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Felix Butschek. *Vom Staatsvertrag zur EU: Ö?sterreichische Wirtschaftsgeschichte von 1955 bis zur Gegenwart.* Vienna: BÖ¶hlau Verlag, 2004. 262 pp. EUR 29.90 (cloth), ISBN 978-3-205-77248-4.

Reviewed by Gerhard Rosegger (Case Western Reserve University)
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The Economic Miracle and Its Rewarding Aftermath

Evolutionary economic theory postulates that the development of national economic systems is marked by a high degree of "path dependence," which simply means that the directions and results of policy measures are always constrained by an economy's history. Significant changes in this evolutionary path are assumed to be triggered by "mutations," in the form of political, technological, or institutional innovations. But no matter how significant these may seem, the influence of a system's heritage retains its power.

Felix Butschek's excellent work shows how the interplay between inertial and transformative forces shaped the fortunes of the Austrian economy, from 1955 to the present. In a little more than two hundred pages of text, he manages to cover all the highlights (and lowlights) of fifty years' history. As a long-time key member of the Österreichische Institut für Wirtschaftsforschung (WIFO) he was able to observe the shifting economic scene in "real time," as it were. This endows his writing with the authoritative tone of an insider. On account of his position, he could also draw on the WIFO's large data base to support his observations and judgments. Numerous tables and charts in the body of the book–as well as a forty-page statistical appendix–testify to Butschek's scholarly care in documenting the economy's course.

The focus of Butschek's analysis is economic growth defined strictly in terms of increases in domestic product and income per capita. I hasten to add, however, that this is by no means a narrowly framed, purely quantative work. A basic framework for his approach is provided by the concept of "social capability" (p. 32), by which he means a system's propensity and capacity for change, as a key factor in explaining the economy's responsiveness to challenges and opportunities. In the end, therefore, the book turns out to be not just about measurable growth but equally about development in the broader sense, i.e. about attempts at changes in structural and institutional arrangements.

The study consists of fifteen more or less chronologically organized chapters, each of them dealing with salient phases of the story and their proximate causes and consequences. It is in the nature of such an account that, no matter how objective, it tends to captivate the reader's attention more by stories of policy failures and missed chances than by the record of achievements. Butschek counteracts this tendency by providing, right at the outset, a summary of Austria's remarkable economic peformance. He shows that in 1950, the country's gross domestic product per capita placed it fifteenth among the "advanced" OECD member states. Fifty years later it ranked fourth. There is no better evidence of the country's ultimate success, occasional meanderings and dead ends not withstanding!

The long-awaited signing of the State Treaty in 1955 forms the starting point of Butschek's investigation. But as he is careful to point out, many key components of economic structure as well as of an informal "economic constitution" had already been put in place by then. In the second chapter, “Wirtschaftswunder und Staatsvertrag” (“Economic Miracle and State Treaty”), he examines the factors responsible for a rapid recovery from the worst ravages of World War II and the subsequent spurt in economic growth–all of this in the face of obstacles posed by widespread wartime destruction and four-power occupation.

The successful transition from the strictures of economic controls left over from the war to an emerging social market economy was promoted by a number of forces. Butschek gives pride of place to the development of an effective “social partnership.” Although the organizational forms and the *modus operandi* of the arrangements changed several times over the next few decades, the partnership always included representatives of the government, the chambers of commerce and agriculture, the chamber of labor, and the federation of labor unions. It deserves credit for attenuating the kinds of social and political conflict that had wracked the First Republic. In essence, the consensus of the “social partners,” often achieved after tough negotiations, tended to result in widespread support of the government’s economic and social policies. It also accounted for Austria’s remarkable labor peace and laid the foundations of an extensive social-welfare system. Its most important achievement, however, was that it supported, or in some instances even created, the policies of the several, successive coalition governments formed by the Socialist Party (SPÖ) and the conservative Austrian People’s Party (ÖVP).

By Butschek’s reckoning, the Austrian “economic miracle” ended with the recession of 1962, and lower growth rates persisted throughout the subsequent period. He attributes these to Austria’s increasing exposure to international markets and to a “structural crisis,” centered mainly in the nationalized industries. Although the country carried on most of its trade with the members of the European Economic Community, the government took its commitment to permanent neutrality seriously and joined the much looser integration system of the Europen Free Trade Association. The author leaves no doubt that this was a second-best solution. He also blames an industrial policy that was focused elmost exclusively on the preservation of enterprises (and jobs!) in the nationalized sector.

Butschek traces several other changes that would have lasting effects on the economy’s performance. One of these was the opening of the labor market to foreign “Gastarbeiter.” The term presumably was meant to suggest that the employment of these “guests” was a temporary phenomenon. In fact, however, the number of foreign workers has grown from 16,000 in 1961 to 196,000 in 1975, and to 388,000 (10 percent of the labor force) by 2003. According to the author, another development also had profound consequences, although it is not so easily quantified. This has to do with the framework for the conduct of economic and social policy. Until the mid-1960s, policy was shaped mainly by the outstanding political personalities of the immediate postwar era. Their style of negotiation did not place great reliance on analysis or evaluation and therefore became known as “Wirtschaftspolitik beim Weinglas” (economic policy made over a glass of wine) (p. 61). As they withdrew from the political scene, these men were replaced by new generations of experts trained in the chambers of industry, commerce and labor, the federation of trade unions, and the national bank. The newcomers initially exerted their influence through the various institutions of the social partnership, but many of them later rose to responsible positions in the government.

In this connection, Butschek gives well-deserved credit to the WIFO, which provided the statistical base essential to the new kind of policy making. But he also refers to two developments that, in his judgment, impaired the pursuit of “rational,” growth-oriented policies: the generic opposition of the “rebellious 1968 generation,” and the rise of radical environmentalism. According to the author, the goals of both of these political movements converged in their fundamental questioning of the undesirable consequences of market-based economic growth.

Despite a short spurt in the late sixities and early seventies, growth rates had been on a long-term, downward trend in all the industrialized countries of Europe. Although the author adduces a variety of explanations, one might simply observe that there was no conceivable set of circumstances under which the rapid growth characterizing post-war recovery and “economic miracle” could have been sustained. An almost thirty-year period of (relative) budgetary stability and full employment had enabled the Austrian government to set the social-welfare system on an expansionary path that would later prove hard to support. In the process, the percentage of the gross domestic product going to taxes had risen from about 28 percent in 1955 to around 40 percent by the mid-1970s, and inflation rates had increased dramatically.

In the middle of these developments there occured what Butschek calls the “Paukenschlag” (drum roll) that signalled the end of a golden age: the first so-called “energy crisis" (p. 84). One consequence of the resulting slow-down was an increase in unemployment. Another was that the social-welfare system put government budgets under increasing strain, resulting in growing deficits.

Butschek dates the beginning of a new era of economic policy-making to these changes in conditions–a shift from what he calls the "Keynesian/welfare state" paradigm in the direction of a "neoclassical/individualistic" approach. As a result, balancing budgets, reducing the state quota, curbing the regulation of economic activity, and limiting the expansion of social-welfare institutions were to assume growing importance as agenda for the government. Although, as Butschek argues, implementation of this agenda fell well short of political rhetoric.

A major source of these tensions was what Butschek calls "the de facto collapse of the nationalized industries" (p. 113). In a separate chapter, he traces their fortunes from the end of the war to the crisis year, 1986. This is a gem of an essay–concise, nuanced, and fair-minded. No brief review can do it justice, but the basic facts are readily summarized: the state sector, concentrated in the basic industries, had made invaluable contributions to reconstruction and expansion. By the 1970s, however, it showed itself impervious to all efforts at structural reforms and strategic adaptations to changed competitive conditions. In part this was no doubt due to the SPÖ's ideological commitment, reinforced by the labor union's intransigence. But in equal part it should be attributed to regional and local governments' resistance to change, regardless of their party affiliation. They largely succeeded in blocking the shut-down of failing enterprises and the rationalization of operations through reductions in the labor force.

In the late 1980s, a seemingly unstoppable process of dissolution had begun. By that time, the sector had absorbed some 100 billion schillings in government subsidies. Closing the most unproductive plants had become inevitable. A compromise solution for some of the others was found in the partial or complete privatization of key enterprises, most of which turned out to be quite competitive under these new arrangements. Butschek concludes that, despite the apparent end of the "socialist dream" (p. 120), productive capacities had been put in place that eventually were to be counted among the strong points of the economy. He leaves no doubt, however, about his judgment that the essential demise of the nationalized sector had deep and lasting effects on the country's political climate.

The 1990s saw two events that had a profound influence on Austria's economic fortunes: the fall of the Iron Curtain, and the country's entry into the European Economic Community. Since several of the former Soviet-type economies of Eastern Europe had once been part of the Habsburg Empire, and since ties with them had remained strong despite political obstacles, historical as well as geographic factors gave Austria an advantage over Western countries. Butschek argues that, at a minimum, Austrian businesses had a head start in understanding these newly opened markets. As a consequence, trade and investment ties–especially with the two states of former Czechoslovakia, Hungary and Poland–grew rapidly after 1989. He also points out that, on account of its location and unique historical traditions, Vienna became an attractive base for the Eastern European operations of western companies.

In one sense, Austria's accession to the European Economic Community (which later became the European Union) simply represented the last step in an ongoing process of piecemeal integration. In another sense, as Butschek shows, entry into full membership was by no means preordained. For one thing, the Austrian commitment to neutrality required a de facto modification of the constitution; and for another, heated political debates about the benefits and costs of entry had created the impression that the government had much more room for negotiation than it actually did. In the long run, the integration of a small, open economy into a larger economic space would yield unarguable benefits. But for the short and medium terms, the costs of adaptation to an existing structure looked substantial, all the more because Austria had no part in the design of this structure. Nevertheless, in the end, a referendum brought a two-thirds majority in favor of accession. Butschek's discussion of the effects of membership leads him to a positive evaluation; on balance, a judgment that is surely reinforced by the creation of a common European currency.

In the background of all these developments there hovered a chronic problem of the successive coalition governments: chronic and unsustainable budget deficits. Butschek devotes two chapters to this problem. He presents a long list of underlying causes as well as of inadequate political responses. Chief among them was the government's inability to curb the growth of the social-welfare system's costs. Efforts at "Budgetstabilisierung" failed repeatedly. Both effective tax reforms and proposals for expenditure reduction ran into resistance from one or another of the old "social partners." Conseuqently, the partnership lost its traditional stabilizing function. Centerpieces of the controversy were the pension and health-insurance systems, whose costs had risen sharply over time. In addition, the author points to other policy failures that led to a massive misallocation of budgetary resources. Among these, transportation and energy policies loomed as especially costly.

Following the general elections of 1999, efforts to form yet another socialist-conservative coalition collapsed. According to Butschek, the proximate cause was the federation of labor union's refusal to support substantial budgetary reforms. One may suspect, however, that there was a deeper reason for the failure: over their long tenure, the coalition parties had developed too many major and minor points of friction–and this despite the fact that the ideological distance between them had probably shrunk under the impact of actual developments. As so often seems to be the case in such situations, the participants' personal ambitions also got in the way of reasonable compromises in a common cause–the stabilization of fiscal affairs.

The year 2000 saw the formation of a new coalition, between the *Österreichische Volkspartei* and the right-populist *Freiheitliche Partei*, an event that triggered international disapproval and a good deal of domestic turmoil. In a chapter which he cautiously entitles "Paradigmenwechsel? ," Butschek attempts a tentative assessment of the new government's economic policies. He gives it credit for attempting "seriously to tackle" problems that the old coalition had dealt with only cautiously (p. 195). But to the extent that necessary reforms have run into popular and corporative resistance, they were tempered or–as in the case of the health-care system–not really attacked at all. The implementation of "neoclassical" policy measures, touted in various programs, remains largely untouched. Most importantly, none of the traditional institutional structure has been changed, which means that a government, any government, has to deal with a politico-economic system that seems ill-equipped to accommodate dynamic change. In other words: path dependence is alive and well!

I have outlined the main features of Butschek's study in some detail, not only to demonstrate its importance for students of the Austrian economy, but also to suggest that I consider it a valuable source for historians, political scientists, and interested lay readers. My enthusiasm for the work is tempered by but a few quibbles. One has to do with its essential neglect of the effect of bureaucratic regulation on economic activity. This, together with an elaborate patchwork of taxes, has given rise to the growth of a substantial underground economy. Estimates of the sector's size understandably are hard to come by, but I have the impression that it is quite important in construction and in various service industries.

A second observation is not so much a criticism but the statement of an obvious fact: there is a price to pay for brevity. In many of his discussions, the author assumes that the reader is already familiar with Austrian institutions and their special terminology. Having gone through the book a first time, I felt strongly that it should be translated into English, in order to make it accessible to a larger market. A second reading convinced me that this would require some elaborations and explanations, perhaps in footnote format. Be that as it may, I wish the book a wide distribution. I learned a lot from it, and so, no doubt, will others.

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