Austria still relies heavily on fossil fuels for energy. In 1991, of the energy consumed, 42 percent came from petroleum and petroleum products, 20 percent from natural gas, and 16

percent from coal. Electricity supplied only 13 percent of the country's power, while wood, scrap, and other sources supplied the remaining 9 percent.

Austria has limited domestic reserves of oil and natural gas. Specialists believe that the entire region north of the Alps may be oil bearing. As of the early 1990s, however, proven deposits of oil and gas were found in Lower Austria, between Vienna and the northeastern border, and in Upper Austria between the Enns and Salzach rivers. Proven and probable oil reserves were estimated in 1992 at 15.0 million tons, while certain and probable gas reserves were put at 17.5 billion cubic meters. Certain and probable coal reserves were estimated at 69.9 million tons.

The country's largest refinery, at Schwechat near Vienna, is operated by the state-owned ÖMV and refines all the petroleum produced in Austria, as well as crude petroleum imported via a pipeline from Trieste, Italy. The state firm exploits deposits in eastern Austria, while a subsidiary of Mobil exploits deposits in western Austria.

By the early 1990s, Austria obtained two-thirds of its electrical energy from hydroelectric power plants. Nearly all the remainder came from thermal power plants fired with fossil fuel. Total electricity power production in 1991 was 45,000 gigawatt-hours, slightly less than the amount of electricity consumed. During the 1980s, Austria had consistently been an exporter of electricity. By the early 1990s, about two-thirds of Austria's hydroelectric power capacity had been harnessed. Austrians decided by referendum in 1978 not to generate power from nuclear fuels, although the country's certain and probable uranium reserves were estimated at about 500 tons (see *Domestic Issues*, ch. 1).

## **The Services Sector**

### ***Retail Trade***

In 1991 wholesale and retail trade accounted for about 12 percent of GDP and provided employment for 435,000 persons, or 14.5 percent of the work force. Even in the early 1990s, retail trade was dominated by small shops, largely because of the many small towns and communities outside Vienna. In all, there were about 17,000 wholesale concerns throughout Austria and about 33,000 retail concerns.

Despite the very large number of small firms in the sector, several retail and wholesale firms are among the twenty largest Austrian companies. Two of these are the grocery store chains Billa and Spar Österreich. Another is Metro SB-Grosshandel, a wholesaler.



*View of the Limberg  
Hydroelectric Power  
Plant in the province  
of Upper Austria  
A Drau River power plant in  
the province of Carinthia  
Courtesy Embassy of Austria,  
Washington*



The country's largest retailer is the cooperative Konsum Österreich (KÖ), formed in 1978 from a number of smaller cooperative retailers. The company is the latest stage in the Austrian cooperative movement that dates from the mid-1800s. In addition to having hundreds of stores throughout Austria, some of them quite large and selling many varieties of goods, KÖ is involved in manufacturing some of the products it sells. By the late 1980s, the company employed about 20,000 persons, and more than 800,000 families were KÖ members. They received dividends each year and voted on KÖ's overall policies. In addition to KÖ, there are many other cooperatives involved in wholesale trade and in purchasing and marketing. In all, Austrians can shop at more than 1,000 cooperative retail stores.

### *Transportation and Telecommunications*

Austria has a wide variety of transportation services and usage, reflecting the diversity of its geography and its central location in Europe (see fig. 10). Because of the mountainous topography, for decades scheduled nonlocal bus service carried almost twice as many passengers as rail service (288 million riders versus 168 million riders in 1990). Air transport is becoming more commonly used and carried 9.1 million passengers in 1992, more than twice as many as in 1982. Because of its central location, Austria is an important segment of the European railroad network, and a number of high-speed international trains pass through the country. The Brenner Pass has long been the main north-south route from Germany to Italy. The country's importance in east-west travel is also likely to increase in the 1990s with the opening of Eastern Europe.

In the early 1990s, Austria's total railroad network amounted to approximately 6,028 kilometers, of which 5,388 kilometers were state owned. The standard-gauge (1.435 meter) network is 5,403 kilometers in length, of which 3,051 kilometers are electrified. The number of electric trains increased during the 1980s, from 35,353 in 1980 to 47,803 in 1992. The number of train passengers remained steady during the 1980s, amounting to 170 million in 1980 and 175 million in 1992.

The main railroad system is the state-owned and state-operated Österreichische Bundesbahnen (Austrian Federal Railroad—ÖBB), which accounts for 90 percent of the country's rail routes. The remainder is managed by nineteen small privately owned railroads operating primarily narrow-gauge lines with a total length of about 550 kilometers. The ÖBB is pursuing an extensive investment in modernization, the Neue Bahn (New Railroad) project. Major projects include the construction of a tunnel under the Alps that



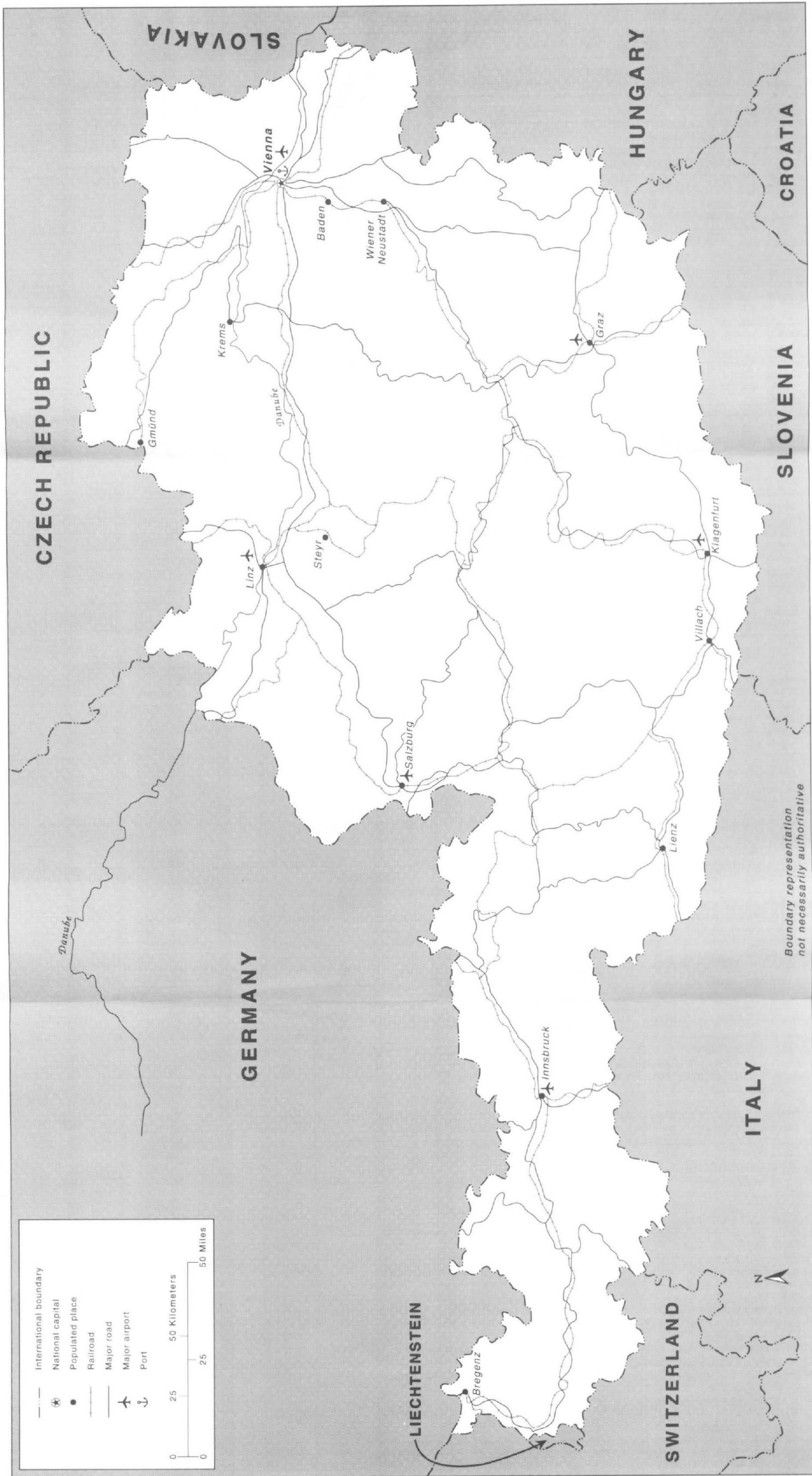


Figure 10. Transportation System, 1993

would handle north-south traffic between Germany and Italy and greatly reduce the need to use the Brenner Pass. Freight operations have been steadily modernized, especially with the greater use of pallets and rail-container transport. Austria is part of the European Transfer Express Freight Train System.

As of the early 1990s, Austria had about 22,000 kilometers of paved roads. In 1992 there were 3.2 million private automobiles registered, compared with 2.3 million private automobiles in 1982. The increase in the number of trucks in Austria was not as great: 269,000 trucks in 1992, compared with 193,000 in 1982.

An increasing volume of freight is transported by truck. One-fourth of Austria's imports and one-half of its exports are carried by road. The growth of freight transported through Austria has increased greatly, going from 4 million tons in 1970 to 20 million tons in 1990. This traffic has begun to pose a threat to the country's natural environment. Government regulations to counter this threat include limiting the size of international trucks traversing the country, most importantly those traveling between Germany and Italy and the Balkans via Alpine passes, especially the Brenner Pass. The government, with widespread popular support, is also seeking to have freight shipped on the less noisy and less polluting railroad system. Government regulations also limit trucks using Alpine passes at night to 7.5 tons. This ban has been extended to other parts of country.

Transit road traffic poses such a great threat to the environment that part of the agreement with the European Economic Area (EEA) provides for separate negotiations with Austria on traffic volume. An agreement reached in 1992 limited the volume of traffic and also provided for rules protecting Alpine areas.

Austria's inland waterways total only about 350 kilometers. Of the country's rivers, only the Danube is navigable. Vienna has long been a major port on the Danube River. As of 1991, water transport brought in less than 10 percent of the amount of imports and exports transported by road or rail and accounted for only about 5 percent of domestic long-distance freight.

Water transport is likely to become more important in the future, with a related expansion of Vienna's role in river shipping because of the 1992 completion of the Rhine-Main-Danube Canal in Germany. The canal makes possible travel by boat from Rotterdam to the Black Sea. As a result, Europe's inland waterway traffic is expected to triple by the end of the 1990s. The main traffic will likely be in bulk commodities, some of which might be off-loaded in Vienna and transshipped elsewhere. The Vienna port already serves as a principal petroleum and petroleum products

terminal because it is linked by an oil pipeline to Trieste. The port of Vienna is equipped with automobile transshipment facilities and a large grain terminal.

Austria has a small national airline. Austrian Airlines is 51 percent state owned and operates throughout Europe and the Middle East, as well as across the Atlantic. It also operates an air freight line, Austrian Airtransport. In addition, there are two smaller privately owned air carriers, Lauda Air and Tyrolean Airways. The latter airline operates from Innsbruck and largely ferries passengers to and from Alpine destinations. Austria's one important international airport is at Schwechat, located near Vienna. Of the smaller airports, Salzburg, Innsbruck, Graz, Klagenfurt, and Linz are the most important and receive international as well as domestic flights.

Telecommunications in Austria are excellent. In 1991 there were 3.3 million main telephone connections, or one for every two inhabitants. International facsimile (fax), data transmission, and telex services are also available. In 1992 there were 2.5 million television sets (black-and-white and color) and 4.7 million radios. The state-owned and state-controlled Austrian Radio and Television (Österreichischer Rundfunk—ORF) is responsible for all broadcasting. In 1992 there were six AM radio stations, twenty-one FM radio stations, and forty-seven television stations. The country's satellite ground stations are linked with International Telecommunications Satellite Organization (Intelsat) Atlantic Ocean and Indian Ocean satellites and with the European Telecommunications Satellite Organisation (Eutelsat) system.

### ***Tourism***

Tourism is an important part of Austria's services sector. In 1991 foreign tourists accounted for earnings of \$192.4 billion, almost offsetting the negative trade balance and deficits in services or other accounts. Tourism is a principal industry and source of foreign exchange. In fact, Austria's per capita tourist revenue is the highest in the world. Foreign overnight stays in Austria have risen consistently since World War II, from 50 million in 1950, to 59 million in 1970, and to 95 million in 1990. With 20 million visitors in 1990, Austria was fifth in the world in tourist revenues, surpassed only by the United States, France, Italy, and Spain. Most tourists come from European countries. Almost two-thirds come from Germany, followed by the Netherlands (10 percent) and Britain (5 percent).

Austria's largest tourist attraction has long been the Alps—for skiing in the winter and for hiking and camping in the summer. For this reason, the mountainous provinces of Tirol, Carinthia, and Vorarlberg produce the greatest tourist revenues. Salzburg is



*Vienna International Airport  
Courtesy Luftreportagen Hausmann, Vienna, and ICD Austria, New York*

an important tourist attraction in the summer. Vienna remains a tourist center all year but does not generate as much tourist revenue as the mountain areas.

Austria has 20,000 hotels and pensions, as well as an additional 50,000 private rooms available to house tourists. In addition, there are thousands of simpler accommodations, such as youth hostels, mountain huts, and campsites.

Austria has also made significant progress in becoming an international conference center. The so-called United Nations City, located outside Vienna, contains the headquarters of a number of major United Nations (UN) organizations. Vienna also has an international conference center. Taking advantage of Austria's neutral status, Vienna has hosted numerous East-West negotiations and is the permanent seat not only of such long-established organizations as the International Atomic Energy Agency but also of the newer Conference on Security and Cooperation in Europe. The

opening of Eastern Europe is likely to make Vienna an even more important center for East-West travel.

### ***Money and Banking***

The Austrian banking system is under the broad direction of the Nationalbank, the Austrian central bank, in coordination with the Austrian government. The bank is centralized, unlike the United States Federal Reserve System. It is the bank of issue and enjoys substantial autonomy, while consulting with the Austrian government.

Austria's currency, the schilling, is strong and stable. There was an attempt to float it in 1973, when various global currencies floated after the collapse of the Bretton Woods system, but in July 1976 the schilling was formally pegged to West Germany's currency, the deutsche mark. This policy was abandoned in December 1977, but the schilling remained stable in relation to the deutsche mark through management of short-term interest rates and through careful efforts to control the Austrian monetary supply. In practice, the policy meant that Austria was an informal member of the European Monetary System (EMS—see Glossary) and its exchange rate mechanism (ERM—see Glossary) since their establishment in 1979, and the country was expected to join the European Monetary Union (EMU) under whatever arrangement and timing might finally be agreed.

The principal banks are full-service banks, of which there were about fifty-five with approximately 850 branches at the end of 1991. They transact all kinds of business and also channel credit for all purposes. Many of them function only regionally, but the two largest—the Creditanstalt-Bankverein and Bank Austria—operate throughout Austria. The state owns majority shares in both those banks. Bank Austria, the country's largest bank, was created in 1991 by a merger of Österreichische Länderbank with Zentralsparkasse. This and other mergers could make Austrian banking more competitive within the larger European framework.

The banking system consists of a number of other kinds of institutions as well. These include the ten provincial mortgage banks (*Hypobanken*), with 124 branches in 1989; the savings banks (*Sparbanken*), of which there were about 126 with 1,278 branches in 1988 that function as regular local banks despite their name; the people's banks (*Volksbanken*), of which there were 103 with 323 branches in 1989 that serve small business as commercial credit cooperatives; the agricultural credit cooperatives (*Raffisenkassen*), of which there were 863 in 1989 with over 1,600 branches; and a small number of private banks and specialized institutions.

The system is locally and regionally based, with savings and credit channeled at the district level; full-service banks serve large companies. The post office system, with over 2,000 branch offices throughout Austria, also plays an important role in household savings. Austria has one of the highest savings rates in the OECD, and most of the funds saved are deposited in the banking system.

Banks play the central role in the Austrian financial system, especially in corporate finance. They carry out not only regular deposit and lending activities but also such other functions as portfolio management and investment advice. Because most savings are deposited in banks, banks are the principal source of funds for business. Austrian banks tend to maintain close relations with industry, especially with the firms to which they have extended credit. Banks are often represented on supervisory boards or, at the very least, play prominent roles in advising firms with respect to business and investment decisions.

Austrian financial markets reflect this situation. There is an important bond market, largely for government and bank issues and for utilities, about eight times as large as the equity market. The debt-to-equity ratio for corporate financing is high, more like the German model than the British or United States model. In the early 1990s, the Vienna stock exchange was a very limited market, although it will probably become more important as the privatization of nationalized companies continues. The money market is also dominated by banks.

## **Foreign Economic Relations**

### **Foreign Trade and the Balance of Payments**

Like any small country, Austria depends heavily on foreign trade. Its central location in Europe reinforces that dependency and gives Austria a wide range of trading partners in both Eastern Europe and Western Europe. Austria also consistently seeks to avoid isolation and has joined international trading systems to ensure markets for its products and access to the goods it needs.

As the economy has evolved and produced a more sophisticated range of products, foreign trade has become more important. Foreign trade made up about one-fourth of GDP in 1955, one-third by 1975, and two-fifths by 1990. Austria's export structure has also evolved. One-half the country's exports were once raw materials, foods, and semifinished goods, but by the early 1990s two-thirds of its exports were finished products. Imports have come to reflect this change and consist mostly of industrial and semifinished goods that require further processing and finishing.

The largest category of exports in 1991 was machinery and equipment, accounting for almost one-third of all exports. Other major items included chemical products, paper and paper products, transportation equipment, metal manufactures, and textiles and clothing. The largest single import item was also machinery and equipment; other items were manufactured products, chemical products, and fuels and energy.

Austria's main trading partners are in continental Europe, especially Germany, Italy, and Switzerland (see table 11, Appendix). Because of a heavy dependence on imports, Austria usually has a negative trade balance, which is compensated for by positive services accounts and capital accounts (see table 12, Appendix). Income from tourism is especially important in reducing the negative trade balance. The trade balance deteriorated particularly during the 1970s because of increased oil prices, and Austria had to make special efforts during the 1980s to redress the balance.

### **Austria and European Integration**

Given its dependence on international trade, Austria has always been interested in some form of customs union. Although it was recognized that there might be some competitive disadvantages in such associations, especially with countries that produced at more competitive prices, the Austrian government and Austrian manufacturers have always been even more afraid of being excluded. They feared that exclusion would prevent them from reaping any economies of scale and would ultimately consign them to an economic backwater.

The government, therefore, was anxious to join in some form of European economic association as several organizations were being shaped after World War II. It could not join the European Community (EC) as it was being formed, however, because of fear that this would violate the 1955 State Treaty prescription for neutrality. The member states of the EC called their organization the Common Market when they created it in 1958, but they made it clear from the beginning that it had a political as well as an economic purpose. Under those circumstances, Austria had to hold back as long as Europe was divided by the Cold War.

However, such considerations did not prevent Austria from joining the European Free Trade Association (EFTA—see Glossary) when it was formed in 1960. EFTA was a purely economic association, and its members included Finland, Sweden, and Switzerland, all neutral states that were not members of the North Atlantic Treaty Organization (NATO). Moreover, EFTA had no intention of becoming anything more than a trade association. EFTA

was far from an ideal trading arena for Austria because most of its members were located on the periphery of Europe. EFTA countries came to account for less than 15 percent of Austria's trade, while 66 percent of its foreign trade was with the EC countries.

EFTA, however, did have a very important specific advantage from the Austrian standpoint because it did not require common tariffs. Thus, Austria could retain some control over the conditions under which its foreign trade operated, while expanding its close commercial links with a number of EC states (even as it remained formally outside the EC).

Austria attempted to obtain associate status in the EC despite the political barrier to full membership. As it became clear in the 1960s that some EFTA members, such as Britain, were beginning to edge toward EC membership, Austria began its own negotiations to obtain a special arrangement with the community. In 1972, after ten years of negotiations, Austria and the EC reached an agreement providing for a gradual lowering of tariffs to zero. Austria nonetheless remained outside the EC Common Agricultural Policy (CAP).

The Austrian government applied to join the EC in the summer of 1989, as the Soviet empire was crumbling and Moscow was no longer either disposed or able to use the neutrality restrictions of the State Treaty to bar Austria from membership. Like other EFTA states, Austrian officials agreed in 1991 to the formation of the European Economic Area (EEA) between EFTA and the EC as a preliminary step, but it also wanted to join the organization on its own.

Although Austria will probably not be able to join the European Union (EU)—as the EC came to be known in November 1993—until 1995, by which time the Single Market should be well advanced, the government has taken steps to begin adapting the economy to EC standards. Along with adopting many EC laws and regulations through the EEA in 1991, the government has adopted a number of additional EC rules, including those governing the freedom of capital flows. These measures have been taken to ensure that the social partners and the economy as a whole would not be at a disadvantage when Austria becomes an EU member.

Under the terms of the agreement reached at the EC summit at Maastricht in December 1991, Austria's membership in the EU will also lead to membership in the new European Monetary Union (EMU) if Austria can meet the convergence requirements by 1997. These requirements include a number of features: an inflation rate within 2.5 percent of the three lowest in the EU; long-term interest rates within 2 percent of the three lowest rates; a

government deficit below 3 percent of GDP; and a public-sector debt of less than 60 percent of GDP. As of 1993, Austria was able to meet these requirements, but there is no guarantee that that will be the case in 1997.

Austria tied the schilling to the deutsche mark in the 1960s, largely because the country could not function without a predictable exchange rate with its largest trading partner, West Germany. In part to reinforce that linkage, Austria joined the EMS and its ERM in 1979. This membership has meant that Austrian interest rates have matched those of the Bundesbank and, as a result, to all intents and purposes have been set in Frankfurt. Therefore, Austrian adherence to the EMU would be a logical extension of long-established policies, and Austrian currency would become whatever the EMU adopted, whether it is called the European Currency Unit (ECU) or the Euro-Mark as some have proposed.

The link to the deutsche mark has had a major advantage for Austria in that it has given the country a long period of low inflation and the kind of monetary stability that those who suffered through the terrible inflation of 1921-23 well appreciate. It is, however, also a disadvantage for Austria's international competitive position. Goods denominated in schillings, like goods denominated in deutsche marks, cannot count on any sales increases because of devaluation of the currency. In fact, the schilling has consistently increased in value since the end of the Bretton Woods fixed exchange-rate era in 1971. It has generally moved with the deutsche mark vis-à-vis the United States dollar.

## **Openings Toward the East**

Austria had maintained close trade relations with various states of Central and Eastern Europe under the Council for Mutual Economic Assistance (Comecon) arrangements. Those arrangements collapsed at the end of the 1980s and, as of the early 1990s, had not yet been renegotiated. Because of the turmoil in several East European states, for example in the former Yugoslavia, precise trade arrangements will likely require some time to be negotiated.

Nonetheless, Austrian firms have proceeded actively to strengthen their position in Eastern Europe. Austrian firms soon were a major part of the thousands of joint-venture agreements established with Hungary, the Czech Republic, and Slovakia. Austrian firms have also become involved in many joint ventures in the former Yugoslavia, but their fate remains uncertain as long as the region is unstable. Austrian firms have always been well placed in Slovenia and Croatia, both of which were once part of Austria-Hungary,

and Austria resumed economic links with them as soon as they became independent in 1992.

Austrian foreign investment, which has always remained closely in balance with foreign investment in Austria, although both had risen over the years, suddenly doubled to \$11.4 billion in 1989 and rose to a new high of \$18.3 billion in 1990. Much of the new investment was destined for Eastern Europe.

One of the hopes of the government is that many companies wanting to expand their operations in Eastern Europe will establish offices in Vienna. The city offers office space with modern facilities, often at modest prices. As of the early 1990s, a number of companies had set up operations there for these reasons.

In a broader sense, many of Austria's domestic and international policies will need to be adjusted to take into account developments taking place around Austria. Such concerns have been expressed before, by Austrians and by others, but may be more urgent in the future than in the past. The opening toward Eastern Europe and the creation of the EEA and the Single Market have changed the foundations on which Austria has functioned since the 1950s and will present new competitive challenges for production, marketing, and services.

As of late 1993, however, there were no indications that Austria had changed its patterns of behavior and operations, largely because they have been successful. The pressures that might provoke such a revision have not risen to the level where change is imperative. Moreover, if Austria needs to make changes to adjust to new pressures, many arguments could be made that some form of social partnership or social consensus mechanism may be more necessary than ever.

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As is the case with many small countries, few studies of Austria exist in English, and the economy receives even less attention than other areas. Except for one collection of essays dating back to 1982, *The Political Economy of Austria*, edited by Sven W. Arndt, nothing comprehensive is available on the economy. Even books in other languages are rare, in part because most German-language books are highly technical. Instead, those who want to read about the Austrian economy must look for economic chapters in general texts about Austria, many of which are unsatisfactory.

However, a number of publications exist that contain relatively good information. The most useful are the annual publications of the Organisation for Economic Co-operation and Development that

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not only contain statistical information but also essays on various basic aspects of the economy. The quarterly and annual surveys published by the Economist Intelligence Unit, *Country Report: Austria* and *Country Profile: Austria*, also offer useful statistical information as well as summary analyses.

A number of German-language periodicals are published in Austria, including some published by major banks and some that are published by the Österreichisches Institut für Wirtschaftsforschung. These periodicals offer some useful up-to-date analyses as well as complete statistics. Thus, although the Austrian economy does not receive the kind of bibliographic attention that larger economies attract, basic information is available and reliable. (For further information and complete citations, see Bibliography.)