

**Austria -
Parties' Responses to Economic Openness in a
Corporatist-Conservative Welfare State**
~Fieldwork Report Version~

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Abstract

How does the international economy influence Europe's parties' socio-economic policy goals? Does the competitive pressure of economic internationalization cause neoliberal policy convergence and a crisis for social democratic parties? How do right-wing parties respond to globalization? What is the impact of corporatist institutions? A study of Austria's parties reveals that global economic developments and membership in the European Union in the 1990s resulted in an upsurge of market-oriented policies, welfare state retrenchment and contributed to a decline of the consensus-oriented characteristic of Austro-Keynesianism. However, Austria's political parties have kept their distance in the realm of economic policies, therefore, the Austrian case calls into question arguments about neoliberal convergence. The Austrian case suggests that the research agenda of globalization and welfare state retrenchment should pay greater attention to right-wing parties, as European economic integration opened a window of opportunity for the conservative party to pursue market-oriented structural reforms. Furthermore, the leftward move and the electoral success of the Social Democratic party do suggest a crisis for social-democracy. Lastly, the case illustrates that Austria's centralized encompassing corporatist institutions have lessened neoliberal pressures, but are themselves not impervious to reform and are weakened by a transfer of policy authority to the supranational European Union level.

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1. INTRODUCTION

How does the international economy affect the policy positions of political parties? This question lies at the heart of the debate concerning the effects of the global economy on the future of the welfare state. The post World War II decades were the Keynesian "heydays" of the welfare state, during which leftist parties easily furthered their partisan objectives, such as government planning and intervention, without concern for undercutting macro-economic performance (Garrett and Lange, 1991). These circumstances have changed considerably in recent decades as technological innovations, such as the increased speed of communication and transportation, have facilitated the rise of a global economy.¹ Deregulation of international trade markets and financial institutions are associated with a decrease of states' capacity to intervene in the economy. For example, the internationalization of financial markets and capital mobility curbs a state's ability to pursue independent monetary policies, such as the ability to control domestic interest rates (Cohen 1996:281). A greater portion of society, in particular labor, has become vulnerable to the competitive terms of the international economy. In the 1970s, the global oil crises ushered in long periods of slower growth and revealed the vulnerability of the Keynesian welfare state. These developments favored the neo-liberalism paradigm and challenged the social-democratic consensus of the postwar years. In Europe during the 1980s and 1990s, the market-friendly orientation of European single market and European Monetary Union (EMU)², are often considered to constitute knotty problems for the social-democratic agenda (e.g. Notermans 2001; Scharpf 1996).

Clearly, welfare states must come to terms with an open economy. However, just *how* vulnerable welfare states are to neoliberal³ economic pressures and to what degree these pressures will entail changes in existing welfare state arrangements have been subject to disagreement. I seek to contribute to the debate by examining how political parties - the most

¹ Economic globalization is typically conceptualized in terms of increased levels of total trade of both goods and services, a rise global financial flows (foreign direct investment (FDI)) and financial market integration (Garrett and Mitchell 2001:145).

² The parameter of EMU force members to surrender important aspects of their economic policy - particularly monetary policy and exchange rate.

³ The term "neoliberal policies" - as used in the academic literature - refers to liberalization of capital flows, monetary policy committed to low inflation, financial and labor market deregulation, trade liberalization, increase of the power and freedoms of entrepreneurs and investors, and restructuring of corporatist production regimes. The goal of neoliberal policies is to lower costs, invite private investment, reduce inflation, and to increase economic production.

important actors of the domestic political arena - react to economic openness. I seek to address numerous areas in which the globalization literature is rather "thin." For one, the importance of partisanship and the role of political parties in the potential phase of *welfare state retrenchment* has not been sufficiently explored (Allan and Scruggs 2004). Secondly, few studies have made a link between changes in economic conditions and parties' policy positions (but see Milner and Judkins 2004; Haupt 2005; Adams, Haupt and Stoll 2006, forthcoming). Thirdly, the responses of right-wing parties to the global economy has received little attention and needs to be explained further.

Austria's political-economic institutional characteristics and its recent membership in the European Union make it an excellent case to explore the political dynamics of economic openness at the national level. This qualitative analysis draws from both from interviews with policy elites⁴ conducted during field work in Vienna, from the data of the Comparative Manifesto Research and from secondary literature. It seeks to answer the following questions: how does rising international economic openness and/or Europeanization influence parties' economic policy paradigms? Are social democratic parties forced to embrace the market as suggested by the convergence theories about globalization? Do neoliberal pressures of economic openness allow conservative parties to shift further to the right? Do encompassing corporatist institutions indeed shield against neoliberal economic pressures? And, in turn, does international economic openness impact the nature and strength of these institutions?

Based on a study of Austria's parties, the paper forwards five central findings. First, systemic constraints of global economic developments, in particular the parameters of EU resulted in an upsurge of market-oriented policies, structural reform and a decline of consensus-oriented politics characteristic of Austro-Keynesianism. Secondly, economic openness has opened a window of opportunity for the conservative party to pursue market-oriented structural reforms. Thirdly, the case of Austria calls into questions arguments about neoliberal convergence and social democratic crisis, because the Social Democratic Party have returned to more traditional-social democratic policies after pursuing having shifted in a market-oriented direction during the 1990s. Fourthly, though Austria's corporatist structures have remained intact, they have not been impervious to reform. Welfare state reform has taken place *in spite of*

⁴ More specifically, I conducted 21 interviews: 9 interviews with policy actors of the conservative People's Party (one of whom is also a member of the Chamber of Economy) and 12 interviews with policy actors of Social Democratic Party (one of whom is associated with the ÖGB, one with the Chamber of Labor). See Appendix 1 for more details.

encompassing corporatist structures and labor has been weakened by transfer of policy authority to the supranational level.

2. LITERATURE REVIEW AND HYPOTHESES

2.1. The Effect of Globalization - Conflicting Predictions

The rich literature on the effects of globalization on the welfare state is characterized by contradictory claims about the manner and the degree to which economic openness will affect traditional policy making.

Particularly the early literature on globalization literature was dominated by claims about welfare state "retrenchment," and predictions about *neoliberal convergence* of national socio-economic policies and welfare related institutions (e.g. Berger 2000; Glyn 2001; Rodrik 1997). The underlying logic is that globalization entail a loss of state power over markets, increase the influence of capital vis-a-vis labor and reduce governments' ability to pursue politics of full employment. In addition, the competitive pressures of an international economy prompt government to prioritize reduction of deficits to lower taxation at the expense of social protection and social expenditure. Therefore, globalization affects the ideological foundations of social welfare by legitimizing inequality of rewards (Mishra 1999: 15). Mair believes that the pervasive influence of transnational actors and financial flows undermines parties' ability to satisfy local interest which in turn undermines party's legitimacy (Mair 1995, referenced in Ladrech 2000:23). Arguments about convergence foresee that it will become inconsequential "whether the left or the right wins the election, [as] the constraints of the internationalized economy will oblige either party to follow the same monetary and fiscal policies" (Berger 2000:51). Based on the results of a cross-national study, Huber and Stephens (2001) confirm a decline of partisan political effects, while the economic agenda "is by and large either a defense or retrenchment of the welfare state. Expansion is off the agenda" (2001:6).

However, sustained high levels of welfare states' spending have called welfare state decline and convergence into question (Garrett and Mitchell, 2000 p. 145). Within the European Union, often considered "intense case of globalization"⁵ (McNamara 2003), social protection

⁵ Why is Europe considered an "intense case of globalization?" The EU is an example of states under the conditions of globalization. Within Europe, trade, especially intra-European trade, and investment flows have been

expenditure has remained stable over the last twenty years (around an average of 20-30% of GDP during 1980-97). McNamera, studying the recent effects of the Maastricht convergence criteria in the European Union, finds *some* evidence in support of "downward-convergence" hypothesis, but overall are mixed results (McNamera 2003:333).

Scholars who question cross-national policy convergence have also focused on the effects of institutions and varying incentives in responding to international economic developments (e.g. Pauly 1988; Alesina et al. 1994; Rosenbluth 1996; Milner and Keohane 1996, Garrett 1998, Swank 2002). Their arguments highlight numerous reasons for continued welfare state resilience and divergent policies, such as institutional incentives, popular demands for greater social security and for compensation in light of economic openness and the competitive economic performance of "non"-liberal approaches to the economy. Generally speaking, the argument holds that political outcomes and ideological positions are not simply a product of economic interests and economic restraints, but that policy positions are critically influenced by the institutional context in which political actors frame their preferences. Garrett (1998) foresees that those welfare regimes are most in need for reform in which labor is strong but decentralized because this combination results in sub-optimal macroeconomic performance. In comparison, Swank (2002) extends his institutional analysis beyond political-economic institutions and identifies various institutional features which shield against neoliberal pressures: social corporatist interest representation and policy making, centralized political authority, electoral institutions of proportional representation and social-democratic welfare institutions. Swank concludes that globalization has the least impact on the welfare states of Northern Europe, and the most impact on the Anglo nations (Swank, 2002).

The globalization literature does not stop here, however, and the institutionalist argument has not gone unchallenged either. Pointing to the importance of incremental changes over time, some consider the resilience argument exaggerated. For example, Kersbergen (2000) believes the

steadily increasing (McNamera, 2003, p. 334-5). McNamera clarifies that "the fact that the EU is also a highly institutionalized setting with well developed supranational governance structures is analytically separate from the fact of market integration, although the two facts are likely to be causally related." The introduction of the Economic and Monetary Union (EMU) incorporated in the Maastricht Treaty (1991) further accelerated the neoliberal agenda of economic and monetary integration, notably without being accompanied by equivalent EU-wide social policies. Social policy remains focused on a specific subset of social policy issues – particularly those relating to the labor market and the majority of social policy provision remains the responsibility of the national states, prompting leading scholars such as Scharpf to speak of a "political decoupling of economic integration from social issue" (Scharpf, 2002, p. 646). In short, European integration is predominantly based on deregulation (negative integration) rather than regulation (positive integration) and as such has an anti-social democratic bias (Notermans, 2001, p. 256)

institutionalist arguments overemphasize the path-dependent, resilient qualities of institutional mechanisms, overlooking the signs of institutional change and fundamental transformation (but see Alston et.al. 1996). Kersbergen writes “[i]n spite of the powerful mechanism against radical change, it may be that in the light of contemporary developments the resistance argument is stretched too far.... small incremental changes are seen as resilience, but can at a certain point in time seen as a more fundamental transformation”⁶(2000:26-7) Arguments point to the limits of national welfare states’ capabilities to shield their citizens against the dynamics of the market and believes that pressures for adjustment - for example to the criteria spelled out for European Monetary Union - are stronger than resistance to institutional change. European monetary union might not bring about radical changes of Europe’s welfare states, but nonetheless ‘structural reforms’ in labor market, collective bargaining systems, social protection programs (Hemerijck, 2002:175).

2.2. Social Democracy in Decline?

Overlapping with the discussion of globalization and the welfare state, the future of social democracy has sparked especially wide interest in the scholarly community⁷ The interest in social democracy is obvious: social democratic policies seek to regulate capitalism and correct the effects of the market (Przeworski 2001:327),⁸ Based on “demarcated national economies managed by efficacious centralized states in a broadly bipolar world order” (Pierson 2002:64), social democracy’s foundation is challenged by globalization. For example, capital mobility undermines politics of intervention, of redistribution and a large public sector (Pierson 2002:78. The stagflation of the 1970s first forced social democrats to acknowledge tradeoffs (Przeworski 2001:320). Thus, in light of international competitive pressures, social democratic parties are arguably *caught in a “catch-22:”* they must either scale down their commitments, or promise what they are unable to deliver to their electorate (Heywood 2002). Particularly within Europe, the parameters of European integration and monetary union are considered knotty problem for

⁶ Kersbergen refers to incremental changes in social policies, such as more stringent eligibility criteria, contribution standards, levels of means testing, replacement rates, greater number of waiting days, reduced funding etc. (2000)

⁷ e.g. Callaghan 2003; Garrett 1998; Glyn 2001; Kitschelt 1994; Kuhnle 2000; Ladrech 2000; Lordon 2001; Luther and Müller-Rommel 2002; Mishra 1999; Notermans 2001; Pierson 1995, 1999; Przeworski 1985; Roder 2003; Scharpf 1999, 2001; Schmitt 2002; Thompson 2000

⁸ The traditional social democratic position is outlined in detail by Kessleman: 1. acceptance of a capitalist economy along with state intervention; 2. Keynesian economic with the aim of full employment; 3. state policies aiming at redistribution; 4. association of the working class with social democracy which is closely linked to a trade union movement (Kessleman, referenced in Thompson 200:8).

social democratic parties (Kleinman, 2002, p. 151).⁹ European Monetary Union (EMU) rules out nominal exchange rate adjustments, meaning that adjustments and stabilization must be sought elsewhere, for example in national fiscal policies, labor mobility and wage flexibility. In response to policy constraints, some social democratic parties, most notably British Labour Party leader Tony Blair and German Social Democrats' leader Gerhard Schroeder, have turned to the "third way" - a mix between social democracy and market economy.¹⁰

Is there evidence for convergence? Indeed, Glyn (2001) finds that in the time period between 1980 and 2000, numerous leftist governments accepted orthodox policies, prioritizing inflation control, limitation of the tax burden and labor market deregulation. He believes that the left can still intervene and counteract inequality, but that its objectives are limited (Glyn 2001:20). Similarly, Ladrech finds that following convergence around support for European integration, European social democrats were faced with "the loss of a critical area of programmatic distinction and identity from... right of center parties" (Ladrech 200:4).

However, there are also reasons to doubt the onset of neoliberal convergence. To begin, evidence of welfare retrenchment is spotty. Secondly, social democratic parties have traditionally been more *policy-seeking* than their conservative parties. Przeworski and Sprague (1986) argue that socialist parties sought to *transform* society and shape public opinion, which renders them *ideologically less flexible* than their right-wing parties which typically defend the status quo. Building on this argument, Adams, Haupt and Stoll (2006) present evidence that social democratic parties are indeed less responsive to shifts in public opinion and to the global economy than are centrist and right-wing parties. Pennings (1999) finds social democratic parties turning towards market-oriented policies and welfare state entrenchment, but emphasizes that these policies are based on pragmatism, not on an "irreversible" embrace of neo-liberalism (Pennings 1999). Secondly, the effects of institutions and varying incentives in responding to international economic developments explain cross-national policy divergence (e.g. Alesina et al. 1994; Garrett 1998; Kersbergen 2000; Milner and Keohane 1996, Swank 2002). In this context, Garrett (1998)

⁹ The 1986 Single European Act abolished exchange controls (Notermans 2001:3). The Amsterdam Treaty of 1997 and Stability Pact reinforced an orthodox line. Members of EMU give up autonomy over key aspects of economic policy - particularly monetary policy and exchange rate. In addition, as part of the Maastricht Treaty, member states agreed that those wishing to join the single currency had to meet economic and financial requirements, the so-called Maastricht fiscal convergence criteria. In contrast, no criteria about acceptable unemployment, poverty and inequality were specified. (Kleinman 2002, p. 148).

¹⁰ Giddens (1998) identified most clearly outlines "Third Way" politics: "the policies are a reaction to globalization, the rise of individualism, the deterioration of the environment, the 'decline of politics' and a believe in fading distinction of left and right" (Giddens 1998, referenced in Thompson 2000).

challenges the conventional wisdom that globalization in general, and capital mobility in particular, are incompatible with social democracy. Pointing to the causal *linkages between partisanship, the structure of labor market institutions and macro-economic performance*, Garrett considers the social-democratic approach a viable alternative to liberal, market-oriented policy regimes (Garrett 1998:8-9). Organizational ties to unions arguably also contribute to ideological inflexibility, as these ties uphold an association with the working class even when social-democratic parties pursued cross-class electoral strategies (Adams, Haupt, Stoll 2006, forthcoming). Lastly, *public opinion* has consistently supported existing national welfare state structures and has arguably become disenchanted with neoliberalism (Przeworski 2001).

2. 3. Globalization and Right-Wing Parties: A Tale Untold

In contrast to social democracy, center-right parties, such as Christian Democratic parties, have received little attention.¹¹ Even fewer scholars have addressed the effects of globalization on mainstream conservative and/or Christian democratic parties' economic policies (but see Milner and Judkins 2004, and, to some degree Kersbergen 1995). Considering the great political significance that Christian democratic parties' have played in Europe (Kalyvas 1996), this lack of attention is anomalous.

In terms of economic and social policies, rightist parties favor private (versus governmental) ownership of the means of production, a weak governmental role in economic planning, oppose redistribution of wealth and favor less extensive governmental social welfare programs (Harmel and Janda, 1979). While conservative parties lean towards classical liberalism, Christian Democratic parties combine liberalism and social responsibility, having given rise to models such as Germany's social market economic model. Kersbergen (1995) outlines the ideological profile of Christian democratic parties, which he labels "social capitalism." Representing a middle way between capitalism and socialism, Christian democratic parties' distinct political and social practice is shaped by "a blunt commitment to the market and a confident trust in the possibilities of politics" (Kersbergen 2000:231). In respect to social policies, Christian democracy aims to lessen the political importance of social cleavages, without aiming to eradicating them. The state steps in when fundamental social units (such as family, the market or vocation) prove unable to secure existence. In essence, Christian democracy aims at

¹¹ but see Kersbergen (1995); Hanely (2002); Johannson (2002), Kaiser and Gehler (eds. 2004)

accommodating social, occupational and cultural differences, but it does not strive to *transform* them (Kersbergen 1995:231,239).

What does the extant literature suggest about conservative and right-wing parties reaction to increasing economic openness? Roder (2003) believes that unlike social democratic parties', conservative parties' pursuit of Keynesianism in the post-war era served only as a temporary way to correct capitalism and are thus quick to abandon it (Roder 2003:91). Examining the link between trade policy and economic openness, Milner and Judkins (2004) find that increasing economic openness leads rightist parties to advocate more free trade policies than leftist parties (2004:97). Kersbergen concludes that Christian democratic parties during the 1990 focused on a "socially acceptable capitalism." Though not whole-heartedly embracing neo-liberal market-based approaches in the 1990, they pursued policies of welfare state retrenchment and austerity, while attempting to preserve some form of social compensation to compensate the losers of economic adjustments (Kersbergen 1995:237). On the whole, Christian-democratic parties' emphasis on politics of mediation and its goals of nurturing an "organic harmony of society" has declined (1995:238), and, as a consequence, the distinction between Christian democracy and conservative parties has become hazy¹². By the mid 1990s, the common response to the internationalizing economy included moderate neoliberal, supply side policies "without entirely abandoning the post-war model of compensatory social policies" (Kersbergen 1995:244). As such, the approach did not indicate a break in the given policy paradigm (Hall 1993, referenced in Kersbergen 1995:244). Similarly, Kaiser and Gehler (2004) find that Christian democratic and center-right parties did to develop a new societal vision in the global age.

2.4. Hypotheses

Global economic developments and the European economic integration change the political dynamics of economic policy-making on the national level by favoring market forces. However, I argue that neoliberal convergence is not an inevitable outcome of economic openness (Hypothesis 1). This argument is based on two claims which build on the assumption that parties simultaneously seek votes, office and policies - goals which at times are in conflict with one another (Müller and Strom 1999). First, though leftist parties are pressured to adopt "third

¹² Indeed, both the German CDU/CSU and the Austrian ÖVP describe themselves as Christian democratic *and* conservative (Kaiser and Gehler 2004:205).

ways," their traditional policy-seeking orientations, their quest to shape public opinion, as well as their organizational links to unions limit their ideological flexibility and their response to neoliberal pressures (Hypothesis 1a). By contrast, rightist parties are expected to benefit from economic openness, as market oriented policies complement their economic policy approach. While rightist parties face incentives to move further to the right, they continue to be *office seekers* and, thus, move to the right *only if* this move is electorally advantageous (Hypothesis 1b). Lastly, building on arguments of institutional path dependence and arguments which highlight the economic benefits of social-democratic corporatist structures, I argue that corporatist structures, if centralized and encompassing, cause 'institutional inertia' which both encumbers attempts to retrench the welfare state and lessens the pressures of neoliberalism (Hypothesis 2).

3. CHARACTERISTICS OF AUSTRIA'S POLITICAL-ECONOMIC INSTITUTIONS

3.1. The Austrian Welfare Regime in Comparative Perspective

Various institutional welfare state types evolved during the post-war decades in Europe, which differed not only in their institutional characteristics but also in the normative basis of service provision. Arguably, institutional features of welfare states determine the degree to which social protection is rolled back in favor of the market. Swank explains "both political institutions and welfare state structures have significant and systematic impacts on the political capacities of pro-welfare state interests.... Institutional features of the polity and the welfare state promote distinct clusters of values, norms and behaviors that either favor or disfavor neoliberal reform (Swank, 2002, p. 35).

Based on the seminal categorization by Esping-Andersen,¹³ Austria's segmented, occupation-based social insurance policy characterize Austria as a "corporatist-conservative"

¹³ Based on the degree of de-commodification¹³ and the role of the state in social stratification Esping-Andersen (1990) identified three different types of welfare regimes: the Anglo-Saxon "liberal type," a European "conservative" type, and a Scandinavian "social-democratic" type. The label "liberal" describes welfare regimes in which provision of social services is heavily means tested. By contrast, the social-democratic welfare state types are characterized by the principle of universalism and centralization, which discourages differences in social benefits. Lastly, unlike the universalist values characterizing the social-democratic regimes, social services in the conservative welfare are based on contributions by the individual. The state provides services based on status segmentation¹³ and familialism, which de facto preserve status differences created by the market and traditional gender roles (Esping-Andersen 1999: 81, 1990:61-9).

regime, along with the majority of the European continental welfare states¹⁴. However, Austria's centralized political-economic institution resembles social-democratic welfare regime types, presumably because Austria constitutes the only corporatist-conservative regime in which social democracy was more influential than Christian democracy in shaping these institutions (Huber and Stephens 2001:279). Indeed, during the 1980s, Austria ranked second in strength of its social-democratic corporatist structures (Garrett 1998:15). However, corporatism and social democracy in Austria *differ* from their Scandinavian counterparts, as they are unequivocally less concerned with income redistribution and wage solidarity (Martin 1982, cited in Veiden 2001:212).

In short, Austria can be considered *a hybrid case* between the continental conservative-corporatist and the Scandinavian social-democratic welfare regimes (Aiginger 2005). As such, Austria primarily serves as a case study of a welfare regime with a corporatist-conservative normative underpinning while simultaneously facilitating a study of the dynamics stemming from centralized, encompassing corporatist institutions. While the corporatist-conservative norms are more accepting to the influence of the market, the social-democratic character of centralized corporatism should constitute a counterweight market-oriented reform.

3. 2. Features of Austrian Political-Economic Institutions

3.2.1. Social Partnership

Austria's distinctive approach to policy making emerged with the founding of the Second Republic in 1945. A high degree of *policy consensus* was consciously adopted as an "antithesis" to Austria's tumultuous political history of class conflict and near-civil war of the 1930s¹⁵ (Pelinka et.al. 1999:13). The two main parties, the Socialist Party Austria (SPÖ) and the conservative

¹⁴ Similarly, Austria belongs in the "Rheinish" category (vs. the Anglo-American and Confusion) typically associated with the German social market approach. This type of capitalism emphasizes social solidarity, is statist and bureaucratic, characterized by agreement that economic policy includes a "social component," labor and management acknowledge each other's legitimacy and are included in economic policy making (Thompson 2000: 42).

¹⁵ Austria's First Republic was marked by political and social instability: established in November 1918, the Versailles Peace treaty prohibited a union with Germany. Domestic political tension soon arose between the social-democratically dominated city of Vienna and Austria's other regions. Political turmoil, violence and economic depression finally culminated in the establishment of an authoritarian regime in 1933 and in civil war the following year. In 1938, Hitler annexed Austria. Austria regained its independence in 1945 but continued to be occupied by the Allied forces until 1955 (Honan 2002:16)

People's Party (ÖVP) agreed to a long-lasting coalition. Cooperation of elites, consensus-orientation and mutual guaranties of power-sharing also shaped the relationship of the newly formed web of collectivist interest organizations (Pelinka et.al. 1999:13). The cooperation between government and labor and business - the so-called "social partners"¹⁶ - constitutes the defining feature Austria's economic policy climate (Guger 2001: 61). The Austrian social partnership can be defined as "a multidimensional network of formally and informally institutionalized inactions between umbrella organizations, government and parties" (Tálos 1997:40, cited in Pelinka 1999:15). The social partners agreed to pursue the following goals: coordinated steering of economic and social policies (with consideration of labor, income, export and competition-related policies); support of economic growth and competitiveness; securing of economic stability; maintenance and improvement of social standards of the welfare state; and, lastly, support of harmonious social relations (Pelinka et.al. 1999). Busemeyer points out that the system of social partnership constitutes informal veto players in the Austrian political institutional structure. Their influence is not derived from constitutional rights as the case for formal veto players, but from their de facto position in the political process (2005: 578).

The centralized organizational pattern of collectivist interest organization dates back to the 19th century, when various chambers of commerce emerged to represent trade, industry and business. These chambers developed into the three-fold corporate structure of the "parastatist" Chamber of Economy, Agriculture and Labor (Markovitz 1996: 7-9; see also Tálos 1996). For all Austrian employees, membership in these Chambers is compulsory, which leads to near monopolization of interest representation and enables a high degree of centralization of interest representation (Markovits 1996:9). After their inception in 1945, the institutions of and the nature of social partnership continued to evolve. A newly created *Economic Commission* served to implement an agreement on wages and prices (an "overt income policy"). In the mid-1950s, the newly created *Joint Commission on Prices and Wages* or *Parity Commission (Paritätische Kommission)* become the key bargaining institution for incomes policy and further formalized the relationship between the social partners (Pelinka 1998:13; Markovits 1996:15).

Centralization also characterizes Austria's trade union sector: Austria's fourteen unions form a federation and do not compete with each other. They are combined in a single umbrella

¹⁶ The term "social partners" typically refers to organizations and interest groups which have the ability to collectively binding contracts, while the term "social partnership" refers to various possible cooperation between basic organization, such as discussion of wages or others working conditions as well as distinctly tripartite corporatist arrangements (Pelinka et.al. 1999:8)

organization, the Austrian Trade Union Federation (*Österreichischer Gewerkschaftsbund* - ÖGB) which is non partisan.¹⁷ The Trade Union Federation's position within Austria is strong¹⁸, as evidenced by high membership: 40 percent of Austria's work force, approximately 1.5 million, belong to the Union. (US Department of State 2005). Its principal function is to draw up collective bargaining arrangements.

Importantly, the organizational structures of the social partners and Austrian Trade Union Federation (ÖGB) are intricately interwoven with Austria's parties. Though the Chambers are *formally* independent of the political parties, there are many points of contact. Parties participate in intra-union elections and other matters internal to unions (Markovits 1996:12-3). Both the federal president and government ministers draw political leader from the unions (Western 1999: 68). In turn, Union leaders hold seats in parliament and frequently occupy key ministries (Western 1999: 70-1). The Peoples Party (ÖVP) has traditionally maintained close organizational ties with the Chamber of Agriculture (*Landwirtschaftskammer*), the Chamber of Economy (*Wirtschaftskammer*) and the Workers' and Employees' League (*Arbeiter und Angestelltenbund*). In comparison, the influence of the Social Democrats is felt more strongly in the Chamber of Labor (*Arbeiterkammer*) and in the Trade Union Federation (*Österreichischer Gewerkschaftsbund*, ÖGB) (Müller 1988: 100). Traditionally, the leader of the ÖGB has been the main finance spokesperson for the SPÖ (Veiden 2001:212).

Lastly, the party proportional representation, the "*Proporzsystem*" constitutes another important institutional characteristic which illustrates the far-reaching influence of Austria's party. Based on this consensual agreement, key economic and political functions are allotted in proportion to the political strengths of the parties. Due to the decade long dominance of the People's Party and the Social Democrats, "in practice, for a long time this meant a far reaching division of influence between the 'red' social-democratic and the 'black' conservative party and their ideological 'camps'" (Hammerschmidt and Meyer 2003:5).

3.2.2 *Austro-Keynesiansim*

Austria's distinct approach to economic policy-making, labeled *Austro-Keynesianism*, includes the following four main elements: 1. Counter-cyclical use of budget deficits prioritizing

¹⁷ individual sections within the organization do represent different political views, the largest being the Social-democratic section (US Chamber of Commerce)

¹⁸ However, Guger find the power of the ÖGB often overestimated in international comparisons, as it has granted much autonomy to its individual unions (Guger 2001:62).

of full employment and growth; 2. Expansionary fiscal policy¹⁹ and subsidies to industry; 3. Monetary policy aimed at a stable nominal exchange rate to fight inflation and increase competitiveness - which frequently meant appreciating the Austrian Schilling against currencies of trade partners; and, 4. moderate, voluntary wage and incomes policy (to control wages and prices) based on social partnership (Guger 2001:59-60; Veiden 2001:215). This approach to Keynesian policies is different from conventional Keynesianism as it extends beyond anti-cyclical demand management: with a long-term perspective on investment and growth, the corporatist institutions helps to stabilize business expectations, including in the private sector. Compared to other countries, Austria's labor internalized a more long-term perspective which underpinned wage restraint light of goals of low inflation and international competitiveness (Guger 2001:70). Furthermore, Austrian economic policy sought to compensate for the small size of its open economy. In times of high imported inflation, exchange rate policy aimed at price stability, while income policy was adjusted accordingly to maintain international competitiveness. Thus, "moderate incomes policies had to soften the combined effects of hard currency and expansionary fiscal policy on the balance of payments" (Guger 2001:60).

Though the Austrian economy has performed well, its institutional characteristics, often credited with this success, have undergone changes which can be traced to an internationalizing economy. Since the early 1980s, the system has been challenged primarily due to high interest rates/restrictive monetary policies of the German Bundesbank, resulting in a shift from expansionary fiscal policy to budget consolidation. The "hard-currency" option was costly inasmuch as it forced some sectors in the economy to adjust to changes in their competitive positions rather quickly (Guger 2001:76). For example, while expansionary fiscal policy was reduced in the 1980s, the exchange rate and moderate incomes policy continued to be pursued.

The constraints of systemic factors stemming from globalization and European integration are also apparent when it comes to the status of Austria's social partners. European integration entails a reduction of trade barriers and intensifies international competition, so that many industries became price takers and price regulation appears "outdated" (Guger 2001:60). Social partnership has been weakened because of increasing deregulation and decentralization, allowing industrialists to push for increased flexibility in the labor market (Pollan 1997, cited in

¹⁹ Guger explains that this is achieved via "high built-in stabilizers in the social security system, public investment programs, accelerated depreciation schemes and large-scale interest-rate subsidies to promote private investment" (Guger 2001:59-60).

Guger 2001:77). In addition, the effect of supra-national governance weakens the corporatist consensus oriented policy making, as many areas of economic policy have shifted to the central European level which is characterized by more lobbying and less corporatism (Lacina 2005, interview by author). Ernst Tuechler of the ÖGB explains that the unions supported EU membership despite *foreseeing* a loss of influence, but *underestimated the magnitude of this loss* (Tuechler 2005, interview by author).

4. AUSTRIA'S ECONOMIC PERFORMANCE

Austria's economic performance is well documented elsewhere and need not be discussed in detail here (see Guger 2001; Pelinka et.al. 1999; Aiginger 2005). However, the following discussion will briefly outline key developments of Austria's second republic before and after 1990 in order to illustrate the changing international parameters.

The Austro-Keynesian policy approach was long validated by a successful record: full employment, high rates of growth, low inflation, a stable currency and low budget deficits. Comparatively, Austria's economy performed well during the stagflation period after the first oil crisis - unlike its European neighbors, Austria focused on full employment and expansionary fiscal policy in reaction to the crisis. The commonly agreed upon flexible income policies and moderate claims for wage increase, an exchange rate policy and the consensus-orientation of social partnership enabled to respond relatively successfully to the second oil crisis. Katzenstein (1985) highlighted this policy flexibility - which included compensation of those segments of society negatively affected by the adjustment process - when explaining the superior economic performance of small open economies during the 1970s and 1980s (1985, p. 24-9).²⁰

The external economic shock of the oil crisis and the advent of neoliberalism weakened the paradigm of managed capitalism in most Western democracies. In Austria, the nationalized industries faced a crisis, setting in motion privatization measures. Capital mobility also undermined the focus on full employment and demand management - key features of the Keynesian approach (Pelinka et.al. 1999:28). These international economic developments, in conjunction with rising growth of unemployment and the slower than average European growth

²⁰ Katzenstein (1985) focuses on the conditions of the international economy during the 70s and early 80s: global inflation, explosion in energy prices, prolonged recession, increases in trade rivalries and protectionism, skyrocketing interest rates, etc. (1985, p. 22)

during most of the 1980s, resulted in a reorientation of economic policy away from government led-growth (Guger 2001:67).

The late 1980s and early 1990s ushered in a new era of increased uncertainty - and arguably, one in which international economic changes began to play an increasingly significant role. The fall of the iron curtain changed Austria's geopolitical situation and competitive position within Europe and changed its relationship with its neighbors to the East. The global economic boom and the expansionary effects of German unification created a favorable climate for renewed growth in Austria, though the influx of labor and the rising participation of women in the workplace increased unemployment. While Austria used to offer relatively inexpensive, well-trained labor in the medium-range income bracket, Austria by 2005 had become a high-income nation surrounded by new competitors with significantly lower wages (Aiginger 2005). Yet, numerous developments, for example the restrictive policy of the German Bundesbank²¹ and measures to reduce the public deficit in preparation of economic and monetary union lessened demand and growth during the early 1990s. By 1993, Austrian growth slowed after a currency crisis in 1992 led to devaluation of the Schilling. Growth dropped from 3.5 to 2 percent during the early 1990s, rising again to 2.5 percent in the period between 1997-2001. In 1993, public deficits rose due to discretionary measures such as tax cuts and increased public expenditures. At last, two consolidation packages to fulfill the Maastricht criteria ended a period of slow growth.

Austria entered into a free trade treaty with the then European Economic Community (EEC) in 1972²², and become a formal member until 1995. Though Austria was still doing well comparatively - for example Austria's GDP per capita in 1995 was 12 percent above the EU average and Unemployment rates low compared to its European neighbors²³ - international interdependence, in particular the European Union's Maastricht criteria, spelled out *das Ende der Gemuetlichkeit* ("the end of complacency") (Matis and Stiefel 2004:10). Objective indicators document Austria's increasing economic openness after joining the European Union. For example, Austria's volume of trade equaled 50 percent of its total GDP in the late 1960s,

²¹ coupled with strong appreciation of the *Schilling* with the *Deutsche Mark* in fall of 1992

²² Full membership was not seriously considered at this time. Solsten and McClave (1994) point to the importance of foreign policy in the matter, i.e. Austria's position of neutrality: "Although Kreisky pointed to the possibility of Austria's adopting legislation on its own in coordination with these developments, he stressed that Austria's neutrality would continue to prevent full membership in the EEC unless it were expanded to include all of Europe."

²³ For example, unemployment exceeded 9 percent during the 1990s in Belgium, rose above 10 percent after 2000 in Germany, reached above 12 percent in the late 1990s in France and Italy

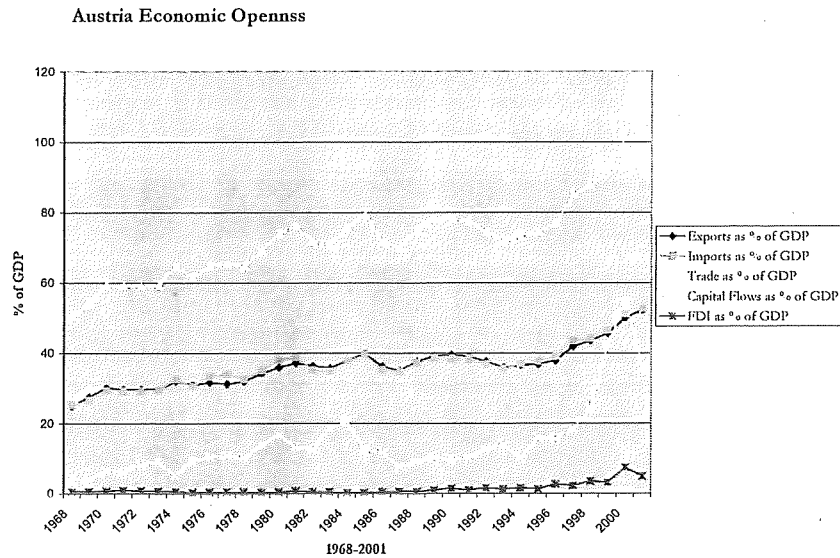
increasing to 105 percent of GDP in the year 2000.²⁴ Austria trades with over 100 countries, but most of Austria's trading partners are European: 71 percent of Austria's trade is within the EU. Exports to Eastern Europe have risen by 600 percent since 1989 (Vranitzky 2004:15). In addition, since its membership in the EU, Austria has increasingly attracted European investors who seek favorable access to markets in central and eastern Europe and the Balkan countries. The share of foreign direct investment did not exceed 7.5 percent in 2000 (from 1.4 percent in 1990). While Austria had been a net recipient of foreign direct investment, in particular of German firms, recently Austrian firms have invested abroad with equal magnitude, in particular in Eastern Europe. European Monetary Union led to increased integration of Austria's economy- especially with Germany's (U.S. Department of State 2005). Most notably, net private capital flows have risen considerably: constituting 3 percent of GDP in the late 1960s, they climbed to 20 percent in 1984 and 55 percent in the year 2000. An alternative measure of capital account openness, Brune's (2004) Financial Openness Index (FOI)²⁵ illustrates the rise in capital mobility even more clearly: on a scale from 1-11 where 11 is the most open, Austria ranked at "1" through the mid 1970s, "2" through the 1980s, "5" in the early 1990s and at "8" thereafter. Foreign direct investment in Austria remained below 1 percent until 1989, thereafter increasingly slightly, reaching a maximum of 6.5 percent in 2001 (Statistics World Bank).

The graph in Figure 1 illustrates the steady rise of trade which has always been high for Austria. In comparison, foreign direct investment began to rise in the late 1980, and capital mobility increased sharply with membership in the European Union.

²⁴ The share of exports and imports being roughly equal

²⁵ based on the IMF AREAR

Figure 1: Austria Economic Openness



Recent years witnessed a slight economic slowdown. Growth fell below 1 percent in 2003, but recovered in 2004 reaching 2 percent and more (U.S. Department of State 2005). The GDP per capita remains one of the highest in Europe, but its former above-average growth is now at a European average of approximately 1.5 percent. Austria remains one of the most important investors in Eastern Europe (Burkert-Dottolo 2005, interview by author). For example, in 2002, 70 percent, or 4 billion Euro, of the total new Austrian foreign investment was invested in East Europe. Economists identify competition from low-income countries as one of the key structural changes to which Austria must adjust, stressing the need for continued economic growth (Aiginger 2005).

5. AUSTRIA'S PARTIES

Parties are the most important actors in the domestic political arena and have played a particularly central role in Austria. This section first presents Austria's party system to illustrate both change and continuity of the parliamentary arena and then explores the effect of increasing economic openness on Austria's major parties' ideological positions.

5.1. The Austrian Party System

Austria utilizes a two-tiered system of party-list proportional representation, with a threshold for representation at 4 percent of the national vote (Siaroff 2000:179). Until the early 1980s, the Austrian system is best described as a *two party system*, though Satori notes that the reoccurring grand coalitions undermine the categorization somewhat (Satori 2005, cited in Pelinka 2005). Since the rise of smaller parties, particularly the Greens and the rise (and split) of the Freedom Party in the mid-1990s, the system has transitioned toward a multi-party system.

In conjunction with the tumultuous interwar experience of extreme polarization and civil war, occupation fostered cooperation between the Austrian parties emerging in Austria's Second Republic. In 1945, the victorious Allies granted licenses to three parties: the Socialist Party Austria²⁶ (*Sozialistische Partei Österreichs, SPÖ*) the conservative People's Party (*Österreichische Volkspartei, ÖVP*) and the Communist Party (*Kommunistische Partei Österreichs, KPÖ*). The Allies denied licensing to a pan-German nationalist group, which however emerged ten years later as the Freedom Party of Austria (*Freiheitliche Partei Österreichs, FPÖ*). The Communists' association with the Soviet Union at the beginning of the cold war undermined their electoral support, leaving the left-wing political spectrum uncontested to the Socialists. The fact that only the two dominant parties remained underscored the pre-war continuity of Austria's party system, and each party extended its influence into its societal "camp"²⁷. The Socialist Party Austria's (SPÖ) and the People's Party (ÖVP) - jointly controlled nearly 90 percent of parliament.

The rise of the smaller parties changed the Austrian political landscape and the tradition of consensus. During the early 1980s, the emergence of two Green Parties ended the Social Democrats' monopoly of the Austrian left. The Social Democrats entered into a short-lived governing coalition with the Freedom Party, which collapsed in 1986 when far-right populist Jörg

²⁶ which changed its name in 1991 to "Social Democratic Party" (*Sozialdemokratische Partei Österreichs*)

²⁷ Austria's society is very "politicized." Social activities such as sports and culture and senior citizen associations are either "red"/social democratic or "black"/conservative.

Haider took over the Freedom's Party's leadership, emphasizing a "populist protest" strategy. In 1987, the Social Democrats and the People's Party formed another grand coalition (Siaroff 2000:181), which lasted until 2000, with a brief break in 1995²⁸. Facilitated by Austria's proportional representation system, the FPÖ experienced a "meteoric rise" during the 1990s (Markovits 1996:19). The Freedom Party more than doubled its traditional vote share in the 1994 national election, reaching 22.5 percent, which effectively ended an era of two-party dominance. In the national election of December 1995, the two major parties combined received only 66.2 percent of the vote. In the 1999 federal elections,²⁹ the ÖVP and FPÖ tied at 26.91 percent, the SPÖ received 33.2 percent and the Green party 7.4 percent.

Most Austrian policy elites do not believe that increasing international interdependence and growing economic globalization are a *direct* cause of the success of the Freedom Party's electoral success. Instead, they point to internal economic challenges such as unemployment (Chaloupek 2005, interview by author) and growing voter dissatisfaction with the ideological similarity of two major parties which were seen as inefficient and even corrupt. For example, during the election campaign of 1994, the Freedom party directed the focus onto the institutional characteristics such as compulsory membership of the chambers and general characteristics of corporatism. However, in a broad sense, international economic developments *contributed* to the decline of the major parties (Einem 2005; Lacina 2005; Hammerer 2005, interviews by author). On a political level, rising budget deficits and the costs associated with EU membership caused political turbulence leading to early election in the fall of 1995. The Freedom party successfully exploited fear of economic insecurity and skepticism towards membership in the European Union, in particular the party drew on popular concerns about the transfer of formerly national decision-making authority from the national to the supranational level (Siaroff 2000: 183; Einem 2005; Mitterlehner 2005, interviews by author).³⁰ Scholars such as Kapstein (1996) have attributed the rise of xenophobia and nationalism - both messages of the Freedom party - to the destabilizing tendencies of globalization.

²⁸ The SPÖ and the ÖVP coalition experienced a standoff over the strategy on how to meet the Maastricht criteria for membership in the European Union, leading the ÖVP to end the coalition, calling for new elections. Surprisingly, the ÖVP increased its vote share slightly (Müller 2004:6). After several month of negotiating, the coalition was reentered (Siaroff 200: 183).

²⁹ Statistics based on the data published by the Comparative Manifesto Research Group

³⁰ The Freedom Party offered "simple" answers rooted in nationalism and xenophobia - to complex problems. Einem (2005, interview by author) explains that Freedom party leader Joerg Haider played the "role of Robin Hood," portraying the large parties not supporting the 'common man.'

Pelinka and Rosenberg (2002) labeled the outcome of the 1999 federal elections a *critical juncture* in Austrian politics. The decreased vote share of the major parties not only signifies a notable *decline of elite and popular consensus* but also illustrates the need for reform and a new era of uncertainty ushered in by membership in the European Union. Formerly stable "old politics of class cleavages" have been replaced by declining partisan ties.³¹ The significant weakening of voter-party attachments and increasingly fluid voting behavior are observable in nearly all industrialized Western democracies, attributable to changes in socio-economic makeup of the electorate (Dalton 2000). Voters' rising levels of education and the growth of the middle classes have rendered the party-voter relationship more complex in recent decades. Voters more frequently base their party choice on their employment in private or public sectors and the importance of single political issues in elections has also risen cross-nationally. Furthermore, party membership in West Europe parties has been declining³² (Katz 2002).

In light of these developments, European integration constitutes one of numerous dynamics contributing to the changing party system (Karl Duffek 2005, interview by author). The 2002 and 2006 reveal stabilized support for the major parties, and major disagreements within the FPÖ resulted in another populist party called Alliance for the Future of Austria (*Bündnis Zukunft Österreich*, BZÖ). Nonetheless, it is clear that the smaller parties have become a significant players in the political arena. Based on Satori's (1976) classification of "relevant parties" - defined as those who have either coalition or blackmail potential - Austria now has a *multiparty system* with increasingly complex coalition dynamics. Conspicuously, the rise of smaller parties has weakened the consensus-oriented political tradition: not only do the smaller parties lack the close institutional ties with the Chambers or the Trade Union Federation, but the Freedom Party has openly criticized the institution of social partnership.

³¹ For a study of the changing relationship between European parties and their voters see Dalton, McAllister and Wattenberg 2002. in Kurt Richard Luther and Ferdinand Müller-Rommel (eds.) 2002. *Political Parties in the New Europe*. Oxford University Press, Oxford

³² despite the decline in membership, the electorates' identity is shaped by ideological affiliations, and radical shifts of parties' programs are likely affect the parties' credibility negatively (Luther and Müller-Rommel).

5. 2. Austria's Major Political Parties: From Consensus to Contention?

This section assesses the impact of an internationalizing economy and EU membership on the economic policy position of the SPÖ and the ÖVP. For example, I examine whether or not the parties has embraced neoliberal policies, whether or not international economic changes have contributed to intra-party tensions and how the party's organizational ties with the social partners have come into play.

5.2.1. Social Democratic Party Austria (*Sozialdemokratische Partei Österreichs - SPÖ*)

The SPÖ has been considered one of the strongest left-wing parties in Europe, rivaled in strength only by the social-democratic parties of the Nordic countries (Garrett 1998:12, Veiden 2001:203). Membership in the SPÖ is high, including approximately 15 percent of Austria's electorate (Luther 1999: 22). Reflecting demographic trends, the proportion of blue-collar workers fell from 40 to 33 percent in the time period between 1950 and the early 1990s, while the number of white-collar workers tripled to 27 per cent.

A Brief History

The Social Democratic Workers Party (*Sozialdemokratische Arbeiterpartei Österreichs, SDAP*) was founded in 1887, competing with the Christian social movement to become the first political mass movement. After universal suffrage was introduced during the 1890s the SDAP gained 23 percent in the 1907 elections, but still did not enjoy *de facto* political influence over the government prior to World War I (Luther 2004:14). Meanwhile, the party benefited from the growing trade union movement and developed an "unparalleled level of organizational density" (Luther 1999: 18). The 1920s and 1930 spelled difficult times for the SDAP. Hyperinflation during the 1920s, high levels of unemployment in the 1930s and the conservative governments deflationary policy (in support of the Gold Standard) critically influenced the Social Democratic economic policy outlook (Veiden 2001:206). Veiden points out that both the SDAP and its German sister party the SPD became the advocates of the parliamentary system, and both parties suffered to a great extent during the 1930s. In Austria, the authoritarian agenda of Christian-socialist Chancellor Dollfuss silenced the parliamentary debate. The subsequent political turmoil erupted into civil war in 1934 (Rathkolb 2005). In 1938, Hitler's army march into Austria and the SDAP was forced to go underground.

Soon after the newly acquired independence and the establishment of the second Austrian Republic in 1945, the Social Democrats were licensed by the allied powers. The party abandoned its revolutionary rhetoric and successfully rebuilt its network of party organizations. To date, the SPÖ enjoys a dense network of auxiliary associations, interest-groups links and close ties to the unions, especially to the Austrian Federal Trade Union (*Österreichischer Gewerkschaftsbund- ÖGB*) and the Chamber of Labor (*Arbeiterkammer*). Both the SPÖ and second major Austrian party, the conservative ÖVP, acknowledged the need for consensus and strong electoral backing, thus the postwar years were characterized by numerous grand coalitions. However, initially the SPÖ was not quick to embrace cooperation with its old conservative rival (Veiden 2006:2007). Sentiments of opposition to cooperation with the ÖVP within the SPÖ declined by the late 1940s, allowing for a stable political climate of grand coalitions until 1966 (Veiden 2001:207)

Though post-war nationalization was pursued largely due to pragmatic reasons, it was in line with a socialist economic agenda of a planned economy. In contrast, in regards to the macro-economy, the SPÖ emphasized *incentives*, not planning. Lauber (1991) claims that by and large the SPÖ had only limited influence on the country's economic direction: "the SPÖ has little influence on economic policy in the 1950s and 1960s. The ÖVP, which was essentially a coalition of farmers, business interests and Christian trade unionists become the largest party and finance and economic policy was mainly to be its responsibility (referenced in Veiden 2001:208).

This changed during the 1970s when the SPÖ left a distinct mark on Austria's economy policy making. Gaining more than 50% of the votes in 1971 the SPÖ under the leadership of Bruno Kreisky ended 4 years of conservative rule and became the strongest social democratic party in Europe. The Kreisky era was characterized by socio-economic changes, such as secularization, de-industrialization, an increase in the service sector and the growing popularity of the women's and the environmental movement. Still in an era of welfare state expansion, Kreisky initiated sweeping reforms to develop and to modernize the welfare state (Luther 1999: 20). For example, the educational and social security system were expanded (Guger 2001: 53). Believing that unemployment can undermine democratic stability and foster radicalism, Kreisky remained focused on the promotion of full employment. This policy was continued successfully after the first oil crisis along with an effort to control inflation through the exchange rate and to uphold international competitiveness via incomes policy. In comparison, other industrialized countries focused on fighting inflation and on restrictive monetarist policies (Guger 2001:54).

Following the second oil crisis, while in a coalition with the FPÖ (1983-7), the SPÖ was only moderately successful in curbing with rising economic problems. Electorally, the party was weakened by allegations of financial impropriety. Guger argues that the SPÖ lost public support for straying from Austro-Keynesianism and espousing anti-state ideologies such as proposed a tax at source on interest revenues in order to bolster the budget (2001: 66). Furthermore, the party *highlighted the need for international competitiveness*, as a reason to moderate its commitment to full employment (Luther 1999: 27). Both the left wing of the party led by Ferdinand Lacina, and the right wing led by Franz Vranitzky, implemented step-by step privatization (Pelinka 2006, interview by author). Pointing to structural constraints, Ferdinand Lacina explains that denationalization of industry was an "acknowledgement of political realities after the oil crisis" rather than indicative of an ideological shift (2005, interview by author).

The 1990s: Neoliberal Currents and Intra-Party Tension

The SPÖ -ÖVP coalition government maintained the strong currency option, moderate incomes policy, and reduced its emphasis on full employment at the expense of less expansion and budget consolidation (Guger 2001: 67). Together, the parties embarked on a program of privatization, for example of formerly state-run enterprises such as Telekom Austria, Austrian Airlines and Austrian Tabak (Luther 1999: 29). The SPÖ's change of name from "Socialist Party Austria" to "Social Democratic Party Austria," symbolized the party's transition from a counter-culture to an establishment party which, according to Luther, resulted in a loss support from post-materialist middle class voters and discontent blue-collar workers (Luther, 1999:20). Tensions between the ÖVP and the SPÖ arose regarding the types of austerity policies to pursue, prompting the ÖVP to call for new elections. These resulted in a vote gain for the SPÖ, which became the lead party in a new grand coalition. The SPÖ continued the reform course. In light of the Maastricht agreement, the SPÖ agreed to "the most stringent austerity plan in recent Austrian history" (Huber and Stephens 2001:276) aiming to reduce budget deficit by 2 percentage points, from 5 to 3 percent, within two years. The measures included increase in taxation and cuts in spending, for example on personnel in public sector, reduction of transfer payments (e.g. pensions and child allowances) and raising the retirement age (OECD 1997, referenced in Huber and Stephens 2001:276). In respect to its policies, Pelinka et.al. argue that the emphasis on budget consolidation constitutes *the key difference* between the policy approach of the 1990s and the 1970s (1999:30).

From a comparative perspective, the social democratic rightward shift during the 1990s was not uncommon. The French left temporarily abandoned their commitment to Keynesianism during this time, embracing the neoliberal parameters of European Monetary Union. French Premier Chirac entered office in 1995 with a anti- *désinflation compétitive* agenda, opposing Maastricht, yet embraced European integration quickly thereafter. Why? Some point to the "historical weight" - the perceived obligation to support the project of an integrated Europe traditionally championed by France - on the shoulders of policymakers. The EMU was designed according to a neoliberal plan, and forces governments to bring their economic policies into conformity (Lordon, 2001, p. 137). Notermans (2001) highlights complex reasons and political motivations (vs. economic consideration) to explain the arguably puzzling support of EMU by social democratic parties. In comparison to membership in the EU, membership in the European Monetary Union (EMU) was almost a "foregone conclusion," despite large-scale opposition in the electorate. In comparison, EMU membership was opposed by social democratic parties in Spain, Finland, Italy and, less adamantly, in France and Germany (Notermans 2001:3-4).

The SPÖ's policy direction during the 1990s illustrates not only systemic constraints arising from EU integration, but also the *elite-driven character of Austrian politics*. The organizational structure of the SPÖ is more centralized, less fractionalized and characterized by higher degree of party discipline than the ÖVP. Müller et.al. (1996) argue that change in intra-party decision-processes during mid 1990s away from intra-party democracy towards greater influence the party leadership. Chancellor Frantz Vranitzky was more inclined than the party base to pursue changes in respect to nationalization and taxation (Müller et.al. 1996:96), leading to intra-party tension (Duffek 2005, interview by author). Though it was was *ein mühsamer Prozess* ("a cumbersome process"), Vranitzky convinced the skeptical wing of the SPÖ party base to espouse EU membership (Caspar Einem 2005, interview by author). Vranitzky lobbied actively within his party but also with the SPÖ electorate which eventually supported membership with 73% in favor in a popular referendum (compared to 66.4 percent of the overall electorate) (Plasser et.al. 1995, referenced in Veiden 2001:210). Subsequently, pointing to benefits such as economic

growth, employment and lower consumer prices (Veiden 2001:210), the SPÖ favored membership, even more strongly than the ÖVP.³³

The policies of the SPÖ during the 1990s confirm Przeworski's (2001) theories about right-shifting policy regimes (2001:325). Przeworski writes, "with the rise of neoliberalism, social democrats are faced with the choice of continuing remedial social policies or adopt neoliberal prescriptions." The 1998 program stated the party sought to redistribute wealth in a market economy rather than aspiring to 'overcome' capitalism and strive for a classless society. Luther argues that the 1998 programs constitutes a "radical departure from the SPÖ's traditionally radical rhetoric," resulting in a loss of popularity with the unions and the youthful leftwing of the party (Luther 1999: 29). SPÖ executive member Caspar Einem, too, remembers strong tendencies towards neoliberalism in the party during the 1990s. In particular, the election program of 1997-8, written in a "top down" fashion by a relatively small number of party members sparked an unexpected intense programmatic discussion in the party.

Importantly, the intra-party programmatic debate included a consideration to re-define the party's close relationship with the unions, which some party members viewed as burdensome. While the program eventually included the unions, but debate of the party's electoral orientation continued until 2000. Similarly, some party members proposed to do away with the close association with the working class and the underprivileged to pursue a more broad-based electoral appeal. However, Einem explains that the party then reflected on its purpose and its long-established electoral base, and decided to *re-focused on a more traditional direction* (Einem 2005, interview by author). This move supports assumptions about limited ideological flexibility due to close links with unions and a working-class appeal as explained in Przeworski and Sprague (1986) - especially since the party was in power at the time.

The Party in Opposition

Since 2000, during its time in opposition, the policy priorities of the SPÖ cemented a move towards traditional social-democratic policies, apparently without major dissent in the party. SPÖ speaker for economic Affairs Johann Moser emphasizes that ideologically the party is currently relatively homogenous, focusing on a "pragmatic approach." (2006, interview by

³³ Two reasons contribute to this outcome: for one, though the ÖVP strongly endorsed EU membership, the agricultural wing of the ÖVP electorate remained skeptical. In addition, the unions (associated with the SPÖ) supported EU membership a (Veiden, 2001).

author). As their policy priorities, policy actors emphasized active labor market policies, full employment, redistribution and maintenance of social security systems. SPÖ legislator Manfred Lackner believes the SPÖ was “not on the right path” during the 1990s, resulting in loss of vote share. In comparison, the party’s re-orientation and its integration of popular demands for greater economic security have been reinforced by the parties’ rise in electoral support in recent years. Lackner believes the SPÖ’s traditional values have shielded it from experiencing a crisis like the German social democrats (Lackner, interview by author 2005). Considering the influence of policy paradigms, it is clear that neoliberalism has *not* taken root as the dominant policy paradigm of the SPÖ.

The left-ward swing during times in opposition clearly delineates the Social Democrats’ position from its primary competitor, the ÖVP, which has embarked on an extensive reform project of welfare retrenchment during the past 6 years (Tálos 2005). In addition, assessing the party’s recent leftward orientation, numerous policy actors (Duffek 2006; Lacina 2005, interviews by author) as well as Austria’s leading political scientist Anton Pelinka emphasize the gap between political rhetoric and political practice (Pelinka 2005, interview by author). Ferdinand Lacina admits that the party in opposition has greater leeway to distance itself from neoliberalism and believes at times the left-leaning position is exaggerated. For example, he believes that the comparison of the Vienna mayor to German Left Party leader Oskar Lafontaine is not founded (Ferdinand Lacina 2005, interview by author). A moderate view of globalization has also been expressed by SPÖ leader Alfred Gusenbauer in May 2005, when he distanced itself from a statement of German SPD leader Franz Müntefering who likened large multinational corporations to “locust” and “tumors of capitalism” which exploit Germany. In response, SPÖ leader Gusenbauer emphasized that industry may not be “bedeviled” (SPÖ, May 2005). While the party’s emphasis on more traditional Keynesian-style policies is arguably stronger in rhetoric and facilitated by the party’s role as the opposition party (Kitschelt 1994), the SPÖ’s leftward move nonetheless clearly *belies arguments about inevitable neoliberal policy convergence*, as neoliberalism has not become the Social Democrats’ dominant policy regime.

Policy Actors’ Perceptions Regarding the Party’s Policy Course

Clearly, the party’s policies of the 1980s and 1990s indicate *systemic constraints* stemming from a global economy and from EU parameters. EU membership had still been explicitly opposed in the party’s 1978 program thus the party’s endorsement of European Union

membership indicated a clear change, linked to the threat of investors exiting Austria (Duffek 2005; Lacina 2005, interviews by author). However, most SPÖ policy elites do *not* consider the policy direction of the 1990s an ideological re-orientation. Instead, they attribute the policies to the influence of the conservative coalition partner and the arising pressure of the FPÖ (anonymous 2005; Moser 2005, interviews by author). This emphasis on pragmatism (vs. changes in ideological conviction) and the SPÖ's recent leftward move support Penning's (1999) argument that the neoliberal directions pursued by many European left-wing parties in the 1990s are not indicative of irreversible neoliberal ideologies. However, some elements of "Third Way" politics, for example the view of 'no rights without responsibilities' seem to have been internalized by the party. Director of the SPÖ Renner Institute Duffek emphasized that in the realm of social policy, a shift in conception of the role of the state has occurred: the state is no longer seen as being able to shield its citizen from economic risk and the notion of individual responsibility has risen (Duffek 2005, interview by author).

The Influence of Globalization and Economic Integration - Policy Actors' Assessments

Members of the Social Democratic party interviewed almost unanimously agreed that globalization poses a challenge to the welfare state. In comparison, EU membership is perceived as largely positive, but the EU's current policy direction was frequently criticized. For example, the EU's emphasis on liberalization challenges the party's emphasis of fair competition, and the public service directive (*Dienstrichtungslinie*) is regarded potentially troubling. Furthermore, SPÖ policy actors stressed that many EU policies do not entail the social component sufficiently and thereby account for EU skepticism in the electorate (e.g. Hannes Bauer 2005, interviews by author).

Thus, SPÖ policy actors almost unanimously favored greater involvement of the EU in social policies. Many stressed both the need for *change of policy direction at the EU level*, the potential for the EU to counteract negative effects of the global economy and the need for increased focus on social policies. In response to these concerns, the party published a "European Economic Program" in 2005, which emphasizes, "Europe has great chances for growth. These can be utilized if Europe frees itself from the ties of neoliberalism" (2005 p. 3). In addition, the program refers to the perceived shortcomings of EU social policies which are also emphasized in the current electoral program of the party (Duffek 2006, interview by author). Thus, the party points to the importance of systemic constraints, which illustrates their continued relevance. At the

same time, in search for policy solutions, the party points to European level politics, which, according to Ladrech (2000:16) characterizes numerous European social democratic parties.

The Party's Relationship with its Voters: Policy Actors' Perceptions

Most policy actors interviewed agreed the internationalization of the economy affected the party's relationship with its voters. In accord with Heywood et.al.'s (2002) argument about a dilemma stemming from systemic constraints and electoral demands, numerous policy elites expressed concern that voters do not understand the policy dynamics at the international level and that their demands exceeded the problem-solving capacity of the party (e.g. Silhavy 2005; Bauer 2005; interviews by author). Thus, the party needs to come to terms with the fact that there are not "easy solutions" - such as leaving the EU - and that the complexity has led to charges that the party fails to take a clear position. Similarly, Karl Duffek believes a dilemma arises because the Social Democratic Party is more EU oriented than its electorate, for example on views related to immigration (2005, interview by author).

SPÖ's Relationship with the Social Partners

Since the intra-party debate to reconsider the relationship with the unions in the late 1990s, the relationship between the SPÖ and the social partners has stabilized.

5.3.2. The Austrian People's Party

The ÖVP has been a major player in Austrian politics ever since its inception. The ÖVP's electorate include business, agriculture and Catholics (Siaroff 2000: 180), indicating a multi-class electoral base typical for Christian Democratic parties. The interests of business and agriculture enjoy special representation within the party. Since 2000, the party has been in government, introducing significant welfare state reforms. On matters of international integration, the ÖVP has been labeled the "engine" of Austria's membership in the European Union (Pelinka 2005).

A Brief History

The Austrian People's Party (*Österreichische Volkspartei, ÖVP*) was founded immediately following the reestablishment of the Federal Republic of Austria in 1945. The party succeeded

the pre-World War II Christian Social Party which dates back to 1893 Christian Social Party³⁴ (Kalyvas 1996). The party perceived itself as a catch-all, non-socialist party with various conservative currents: Christian social doctrine, conservatism and liberalism, with the former dominating the party's image. Classical state conservatism has had only limited influence. Religious tendencies, such as Catholicism, manifest themselves as a component of a social reformism in the economic goals of the party (Müller 1988: 99)³⁵. Like the German Christian Democratic Party (CDU), the ÖVP has traditionally been committed to social market economy (Soziale Marktwirtschaft).

On the federal level, the ÖVP was the strongest party between 1945 and 1970. In 1966, it formed a single government, but lost its majority in 1970 to the Social Democrats. It remained in opposition until 1987 (Müller 1988:98). Its relatively weak performance during the 1970s has been attributed to the party's failure to advance a comprehensive economic program. Mueller explains that the party was preoccupied with pragmatism, e.g. pragmatic intervention and government regulation serving the ÖVP core groups, such as agricultural subsidies (Müller 1988). While diverging ideological positions within the ÖVP seldom surfaced some ideological differences emerged between the party's leadership and the party base. The party elite focused on modern conservatism found among German and Scandinavian parties, shying away from a conservative label which might be mistaken for "reactionary." Meanwhile, the party's base favored conservative Catholicism. In accord with a degree with ideological indeterminacy characteristic of Christian-Democratic family ((Kersbergen 1995), the ÖVP moved away and then back to conservatism during the 1970s. For instance, the 1972 "Salzburg Program" in part reflected the position of the party's business wing and in other parts those of the Workers' and Employees' League. In addition, it stressed the need for industrial adjustment, redistribution of income and "even discussed the alienation of work within the industrial mode of production" (Müller 1988:106). Meanwhile, the party unsuccessfully struggled with reforming its international organization and leadership.³⁶ In the process, the party failed to communicate a clear alternative to the economic policies of its competitors to its electorate (Aiginger 1985).

³⁴ The shedding of the confessional label after the war was supposed to remove the negative authoritarian sentiments of the Austrian Christian Party and indicate a commitment to parliamentary democracy (Müller 1988:98).

³⁵ The party is considered to belong to the Christian-Democratic party family based on the coding of the Comparative Manifesto Project (Budge et.al. 2001).

³⁶ Compared to the SPÖ, the ÖVP's electorate is more heterogeneous. Three socio-economic leagues (*Bünde*), organizing blue and white-collar workers (ÖAAB), farmers (ÖBB) and businessmen (ÖWB) are represented in to

The party distanced itself from Keynesianism and moved distinctly to the right during the 1980s (Müller 1988:103). While Austria's economic performance worsened, the ÖVP strove to present itself as the superior choice in national macroeconomic management and began to advocate that continuous state intervention had been partially responsible for the economic crisis (Chaloupek 1985). Its 1985 and 1986 electoral manifesto clearly called for increased privatization and lower income taxes (Müller et.al. 1996:95-6). The party shifted their focus away from nationalized industries and multinational corporations to smaller and mid-sized businesses. Advocating deregulation, spending cuts, privatization and tax reform, the ÖVP policy program of the mid 1980s contains neo-conservative themes reminiscent of - but moderate in comparison to - their conservative counterparts in the US, Great Britain and Germany (Müller 1988:110-1). The ÖVP's strategy was successful inasmuch as the federal elections of 1983 resulted in an increase of its electoral share - 43.2 percent - for the first time since 1966. During this election, the SPÖ lost its majority and entered into a governing coalition with the Freedom Party (FPÖ). Steering toward neoliberalism (Müller 1988:111) the ÖVP made electoral gains in various elections held in Austria's provinces. In concert, this development *increased the difference* between the ÖVP and the SPÖ, which at the time, also began to move rightwards, but less decisively so.

When the election of Jörg Haider as FPÖ party Chairman ended the coalition SPÖ -FPÖ coalition, the two SPÖ and the ÖVP entered into another grand coalition - once again with relatively similar platforms - which lasted until 2000. During this time, the EU Maastricht convergence criteria prompted consolidation of Austria's budget and sparked numerous reforms, as discussed in the previous section.

In Government since 2000: Welfare State Reform

After the election in 2000, the ÖVP entered a coalition with the Freedom Party (*Freiheitliche Partei Österreichs - FPÖ*). Under the Chancellorship of Schüssel, the ÖVP pursued policies associated with welfare state retrenchment. For example, the parties embarked on a privatization program, and introduced higher taxation and cuts in welfare benefits (Luther 2001:10). The program issued by the government in 2000 (*Regierungsprogramm*) reflects an increased emphasis on the market and has paid less attention to the social partners (Guger 2001:78). It explicitly references a residual role the state in social policy: "modern social policy

party. In addition, power in the ÖVP is also more geographically decentralized than the SPÖ, as the state-level party organizations exert much influence (Müller et.al. 1996).

needs to balance the tension between freedom and responsibility....A new work division between state and private social responsibilities" (ÖVP government program 2000:18, referenced in Tálós 2005:59). A speech by the party's finance minister Grasser in 2000 calls for a "lean state" (referenced in Tálós 2005:59). Policies affecting social service provision included a transfer of competencies from the social ministry to the ministry of economy and labor in 2000. Changes in labor laws involving less generous parameters in 2000 and pension reforms in 2000, 2003 and 2004 (Guger 2001:78; Tálós 2005:85). ÖVP continued its reform course of deregulation and structural changes after its reelection in 2002. The policy actors interviewed stressed *deregulation, privatization and liberalization, reduction of deficit* as the party's policy priorities (Pichl 2005; Fasslabend 2005; interview by author). Importantly, most stated that the party policy course was due to *pragmatic* adjustments, indicative of *external constraints* imposed by the Maastricht criteria rather than of an *ideological* shift of the party. (Spindelegger 2005; Mitterlehner 2005; interviews by author).

The party's reform course is clearly motivated by international economic constraints. Legislator Ferdinand Maier considers the 2005 tax reform as an important in reducing the tax burden of businesses and part of an effort to make Austria an attractive investment location (Maier 2005, interview by author). Similarly, Gerhard Hammerer believes that EU membership and opening of the East European market now show increasing effect and that the 2005 tax reform was sought in response to the pressures of globalization (Hammerer 2005, interview by author). In addition, the 2006 electoral program asserts "We pursue an eco-social market economy.... We give clear answers to the challenge of globalization." Furthermore, the party states as one of its goal the "continuation of the successful policies of privatization" (ÖVP Electoral Program 2006).

Decline of Consensus: Intra-party Dynamics and Relationships with the Social Partners

Both the FPÖ's participation in government and the market-oriented reforms led to a decline of consensus in Austrian politics. In 2000, the ÖVP's policy course had strained relationship with those social partners associated with the SPÖ (Chamber of Labor and the union). The government suggested to lower the tax-based contributions to the Chamber of Labor in 2000, which a member of the Chamber of Labor considered a "serious effort to intimidate" the Chamber of Labor (Chaloupek 2005, interview by author). Meanwhile, business and entrepreneurs have benefited from lower taxation and reduced contribution to social security

(Guger 2001:78) and the influence of the Austrian Federation of Industrialists³⁷ has risen (Chaloupek 2006, interview by author). Guger (2001) believes that these developments are indicative of an important institutional change and an attempt to confine social partnership to labor relations and incomes policy (Guger 2001:78).

In particular the 2003 pension reform sparked conflict with the unions and illustrates both the limits of the social partners' influence and the resilience of the institutional structure. Austria's president, Thomas Klestil, made an unsuccessful attempt to facilitate negotiations between the parties and the social partners. The unions mobilized large-scale street protests (with half to one million people attending) and two major strikes, which were significant considering Austria's tradition of social peace (Busemeyer 2005:578). While the government is required to listen to the statements of the social partners (within the formal process of the "*Begutachtungsverfahren*" preceding the introduction of a bill), the constitutional powers of the government grant only "informal" veto power to the social partners. Referring to the guidelines *mehr privat, weniger Staat* ("more private enterprise, less state") the Schüssel government was able to disregard the unions' protests and to push through its reforms (Busemeyer 2005:579). The president of the ÖGB, Franz Verzetnitsch, while opposed to the pension reform, did not reject further negotiations with the government, thus informal talks between the government and the unions about further pension reforms continued. Busemeyer concludes, "[t]he Austrian system of consensual policy-making seems to be able to withstand periods of conflictual policy-making without sacrificing the whole system altogether" (2005:580).

The chancellor's ambitious reform plans also led to intra-party disagreements and conflict with the FPÖ coalition partner. Within the ÖVP, member of the ÖVP fraction in parliament and head of the powerful Union of Public Employees, Fritz Neugebauer, and the president of the Economics Chamber and member of the ÖVP, Christoph Leitl, criticized the departure from decades of stability and Austria's system of consensus with the social partners (Busemeyer 2005:580). In addition, some ÖVP member criticized the speed with which reform has been pursued (Hammerer 2005, interview by author). Furthermore, while the liberal wing of the party endorses deregulatory EU legislation such as the Public Service Directive (*EU Dienstrichtungslinie*),

³⁷ The Austrian Federation of Industrialists has approximately 4,000 members, employees, who represent a workforce of more than 400,000 (US Chamber of Commerce). Unlike the Chamber of Economy, the Federation of Industrialists represent predominantly large businesses. As an association independent is not a "social partner." The Federation of Industrialists has strongly favored membership in the EU (Christian Friel 2005, interview by author).

the socially oriented wing of the party views it with "considerable discomfort" (Baumgartner-Gabitzer 2005, interview by author).

In addition, the FPÖ coalition partner has slowed reform efforts. In regards to the contentious 2003 pension reform, the FPÖ attempted to halt the reform. It demanded a public referendum, numerous FPÖ parliamentary members revolted against the reform, and FPÖ Minister for Social Affairs Herbert Haupt engaged in lengthy negotiations with the chancellor. Busemeyer believes that the FPÖ's strategy limited the scope of reform, but did not seriously endanger Chancellor Schüssel's strategy of 'pushing through' (Busemeyer 2005: 578-80).

To date, the ÖVP has moderated its position regarding social partnership and the 2002 program calls for a "strong social partnership". ÖVP legislator and General Secretary of the Chamber of Economy Reinhold Mitterlehner explains that the party re-focused on the social partners because the Austrian electorate had begun to feel insecure. Nonetheless, the social partnership has lost some of its influence, which several members of the ÖVP as well as SPÖ legislators consider advantageous (e.g. Ferdinand Maier 2005, interview by author).

The Influence of Globalization and Economic Integration - Policy Actors' Assessments

While some policy actors considered the effects of the globalizing economy as a positive development, most agreed that globalization poses a challenge to the Austrian welfare state (e.g. Ridi Steibl 2005, interview by author). In comparison, the effects of European integration are generally perceived as positive by the policy actors interviewed, and by the party at large³⁸. While the economic policies are presented as *pragmatic* adjustments to changing systemic conditions, several ÖVP legislators disagreed with the assumption that the party *changed* its ideological policy direction due to globalization. Instead, they emphasize that governing without the SPÖ has *enabled the ÖVP to implement its long-held policy preferences* (such as decreasing the role of government in the economy, privatization and liberalization) (Baumgartner-Gabitzer 2005 and Werner Fasslabend 2005, interviews by author). Hammerer emphasized the reform of the welfare state *is* a policy priority of the party but rebutted "neoliberal"³⁹ tendencies of ÖVP politics, considering

³⁸ Indeed, the Austrian Parliament ratified the European Union's constitution. The document can be regarded a symbolism of support for increased European integration and emerged as a contested issue in numerous European countries, most notably in France

³⁹ The interviews with policy actors (eg. Maier 2005; Pichl 2005; Spindelegger 2005) made apparent that the word "neoliberal" had a negative connotation and generally avoided. In comparison, "neoclassical" was more acceptable. This paper employs the term "neoliberal" as used in the academic literature.

the comparatively high expenditures associated with Austria's social market economy and the comparatively highly regulatory climate (Gerhard Hammerer, ÖVP Vienna).

The policy actors interviewed did not favor an increased involvement of the EU in social policies. Most ÖVP policy actors expressed skepticism, favoring national policy competence (e.g. Hammerer 2005; Mitterlehner 2005, interviews by author) or emphasized that EU regulatory functions are already extensive (Maier 2005, interview by author).

Relationship with Voters: Policy Actors' Assessments

Have international economic developments impacted the ÖVP's relationship with its voters? Most policy actors interviewed answered in the affirmative. As the case with the Social Democratic party, numerous ÖVP policy actors believe that voters expect more from Austria's parties than they might be able to deliver, not fully grasping the influence of supranational policies (Fasslabend 2005, interview by author). They believe that most citizens mostly see the risk, not the possibilities, associated with globalization, in particular the new competition which small and medium-sized business have to face. As a consequence, voters see globalization as posing a threat, overlooking the potential for growth. Both feelings of insecurity and rising complexity of politics necessitate improved communication with the electorate (Baumgartner-Gabitzer 2005; Pichl 2005; interviews by author). The relationship with the electorate towards European Union affairs is ambivalent. On the one hand, low voter turnout for elections to European Parliament reveal lack of involvement in European affairs (Baumgartner-Gabitzer 2005, interview by author). On the other hand, the importance of European issues is gaining increasing attention in the national media. For example, while EU membership was decided by a popular referendum, the issue of an EU constitution was decided in Parliament which sparked negative press in the widely circulated *Die Kronen* newspaper.

In regards to market-oriented reforms, ÖVP policy actors acknowledge that the reform policies *create a dilemma*, as the electorate tends to perceive welfare reforms (such as privatization raising the retirement age) as negative (Hammerer 2005; Steibl 2005, interviews by author). Concretely, this means that at times the ÖVP felt compelled to delay certain desired reforms, for example privatization of the postal service (Hammerer 2005, interviews by author).

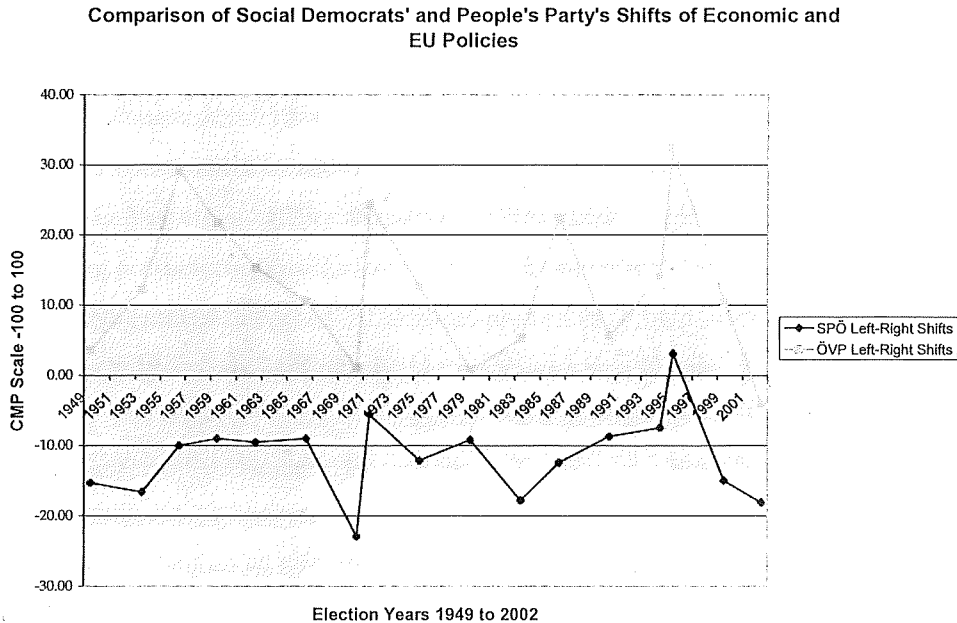
5.2.3. Comparing the Policy Programs of the Major Parties and Inter-Party Relations: Neoliberal Convergence or Polarization?

In this section, I compare various policy positions of the Social Democrat's and People Party's over time, as coded by the Comparative Manifesto Project (CMP)⁴⁰. The central issue is the ideological similarity of the parties' economic policy proposals. Investigating the argument that the consensus which characterized Austro-Keynesianism and the relationship between the partners, I also briefly report policy actors' views on inter-party relations.

5.3.3. A. Comparing Party Positions

The graphs in Figure 3 the SPÖ's and ÖVP's economic policy positions and positions on the European Union from the election in 1949 to 2002.

Figure 2: Comparison of Social Democrat's and People's Party Shifts on Economic Policy Proposals and Reference to the European Union



⁴⁰ See Appendix 2 for more detail

Interpreting the programmatic fluctuations of the ÖVP, the graph reveals that the party's policy shifts over time are frequent and significant: on the 200 point CMP scale, the party shifts from a point of at least 25 to the center nearly 6 times. In 1971 and 1979, the ÖVP takes centrist positions, in accord with Müller's (1988) argument that the economic policy program of the ÖVP was not clearly defined at the time. The ÖVP's most rightward positions are in 1957 (30), trumped slightly by the position in 1995 (32). In comparison, the SPÖ policy positions fluctuate less. The SPÖ reaches its most leftward position in 1971 at -22, and its most rightward position in 1995 where the party moves the party into the center-right, to 5/200. The graph matches the qualitative account of relative ideological stability of the party, the leftward shift during the Kreisky era in the early 1970s and the movement rightwards beginning in the 1980s, towards unprecedented rightward position in the mid 1990s. Importantly, the graphs reveal that the parties *generally keep their distance*⁴¹, thereby contradicting predicting of (neoliberal) policy convergence and supporting arguments made by Volken (2004)⁴². One idiosyncrasy concerns the ÖVP's move *leftwards* after 1997 and its center-left position in 2002. This leftward move contradicts the accounts of its market-oriented reform course and must be considered an anomaly. Because the ÖVP's position after 1999 influences the conclusions reached about convergence, this issue will be addressed in detail in Appendix 3.

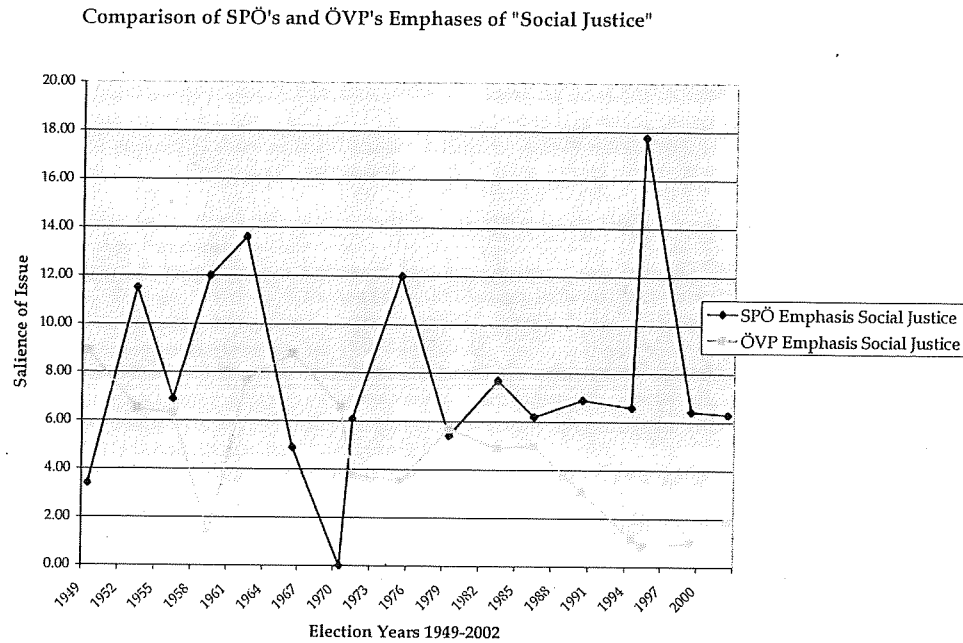
What about the parties' position on social issues? Figure 5 depicts the comparison of the degree to which parties' have emphasized the concept "Social Justice."⁴³

⁴¹ More clearly so compared to the parties general left-right position (including all policy domains) which is not picture here. The general left-right positions reveals that the People's Party crosses over into the left ideological spectrum during the early 1980s, "leapfrogging" the Social Democrats. The Social Democrats cross well into the right spectrum in the mid 1990s. Results available from author upon request.

⁴² This holds also true when comparing the party's positions on all policy domains, though not as obvious and with one exception in the early 1980s when the People's Party crosses into the leftwing spectrum and "leapfrogs" to take a position more leftward than the Social Democratic party.

⁴³ Defined as "Concept of equality; need for fair treatment of all people; special protection for underprivileged; need for fair distribution of resources; removal of class barriers; end of discrimination such as racial or sexual discrimination, etc ." (Budge et.al. 2001)

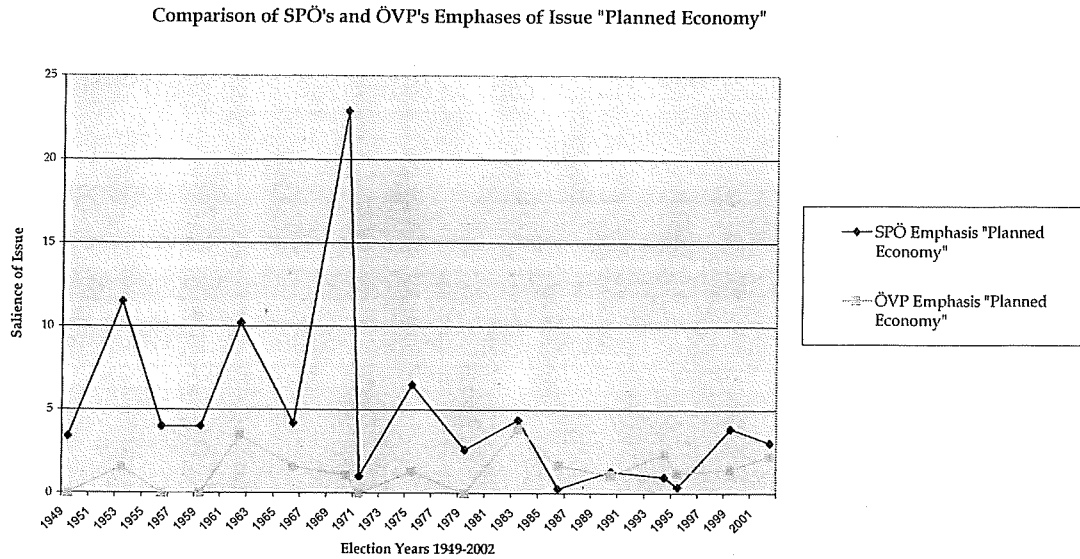
Figure 3: Comparison of Social Democrat's and People's Party Reference to Social Justice



The graph reveals that the two party's emphasized the concept of social justice at comparable degrees until 1982. The ÖVP's decline of emphasis of the concept of social justice began in 1967, and has been on steady decline since 1979. The SPÖ's emphasis is relatively steady prior to 1994, with the exception of the electoral program of 1970, in which the concept was not mentioned at all. In 1997, social justice was heavily emphasized - *precisely at a time when the party's economic policy moved rightwards*. As a general trend, *polarization* can be observed since the 1967 programs.

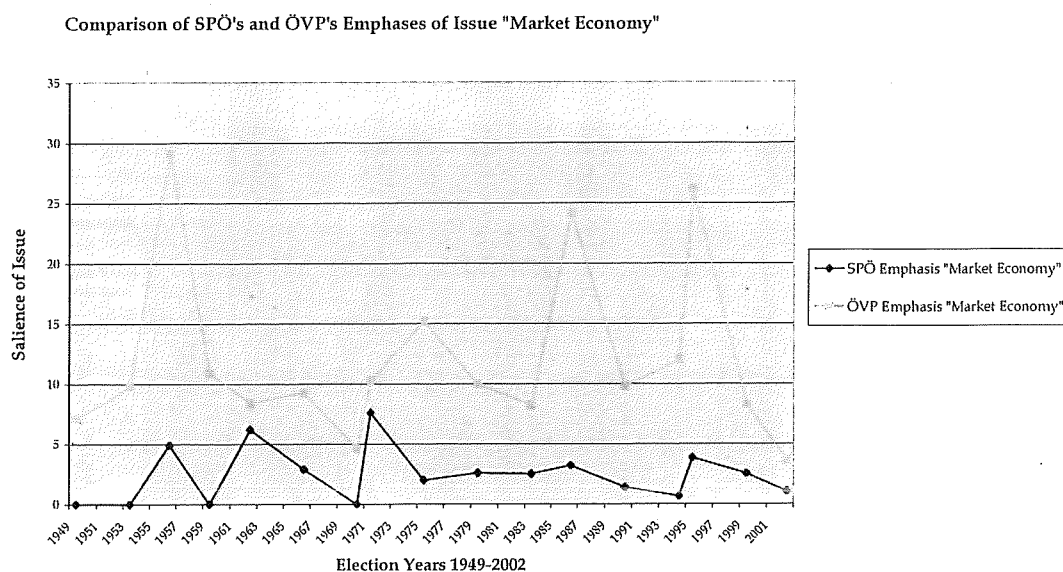
Lastly, I consider the parties' emphases of the concepts "Planned Economy" and "Market Economy" in Figure 6 and 7. The graphs reveal a decrease of reference to "Planned Economy" by the SPÖ, as to be expected considering that de-nationalization has been pursued since the 1980s. At the height of privatization, the party nearly mentions at all, but is it subsequently reintroduced in 1995. In comparison, the ÖVP does not refer to the concept of central planning strongly, with the exception of the early 1980s, which is consistent with Mueller's account of the parties' ideological volatility at the time.

Figure 4: Comparison of Social Democrats and Peoples' Party's Emphases of Planned Economy



In comparison, the graphs depicting the salience of the concept "Market economy" in Figure 7 illustrate again the ideological similarity between the parties in the early 1970s. They also reveals that the SPÖ emphasized the concept of market economy relatively strongly in the early 1970s, which is somewhat surprising (but not to be overanalyzed since the reference is barely greater than the one of the lowest points of the reference of the ÖVP). The ÖVP's rightward swing in the 1980s and 1990s is reflected by the relatively strong emphasis of "market economy." Again, curiously, the graph reveals the ÖVP's de-emphasis of the concept after 1997, which, as it center-left position in Figure 3, does not seem to match its policies (and is further discussed in Appendix 3).

Figure 5: Comparison of Social Democrats and Peoples' Party's Emphases of Market Economy



In summary, the electoral programs of the two parties do *not* suggest convergence. Parties keep their distance and there is *some evidence of polarization* - especially when assuming that ÖVP's position after 1999 is further right than the CMP data suggests.

Inter-Party Relations: Policy Actors' Perceptions

How do policy actors perceive the relationship to their major opponent? The interviews with policy actors reveal that a majority indeed considered the policy distance of the two parties to have increased (e.g. Baumgarnter-Gabitzer 2005, Burkert-Dottolo 2005; Chaloupek 2005; Hammer 2005; Maier 2005) and that polarization has taken place (Pichl 2005). The responses differed by party in respect to which party was assumed to have moved further away from the center: most ÖVP members suggested that the SPÖ moved leftward during its time in opposition, while SPÖ member attributed increasing polarization to a rightward move of the ÖVP.

In respect to the effects of the perceived ideological polarization, a majority of the policy actors indicated that they believe politics had become more conflict-ridden in recent years. ÖVP legislator and General Secretary of the Chamber of Economy Reinhold Mitterlehner identifies the specific sources of the conflict, stating "economic changes have certainly contributed to a more conflict-ridden relationship between the two parties. The SPÖ favors maintaining full

employment and state-led investments, while the ÖVP favor deregulation and structural reform” (interview by author 2005). Werner Fasslabend believes that globalization and European integration have not necessarily rendered the inter-party relations more conflict ridden, but have increased the importance of *ideology*, even on an international level.⁴⁴ Fasslabend believes this development further delineates two distinct ideological camps (2005, interview by author).

Few policy actors, for example SPÖ legislator Manfred Lackner, believe the parties' programs are not very far apart. At the same time, Lackner believes the parties differ significantly on their view of tax reform and he feels that the ÖVP's current politics stray from their program. Likewise, Karl Duffek of the SPÖ believes that the parties have not really moved further apart than they have previously been. Stressing the differences between policy programs and political reality, Duffek suggests that party *rhetoric* - greater emphasis on neoliberalism on behalf of ÖVP and greater emphasis of state intervention on behalf of the SPÖ - might mask the potential for a grand coalition. He believes that the *interests of the various interest groups might have changed*, but not the basic constellation (interview by author 2005).

6. CONCLUSION

This paper presented an analysis of the effects of an internationalizing economy on Austria's major parties' economic policy programs. Furthermore, the effects of systemic economic pressures on intra-party dynamics, inter-party dynamics and on the relationships between the parties' and their voters were considered. Lastly, the analysis considers the influence of Austria's corporatist institutions.

The paper forwards five central findings. First, systemic constraints stemming from economic globalization and membership in the European Union in the 1990s have resulted in significant changes of Austria's national-level politics. While Austria's relatively small economy has traditionally adjusted well to open markets (Katzenstein 1985), the economic internationalization associated with membership in the European Union resulted in an upsurge of neoliberal ideologies, indicating a *rightwards shifting policy regime* during the 1990s. Since 2000, further welfare state reforms were introduced by the center-right government and have

⁴⁴ Fasslabend stresses that European, Latin American and Asian conservative/Christian democratic parties are increasingly interested in mutual exchange, for example at the IPU (Interparliamentary Union). While international labor movements have been active for a long time, this development for the conservative parties is relatively recent.

contributed to a *decline of consensus-oriented politics* characteristic of Austro-Keynesianism. The decline of the traditional consensus-orientation has been magnified by an increasingly competitive party system in which smaller parties have begun to play a decisive role. The nature of reforms pursued by the center-right government *reflect the normative underpinning characteristic of a corporatist-conservative welfare state*. Importantly,⁰ these reforms were pursued despite the presence of centralized encompassing corporatist structures.

The case of the ÖVP highlights that the behavior of right-wing parties constitutes a critical component in understanding national level responses to economic openness - thus confirming that globalization research agenda should focus on right-wing parties to a greater degree. While the ÖVP had been ideologically flexible until the 1980s, characteristic of Christian-democratic parties, European integration consolidated a conservative economic approach by *opening a window of opportunity* for the ÖVP to pursue market-oriented structural reforms and to embrace a liberal policy paradigm (confirming Hypothesis 1b). Importantly, ÖVP pursued policies of welfare state reform *in spite* of opposition from SPÖ and *in spite* of the presence of strong and centralized unions. However, the above analysis also suggests that right-wing parties, though not as challenged by globalization as are social-democratic parties, are faced with tradeoffs in light of systemic economic changes. To begin, the speed of welfare policy reform and the deregulatory elements of EU legislation are not embraced uniformly within the party. In addition, while perceiving a need for reform in light of changing economic parameters, ÖVP actors indicated that they find it challenging to communicate the need for reform to Austria's voters. In addition, the ÖVP's institutional reform efforts have also been encumbered by social partnership and by public support for the existing political-economic institutions, as evidenced by the protest sparked by the 2003 pension reform. While the party appears has continues to advocate policy course, some elements of moderation, for example the re-emphasis of social partnership, are discernable.

Thirdly, the case of Austrian Social Democratic party (SPÖ) *contradicts arguments about neoliberal convergence*. The economic policy course of the SPÖ during the 1990 indeed confirms neoliberal currents in the party - reinforced by strong preferences of the SPÖ's chancellor and a conservative coalition partner. Neoliberal currents contributed to intra-party tension and the party even reassessed its relationship with the unions and its electoral strategy. However, the SPÖ's ultimately reoriented itself leftward, suggesting that *in the long run*, as suggested by Przeworski and Sprague (1986), leftist parties' are *less ideological flexible* than conservative parties.

The fact that the SPÖ shifted leftwards while still *in government* meant that this was a *policy-seeking*, not an office seeking move. Furthermore, the leftward move supports Penning's (1999) argument that the pursuit of market-friendly policies by several European social democratic parties during the 1990s did not constitute "irreversible" embrace to neoliberalism. Interestingly, in respect to arguments about an electoral dilemma (Heywood et.al. 2002), the increasingly-market oriented policy direction pursued by the SPÖ during the 1990s did *not* entail significant loss of electoral support. Furthermore, since shifting leftwards again, the SPÖ's vote-share in state-level elections, elections to the European Parliament and the recent national level election has been rising. The SPÖ does *not* display a "lack of intellectual confidence" - to borrow Thompson's term (2000:43)- and *contradict theories about social democracy in decline*. Certainly, this is not to say that globalization and European integration do not pose a challenge to the party. The SPÖ's emphasis on the need for increased the social policy component at the EU level does not only support Thompson's (2001) argument about social democrat's activity at the EU level, but it also serves as evidence of the continued relevance of systemic constraints. In addition, the SPÖ's leftward move was facilitated by its opposition role. While it is difficult to assess how the party would have acted had it been in government and impossible to predict what the future will hold for an SPÖ-led government, the party's leftward move nonetheless *contradicts theories about the neoliberal convergence* (Hypothesis 1b).

Assessing the relationship between the two parties lends further support to claim that consensus had declined and that more polarization than convergence can be observed (confirming Hypothesis 1). More specifically, a comparison of the parties' economic policy programs based on the CMP data confirms that the two major parties have kept their distance in the economic policy realm. Comparing emphasis of policy categories such as "Social Justice" lends further support to increasing polarization, as do statements from most policy elites. The decline in consensus which characterized Austro-Keynesian policymaking has also been evident in the cumbersome negotiations regarding a grand coalition following the elections of October 2006.⁴⁵

Fourthly, though Austria's centralized corporatist institutions have traditionally benefited Austria's economic openness, social partnership has undergone changes since Austria joined the European Union. Not only has a transfer of policy authority to the supra-national level of

⁴⁵ For example, *Der Standard* reports that the ÖVP rejects the SPÖ's "socialist program" such as the SPÖ's policy suggestion of a basic income (*Der Standard*, October 5, 2006).

governance weakened their relative influence, but they were only able to constrain, but not prevent, the reform pursued by the conservative ÖVP. In this context, Busemeyer (2005) analyzes the influence of veto points and argues that the *informal* character of Austria's social partnership lends the social partners only *informal veto power*. Busemeyer goes as far as claiming that "participation of social partners is neither a necessary nor a sufficient condition for successful reform" (Busemeyer 2005:780). Thus, the economic internationalization in combination with the reforms put forth by the center-right government present a *critical juncture* for the social partnership. While the general structure of social partnership has remained intact, suggesting institutional path dependence, I argue that the Austrian case illustrates the importance of incremental changes which are indicative of potentially more fundamental transformations (Kersbergen 2000).

In summary, the Austrian case suggests that international economic integration constitutes one important factor which increased conflict and competition on the national level. The case also points to the complex interplay between systemic and domestic institutional characteristics in explaining the behavior of catch-all parties. In context of the literature on economic globalization, the behavior of Austria's parties contradicts theories of convergence, points to the importance of right-wing parties in the process of welfare state retrenchment and calls into question arguments about the decline of social democracy. In addition, the case suggests that centralized, encompassing labor market institutions and a consensus-oriented political culture may lessen neoliberal pressures, but their ability to prevent market-oriented reform is linked to the degree of their formal constitutional powers.

This case study also points to numerous avenues for further research. For example, the question remains: under which conditions, if at all, does economic openness lead to (neoliberal) policy convergence? To what the degree are social democratic parties able to influence the policy agenda at the EU level and influence systemic constraints of European integration? These questions invite further case studies of European parties both at the national and at the supra-national level.

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APPENDIX I

Interviews Conducted During Fieldwork (September/December 2005)

A. Interviews with Policy Actors of the Austrian Social Democratic Party (SPÖ), the Austrian Peoples' Party (ÖVP) and the Austrian Social Partners (ÖGB and Chambers)

Baumgartner-Gabitzer, Ulrike. Dr.; ÖVP. Interview in Vienna, September 28, 2005.

ÖVP Legislator to the National Assembly, XXII Legislative Period;

Deputy Chairman Constitutional Committee;

Member of Budgetary Committee, Standing Orders Committee, Committee on Human Rights,

Judiciary Committee, Committee for National Affairs, Committee for Cultural Affairs,

Constitutional Affairs, Economy Affairs Committee, etc.

Bauer, Hannes, Dipl.-Kfm. Dr.; SPÖ. Interview September 13, 2005, Vienna.

SPÖ Legislator to the National Assembly, XXII Legislative Period;

Chairman of Permanent Joint Committee;

Secretary: Economy Affairs Committee;

Member of Permanent Common Committee, Economy Affairs Committee, Finance Committee,

Environmental Committee, etc.

Burkert Dottolo, Gerhard. Political Academy of the ÖVP; Interview September 15, 2005, Vienna.

Lecturer at the University of Vienna (For Political Strategy and Media Politics);

Director of the Political Academy (ÖVP think tank).

Chaloupek, Günther, Dr. ; Chamber of Labor. Interview September 2005, Vienna.

Director of the Division of Economy and Statistics of the Chamber of Labor Vienna.

Csoergits, Renate. ÖGB/SPÖ. Vienna, September 5, 2005

SPÖ Legislator to the National Assembly, XXII Legislative Period;

Vicepresident of the Austrian Federal Trade Union (*Oesterreichischer Gewerkschafts Bund, ÖGB*);

Secretary of Privilege Committee, Health Committee, Human Rights Committee;

Member of Privilege Committee, Health Committee, Human Rights Committee, Committee for

Labor and Social Affairs, Equal Rights Committee; etc.

Duffek, Karl A. Mag. SPÖ. Renner Institute (of the Social Democratic Party). Interview

December 15, 2005, Vienna; October 8, 2005 via telephone.

Director of Renner Institute

Einem, Caspar, Dr. SPÖ. Interview September 19, 2005, Vienna.

SPÖ Legislator to the National Assembly, XXII Legislative Period.

Member of the SPÖ Executive. Speaker for European Affairs;

Former Secretary of State (1994-5), former Minister of the Interior 1995-7), etc.
Deputy Chairman of the Permanent Committee for European Union Affairs;
Member of Main Committee, Foreign Affairs Committee, Industrial Affairs Committee,
Permanent Committee for European Union Affairs, etc.

Fasslabend, Werner, Dr.. ÖVP. Interview September 13, 2005, Vienna
ÖVP Legislator to the National Assembly in the XXII Legislative Period;
Federal Chairman of the ÖAAB 1997–2003; Member of the ÖVP Executive;
3rd President of the National Assembly 2000-2; Former Minister of Defense (1990-2000);
Chairman of Permanent Subcommittee of European Union Affairs;
Member of Main Committee, Permanent Subcommittee of Main Committee, Committee of Labor
and Social Affairs, Finance Committee, Permanent Subcommittee of the Budgetary Committee,
Permanent Subcommittee of European Union Affairs, etc.

Hammerer, Gerhard Dr. ÖVP. Vienna, September 27, 2005
ÖVP District Party, Vienna, Mariahilf.

Heinisch-Hosek, Gabriele. SPÖ. Interview September 16, 2005, Vienna.
SPÖ Legislator to the National Assembly, XXII Legislative Period;
Chairwoman of Equal Rights Committee;
Deputy Chairman of Committee on Education;
Secretary of Committee for Labor and Social Affairs;
Member of Committee for Petitions and Civil Initiatives, Committee for Labor and Social
Affairs, Family Committee, Committee on Education, Equal Rights Committee

Holnsteiner, Erich, Mag. SPÖ. Interview September 8, 2005, Vienna
SPÖ Party Secretary for Budget, Finance and Economy.

Lacina, Ferdinand. SPÖ. December 17, 2005. Vienna.
1980 Head of the Cabinet of Federal Chancellor Bruno Kreisky, since November 1982 Secretary
of State in the Federal Chancellery. 1984 Federal Minister for Transport and Public Economy in
the Government of Fred Sinowatz;
Federal Minister of Finance (86-95)
May 2001 consultant of Bank Austria Creditanstalt AG

Lackner, Manfred SPÖ. Vienna, September 20, 2005
SPÖ Legislator to the National Assembly, XXII Legislative Period;
Deputy Chairman of Health Committee;
Member of Budgetary Committee, Health Committee, Committee for Labor and Social Affairs,
Committee for Defense, etc.

Maier, Ferdinand. ÖVP. Interview September 22, 2005, Vienna.
ÖVP Legislator to the National Assembly, XXII Legislative Period;
General Secretary of the Österreichischen Raiffeisenverbandes since 1994, etc.;
Secretary of Committee on Industry;
Member of Budgetary Committee, Committee on Industry, Permanent Subcommittee of the
Budgetary Committee, Economy Committee, Main Committee, Finance Committee, etc.

Mitterlehner, Reinhold, Dr.; ÖVP/Economy Chamber. Interview via email, October 3, 2005

ÖVP Legislator to the National Assembly, XXII Legislative Period;
General Secretary of the Chamber Economy;
Deputy General Secretary of the Economy Chamber since 2000;
Chairman of Economy Committee;
Member of Committee on Labor and Social Affairs, Finance Committee, Justice Committee,
Justice Committee, Cultural Affairs Committee, Economy Committee.

Moser, Johann. SPÖ. Vienna September 8, 2005 and September 28, 2006

SPÖ Legislator to the National Assembly, XXII Legislative Period;
Speaker for Economy Affairs;
Deputy Chairman Economy Committee;
Member of Budgetary Committee, Committee for Science and Research, Finance Committee,
Industry Committee, Permanent Subcommittee to the Budgetary Committee, Economy
Committee, etc.

Pichl, Elmar. ÖVP. Vienna, September 22, 2005

ÖVP Head of Department for Politics, responsible for policy analysis, support of OeVP
program, opposition research

Silhavy, Heidrun. SPÖ. Interview September 28, 2005, Vienna.

SPÖ Legislator to the National Assembly, XXII Legislative Period;
Member of the SPÖ Executive;
Chairwoman of Committee for Labor and Social Affairs;
Deputy Chairwoman of Health Committee;
Member of Health Committee, Committee for Labor and Social Affairs, Family Committee, etc.

Spindelegger, Michael, Dr. ÖVP. Interview September 12, 2005, Vienna.

ÖVP Legislator to the National Assembly, XXII Legislative Period;
Chairman of Rules of Procedure Committee, Permanent Subcommittee of the Committee for
National Affairs;
Deputy Chairman of Committee for Labor and Social Affairs, Committee for Foreign Policy;
Secretary of Main Committee, Permanent Subcommittee of the Main Committee;
Member of Main Committee, Permanent Subcommittee of the Main Committee, Budgetary
Committee, Rules of Procedure Committee, Committee for Labor and Social Affairs, Financial
Committee, etc.

Steibl, Ridi. ÖVP. Vienna, September 28, 2005

ÖVP Legislator to the National Assembly, XXII Legislative Period;
Chairwoman of Family Committee;
Secretary of Equal Treatment Committee;
Member of Health Committee, Committee for Labor and Social Affairs, Family Committee,
Equal Treatment Committee, Economy Committee, Main Committee, etc.

Tüchler, Ernst. ÖGB. Interview September 19, 2005, Vienna.
Assistant Director of the Economy Division of the Austrian Federal Trade Union (*Österreichischer Gewerkschafts Bund, ÖGB*)

B. Additional Interviews

Aiginger, Karl. Vienna, September 27, 2005
Professor of Economics, Director of WIFO (Austrian Institute for Economy Research)

Friesl, Christian. Federation of Industrialists (*Industriellenvereinigung*). September 26, 2005,
Vienna

Kogler, Werner, Mag. The Greens. Interview December 19, 2005, Vienna.
'The Greens' Legislator to the National Assembly, XXII Legislative Period
Member of the Party Executive.
Chairman of Audit Division Committee
Secretary of Economy Committee
Member of Budgetary Committee, Incompatibility Committee, Audit Division Committee,
Finance Committee, Industry Committee, Economy Committee, etc

Pelinka, Anton.
Professor of Political Science. Universität Innsbruck

Pirkhuber, Wolfgang, Dipl.-Ing. Interview September 28, 2005, Vienna.
'The Greens' Legislator to the National Assembly, XXII Legislative Period
Member of The Green Party (*Die Gruenen*).
Speaker for Agricultural Affairs and for Consumer-goods Safety.
Deputy Chairman: Committee for Committee on Agriculture and Forestry
Member of Committee for Petitions and Citizens' Initiatives, Committee for Agriculture and
Forestry, Main Committee, etc.

Tálos, Emmerich. Interview December 18, 2005, Vienna.
Professor of Political Science at the University Vienna.

APPENDIX II

CMP Measurement of Policy Positions

The Comparative Manifesto Project (CMP) has coded the empirical content of policy platforms over time for over 25 democracies during the post-war period. The CMP codes parties' election programs and assigns positions to parties along a variety of policy dimensions, making it possible to construct spatial maps of parties' policy movements over time. The percentages in each category are a measure of the party's position, enabling a researcher to compare policy emphasis of different parties' programmes to each other and the emphasis of a party's program during different election periods (Budge et al. 2001). The coding scheme consists of 7 domains and 57 categories, which measure a party's emphasis on a policy area. By summing the areas, researchers can determine a party's overall ideological position.

The Comparative Manifesto Project (CMP) offers a Right-Left index of the parties on all key policy issues on a scale that runs on a scale from -100 to 100. The index is created by subtracting the positions on categories associated with leftist positions from those associated with rightist positions. I created an alternate encompassing Left-Right measure, which emphasizes parties' position on economic matters and the European Union (and omits non-economic policy categories): ⁴⁶

Left--Right Measure for Position on Economy:

A. Rightist Position	B. Leftist Position	Right-Left Index Economy (A-B)
per108 EU Reference positive	Per110 EU Reference Negative	
per401 Free Enterprise	per403 Market Regulation	
per402 Incentives	per404 Economic Planning	
per407 Protection Negative	per 405 Corporatism	
per414 Econ Orthodoxy	per406 Protec Positive	
per505 Welfare Limitation	per409 Keynesian Demand Management	
	per412 Controlled Econ	
	per413 Nationalization	
	per 415 Marxist Analysis	
	per416 Anti Growth	
	per504 Welfare State Expansion	
per702 Labour Groups negative	per701 Labour Groups positive	
		Sum of Column B subtracted form sum of Column A = Left_Right Index for Economy

⁴⁶ To ensure that no redundant categories were included in the economy-based left-right measure, I compare the correlation matrixes for the categories which make up the left and right dimensions for each left-right measure. Neither the categories of the CMP's overall left-right measure, nor those of our economy-based left-right measure co-vary to a significant degree. Empirical are tests available from author upon request.

Appendix III

CMP Coding of ÖVP Position in 2002

Numerous studies confirm that CMP data have proven a valid and reliable measure of party policy positions (e.g. Klingeman 1994) and the above discussion reveals that the parties' positions and the qualitative account of parties' positions generally match well. Thus, what are possible explanations for the ÖVP's leftward shift of the after 1999, which does not seem to match its policies?

One explanation for the 2002 coding is to assume that the market-oriented policies pursued by the ÖVP in recent years are strongly influenced by its coalition partner, the FPÖ, but and do not reflect the programmatic preferences of the ÖVP. However, the economic policy shifts of the FPÖ - not printed here⁴⁷ - reveal that the FPÖ did *not* position itself further rightwards than the ÖVP and, indeed, also radically shifted leftward after 1998. Hence, this explanation must be rejected. Secondly, Austria's leading political scientists (Pelinka 2005; T'alos 2005, interviews by author) emphasize that the parties' policy programs are only of limited value in explaining the developments of recent years, pointing to a *gap between rhetoric and policies*. This assertion is underpinned by the claim that the recent political dynamics have been unprecedented in Austria. Thirdly, a plausible answer is that the 2002 program was miscoded by the CMP coders or did not comprehensively represent the party's program at the time. Analyzing the 2002 CMP coding -by disaggregating the measure "Economic and EU position" into of the various policy dimensions - lends some explanatory power. The ÖVP's leftward move on the CMP scale is due to a rise in positive reference to labor groups⁴⁸ and, most strikingly, to a pronounced *de-emphasis* of the concepts "economic orthodoxy", and "Free Enterprise"⁴⁹. These decreased emphases underline the idiosyncrasy with its policies. The most recent 2006 ÖVP program (not part of the CMP data set), supports the argument that the coding in 2002 constitutes an anomaly because it references the party's previous market-oriented reform course. For example, the 2006 program poses the questions "Should the internationally recognized reform course be continued and should the success of the past years be continued?" and mentions the goal "continuation of

⁴⁷ Available from author upon request

⁴⁸ Emphasis of 2.9 in 2002 compared to no reference in 1997 and 1999

⁴⁹ Emphasis of economic orthodoxy declined from 12 in 1995 to 0.9 in 1999 and 2002. Emphasis of "Free Enterprise" from 14 in 1995, 7.3 in 1999, and 2.6 in 2002

the successful policies of privatization" (ÖVP Electoral Program 2006). In short, there is strong reason to position the ÖVP further right in 2002 than reflected by the CMP coding.

