

The globalization of the economy and the effects of EU-policy: the case of Austria.

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Introduction

A most momentous change - the opening of the eastern borders and membership in the EU - raises questions about the future of regions and society in the small country of Austria:

- o Keynesianism is a thing of the past.
- o The downsizing of the social welfare state has begun.
- o A new liberal era is dawning.

The future is uncertain for country and society because of:

- o the effects of internationalization of the economy,
- o the de-industrialization trend of "Postfordism"
- o the restructuring of the tertiary sector, particularly tourism and retail trade and
- o the effects of EU-policies on industry, farming, and regional disparities.

A new economic policy

The successful "Austrian way" in the post-war era can be interpreted as a sort of Keynesianism. This interpretation still suffices if we wish to understand the specific phenomena (and problems) of present-day Austria. Looking to Austria's future, as a member of the EU and with open borders in the east, we have to take a new politico-economic approach into account. Like all other countries in the EU, Austria is going through a cycle of liberalization of social and economic policy. The influence of government is being reduced, private capitalist ventures are being encouraged, the individual citizen is expected to shoulder more "life-responsibility". Elitist values, self reliance, and efficiency are in favor once more. Property and wealth are again accepted status symbols. This liberalization is actually an "import", though, and like most socio-political innovations, it came late to Austria, and, undoubtedly a specific "Austrian" version of it will evolve in due time.

Liberalization and the down-sizing of social security will certainly affect the country's real estate, labor, and capital markets. Liberalization lifts the many barriers that had hampered these markets. The "activation" of the real estate market has increased the number of lots, houses, apartments, condominiums etc. offered for sale. Activation of the labor market means that more mobile forms of labor, new forms and patterns of work places and work times must be developed, that altogether people will have to become more mobile. Entrepreneurial thinking and risk taking are needed, attitudes that decades of

social distribution strategies have all but eradicated. A shock therapy, such as the collapse of the Eastern system means for those countries, is not possible in western welfare states. With its autonomy in these matters rather reduced, an EU member country like Austria will have to find its own way of - gradually - uncoupling economic policy from social policy. According to the weak capital endowment of Austria's business the call for market orientation and privatization of nationalized companies is, therefore, answered mainly by foreign firms.

The geographer's question is: What effects will liberalization have on the country's settlement pattern ?

- o Liberalization necessarily reduces measures to alleviate disparities and lessen segregational tendencies. In the long run it leads, to sorting out and separation of land use and of population groups and strengthens segregation processes in the social, ethnic, and demographic spheres.

- o The marginality of certain groups will be reinforced and regions already on the periphery will be "peripheralized" even more.

- o Within centralized settlement systems the gradient between center and periphery will steepen. Work places will be concentrated even more at well placed locations and weak rural zones already lacking in jobs will be further depleted.

- o Regional economic disparities particularly as regards productivity and real estate values, can at best be alleviated through external effects.

Effects of the globalization of the economy

The beginnings of Postfordism

In Austria the internationalization of markets occurred later than elsewhere because of the belated dissolution and privatization of the big nationalized industries and banking companies and the cooperative retail empire "Konsum". In the industrial sector, Fordist organization with its typical large operations and strict hierarchies was finally changed in the early 1990s through the take-over of the respective firms by international capital which favors flexible specialization and decentralization. Production-oriented services and supply operations so far integrated in the groups of companies themselves were now separated and transferred to independent small and medium-sized companies, and networks of subsidiary and supply companies developed. This weakened, among other things, the power of labor unions. Certain segments of production were transferred abroad; and marketing intensified. This required improved market research and development. Employment opportunities for highly

qualified personnel increased (for example at Siemens), but workers at the more traditional levels of activities, particularly semi- and unskilled laborers and apprentices, were faced with a decline of employment opportunities.

This major change in the organization of production is accompanied by an increase in long-term unemployment which began to affect Austria during the 1990s, again later than other western countries. Among the regions seriously affected is Vorarlberg, which suffered losses of jobs through the relocation of parts of its production (textiles, clothing) to low-wage countries. A somewhat older problem area of long-term unemployment is Upper Styria where (primary) industries experienced a decline much earlier. Still different is the situation in Vienna where the labor market is affected by rationalization measures in the administrative and management areas. This have sent many highly qualified employees in the upper echelons into unemployment or early retirement or forced them to accept lower paying jobs as company hierarchies were downsized.

Altogether, Austria's company and employment profiles are not basically different from those in neighboring Germany. There is a difference in the age distribution of the labor supply, though, with Austrians being slightly younger on the average. This will produce more job seekers every year until early in the 21th century. That in turn will increase Austria's unemployment in addition to the downsizing and firing practices of the business world.

Three sectors of the economy, viz. tourism, banking, and retail trade, that so far have been typical growth sectors, will experience particular declines as to number of businesses and number of jobs, for a variety of reasons. So-called "re-dimensioning" is called for which will affect both plant size and labor supply and demand in the tertiary sector. This is not so much an European problem, but rather one specific to Austria.

The "re-structuring" of the tertiary sector

Tourism was the growth sector par excellence in the post-war era. Since the 1990s, its crisis has been a recurring topic in the media. Experts are agreed that the tourist industry in Austria needs "re-dimensioning", i.e. restructuring and downsizing. New regional forms of financing and marketing need to be developed. One third of all tourist businesses are seriously threatened at this time. It has been estimated that the number of "beds" will have to be reduced by at least a quarter million, i.e. from 1,140,000 (1995) to 900,000 or 800,000. With decreasing number of tourists and slack business, some tourist facilities

like in Switzerland, will probably be converted into second homes or vacation apartments for interested foreigners. On the other hand, some second homes and vacation apartments in densely populated areas will be converted into permanent homes for the local population, a development which meets with public support, including financial aid. The actual problem then is not the loss of facilities but of jobs. At least 20 % of the current 170,000 employees in the tourist business could be affected.

As regards "sun and water" as holiday objects, Austria - for years now - has had to compete with air tourism world-wide. The opening of the East brought the additional competition of Hungary's cheaper Lake Balaton for Austria's vacation lakes. In 1996, Hungary's summer tourism reached 24 million over-night stays, more than the decline of Austria's tourist over-night stays from 130 million in 1992 to 112 million in 1996. Approximately 6 million over-night stays in Hungary were Austrian guests. In reverse, the opening of the East did little to add to Austria's tourist business because of the lower income levels in those East-Central European countries including Hungary, the Czech Republic, and Poland. Should incomes rise in those countries, numerical growth and more differentiation of tourists from there in Austria would probably ensue, which permits a relatively optimistic forecast for the foreseeable future.

Re-dimensioning and restructuring of tourism in Austria are necessary; yet a generally positive view may be taken. In the post-war years Austria's tourist industry developed as a private sector, outside the Keynesian public support economy, but within (and perhaps: despite) the social security system of the welfare state. It is based on domestic, mostly small enterprises which the state leaves to operate along free-market lines to deal with international competition on their own.

The *banking sector* is in a different situation. It has to cope with the long-run consequences of nationalization. With 5,800 branches and 70,000 employees, the banking sector in Austria is - at present - (relatively) more than twice as large as the one in much larger Germany. This is the result of the oligopoly which evolved in the post-war era in conjunction with the welfare state. It entailed a "fanning out" of the banking business in the large center and the founding of branches in small central places and in the various neighborhoods of medium to large cities, according to a principle of accessibility to customers regardless of an area's actual population numbers. In Austria, there are 1400 inhabitants to one bank branch, while the respective figures are 3,960 in Germany and even 13,500 in France (figures for 1996). In other words: Austria's financial institutions make much less profit per employee

than banks in other countries. Even cautious estimates predict that at least 30 % of bank employees will lose their jobs in the near future. In this context it is significant that in nearly every municipality in Austria there is a Raiffeisen bank branch. There has been discussions about reducing the number of post offices and maintaining one only in municipalities with at least 1,700 inhabitants. A combination of postal, banking, and perhaps other services in small central places may prove a way out of this problem.

The discussion of Austria's central place system has to refer to the extension of the respective market areas and the loss of *functions of central places* of lower and middle rank because of too few customers. The reduction of the bank branch net that is to be expected will undoubtedly cause reductions in other services, trades, and retail businesses, particularly in rural areas with low economic potential and low population density. This reduction of businesses will particularly affect local retail stores in central places of lower order where those have just begun to face the competition of the large chain-store companies. An overall reduction of stores by one half within the foreseeable future, not unlike in the banking sector, may not be too unrealistic an assumption. Whether and how banking, postal and retail services will continue to function in those "lesser" places, will more and more depend on the demands of the leisure society.

Effects of EU membership

In June 1994, two thirds of the Austrian people voted for joining the European Union. This success of great publicity campaigns of both major parties overshadowed early signs of budgetary problems which have only increased since 1995, namely how to finance the EU membership.

From Austrian to EU agricultural policy

A common agricultural policy (CAP) was one of the engines of Europe's unification. Understandably, the EU interferes in agricultural policy more than in any other matter. It has at its disposal an unprecedented apparatus of 22 market organizations for almost all important areas of production and pursues environmental and structural policies as well. The details too, to which these regulations go are unequalled in any other sector. The administrative system is most refined, and the EU laws pertaining to agricultural matters run to 20,000 pages of text. The common agricultural policy still absorbs half of all EU expenditures.

Austria has an even more refined institutional apparatus for the implementation of its agricultural policy. Only, before EU membership, this had set priorities quite different from those of the EU.

Even before EU membership, it was maintained in Austria that EU strategies for preserving family farming were not suitable for an Alpine environment. The viability and survival of most mountain farms in Austria could not be ensured even if all possible subsidies and support measures allowed by EU rules were to be applied. Therefore, interim conditions pertaining to mountain farm subsidies and investment aid for part-time farmers were negotiated as part of the conditions of Austria's membership.

It is important that the CAP support measures provide for a gradual replacement of the formerly common direct price supports by compensation payments which are not based on the quantities produced, but rather on the acreage under cultivation or number of cattle, respectively. There is also a general difference in assessment: The CAP assesses whole areas at the level of municipalities or parts thereof, while the Austrian definition of support referred to individual farms only. This has had some curious results in Alpine regions where even valley farms receive aid now, just because they are located within an "aid-worthy" area. In addition, the condition of aid-worthiness based on farm size or number of cattle, respectively, favors larger farms, which actually runs counter to the Austrian principle of supporting small farms in areas with less favorable natural resources. Thus, EU membership meant a considerable break with the traditional Austrian support system.

It cannot be predicted at this time whether the decline of compensation payments with the ensuing decline of incomes, will be offset by turning to other products, like "natural" or organically grown products, and/or cuts in production and running costs of the affected farms. In addition, income situations of farmers cannot be forecast at the turn of the millennium, because the development of prices and future support strategies are not known at this time.

Two Austrian medium-run solutions pertaining a part of the farms have begun to evolve, though. Ecological products, i.e. products of organic farming, and/or direct marketing and sales to the consumer appear to be the only realistic way to achieve higher prices and compensate overall price declines which have been quite dramatic, such as for wheat, for example, that now fetches only 40 % of pre-EU membership prices, or beef and live cattle prices that dropped to 70-80% of before-1994 prices in Austria. It has already been elaborated that Austria takes a leading role in Europe's organic farming and will probably retain this position in the foreseeable future, because the natural conditions and the

generally small size of farms in this country seem to favor such a development. The second equally important venue towards stabilization, expansion, and professionalization is "vacation on the farm". In contrast to private room letting, this special form of Austrian tourism has not only remained in business but has managed to expand. In 1996, 21,000 farms offering 220,000 beds accounted for 10 % of the entire tourist business of the country. Vacation on the farm has a future.

Manufacturing

EU effects on manufacturing cannot be separated from the effects of internationalization. They can be summed up as: adjustment shock and opportunity to modernize. A whole series of indicators like employment, orders, bankruptcies, and closings-down seem to indicate that many companies did not survive the adjustment shock and that further declines in industrial employment are to be expected. Takeovers of important companies by foreign firms have brought them into multi-national industrial networks, but have weakened their autonomy, and in most cases meant a reduction of staff. In many cases, groups of companies were broken up and activities allocated to several smaller firms. In general, the integration of Austria's industries into the European market subsequent to Austria's EU membership has very much speeded up the process of their restructuring. As a result, the industrial sector is now split in two: on the one side, there are the successful, internationally competitive companies, making the best of the all-European internal market; on the other side, there are the weak ones that will probably not withstand the strong competition. Both are subject to the changed conditions set by the European Commission.

According to the EU-Treaty, industrial policy is the responsibility of the member states, but the basic conditions of the European Union as such have profound effects on Austria's industrial policy. First and foremost, EU rule prohibits subsidies to industry, with the exception of small and medium size enterprises, research and development(R&D) subsidies, and regional development support. An important condition for EU support is national co-financing. The support thresholds are lower than in the past. Because of regionally different support thresholds, a battle between regions for EU support has ensued. In sum, EU membership has started a "change of regime" in Austria which is likely to have the following medium-term effects:

Subsidies for industrial investments will generally decline.

- At the same time, the need for regional development plans becomes more pressing, i.e. a process of regional planning for the future has been started.
- Within Austria, inter-regional gradients will become steeper, which could cause relocations of industries within Austria.

Next to its support policy, the EU policy of free competition plays an important role. It prohibits price regulations and other restrictive practices. In Austria, this has meant that the ingrained monopoly and oligopoly practices - and, above all, the mentality that goes with them - have to be abandoned. Before EU membership, the "social partners" had been the ones to maintain a certain amount of competition. Now, the EU administrators are in control. It will take a lengthy adjustment process to turn these changes of economic policy to fruition and advantage rather than disadvantage as until now.

So far, while attracting high investments from abroad and causing an increase in productivity, on the one hand, EU membership has brought about great moderation in wage negotiations and a reduction of employment in the unionized industrial companies, while less well paid jobs in small companies and service businesses are on the increase. The most dramatic cuts occurred in the basic industries were accompanied by an above average reduction of jobs, but followed by an above-average increase of productivity. A clearly positive result of EU membership so far has been the increase of foreign trade and the dynamic development of Austria's exports.

EU regional policy and its support regions

With EU membership, Austria acquired a "new regional scenery" and a supranational authority for its regional and agricultural policy programs. Previously, Austrian regional support development programs like ERG Regional Programs, regional special support operations etc., were based on the Austrian Regional Planning Program of 1991, which pursued structural-political objectives in an economic context. According to this program, even the economic development of central regions (Greater Graz, the region of St. Pölten in Lower Austria, Central Carinthia) was considered the legitimate task of regional support programs.

The EU approach is different. Regional policy and regional development are to support weak regions with specific structural problems. Based on this different concept, a new order of national regional support areas, on the one hand, and of areas that warrant EU-initiated support programs and are co-financed by the EU, on the other, was identified. Austria was fortunate to join after 1993, the year in which it became legal for even net-paying EU-member countries to receive larger financial aid payments from the EU. For the program periods 1995 to 1999 structural-fund payments of 1,623 bil. EUR were allocated to Austria.

The regions deemed worthy of support by the EU Regional Support Program comprised 40.9 % of the Austrian population. This generous categorization of Austria's regions helped to soften the change to the region-oriented rather than individual-oriented support policy of the EU. The general EU principle of free competition that allows aid to the weakest regions only, was not applied in Austria.

Beginning with the year 2000, "Agenda 2000" will be applicable. It delineates the new program of EU activities and the respective EU budgets for the years 2000-2006. There are three new focuses of attention to be distinguished:

1. One goal is a "European agricultural model" which is to improve Europe's competitiveness on the one hand, and to achieve sustainable development of rural areas, on the other, while paying all due regard to environmental problems. In the period 2000-2006 about half of the EU budget is again to go into agriculture.
2. The EU project of "narrowing down the welfare gap between regions" has been streamlined by reducing the seven targets, considered so far, to three and by concentrating on smaller areas. In other words, fewer regions will be considered worthy of support, but those selected will be given more money. At the same time, local and regional authorities are being given more leeway to decide upon the allocation of such money on their own.
3. With a view to the EU extension, considerable resources are being earmarked for improving transport and communications infrastructures, for measures of environmental protection as well as for the adaptation of the agricultural sector and rural environments in the countries aspiring to accession.

What do the changes in the EU targets from the five-year program for 1995-1999 to "Agenda 2000" imply for Austria?

1. As far as agriculture is concerned, subsidies were at first considerably increased in the five year period 1995 -1999. The amounts of support were considerably higher than former Austrian regional policy could afford. Some data to support this: Public funds for agriculture and forestry increased from 15.5 bil.ATS (1.1 bil.EUR; Federal money before 1994) to 27.7 bil.ATS (2.0 bil.EUR; Federal and EU 1995). For 1995, the Austrian Institute of Economic Research estimated the total volume of subsidies as 24.7 bil.ATS or 1.8 bil.EUR. The EU "Principle of Additional Funding" stipulated that national expenditures must be maintained at previous levels for additional EU funds to be paid. At this time, the subsidies made up approximately one third of the incomes of farmers. Since then, they have been reduced: in 1999 only 17.5 bil. ATS were paid out to farmers. With the decline in agricultural prices, farmers' sales revenues went down from 82 bil. ATS to 63 bil. ATS in the years 1990 to 1998, though their output remained the same. Incomes have gone down. The farmers protested and succeeded in postponing the reform of the milk quota system until 2008; still, with "Agende 2000" pending, they had to accept price cuts (20% for beef, 15% for grain) as well as a ten percent reduction of the acreage farmed, as stipulated by EU authorities.

Table: EU-Regional Support Program for Austria 1995-1999 and 2000-2006 in mil. EUR			
	1995-1999	2000-2006	
Regional Programs			
"Goal 1"	174	261	<i>Underdeveloped areas</i>
"Goal 2"	106	578	<i>industrial depressed areas</i>
"Goal 5b"	432		<i>Rural areas</i>
Sectoral Programs			
"Goal 2 Ü"		102	
"Goal 3"	334	528	<i>Unemployment</i>
Goal 4	61		
Goal 5a	404		
Special Programs	2	4	
	1.515	1.473	
INTERREG	49.79	183	<i>Border areas</i>
Other sectoral programs	101.21	175	
Pilot	16		
Pilot	16		
Total	1.681	1.834	
Annual average	360	247	

For the years 2000 to 2006, Austria has been promised 423 mil. EUR annually (i.e. 2,95 bil. EUR or 41 bil. ATS altogether) out of the agricultural funds of the EU- one of whose objectives is the development of rural areas; but as yet it is uncertain if the required "additional funds" to be provided in the respective Austrian budgets will be forthcoming.

2. The changes in the EU structural funds may be seen from the Table. Out of the structural funds of app.180 bil. EUR for 2000-2006. Austria is to receive an average of about 247 mil. EUR annually, i.e. about one third less than in the five years 1995-1999. At the same time the areas supported were downsized so that now only about two million, i.e. a quarter of the Austrian population, and not three millions, as has been the case so far, live in support regions.

Fig.1 shows the support regions for 2000-2006, as far as they had been confirmed by the EU at the end of 1999. Two regions are clearly defined: Burgenland as a Goal-1-region because of its development lag (with a GRP of

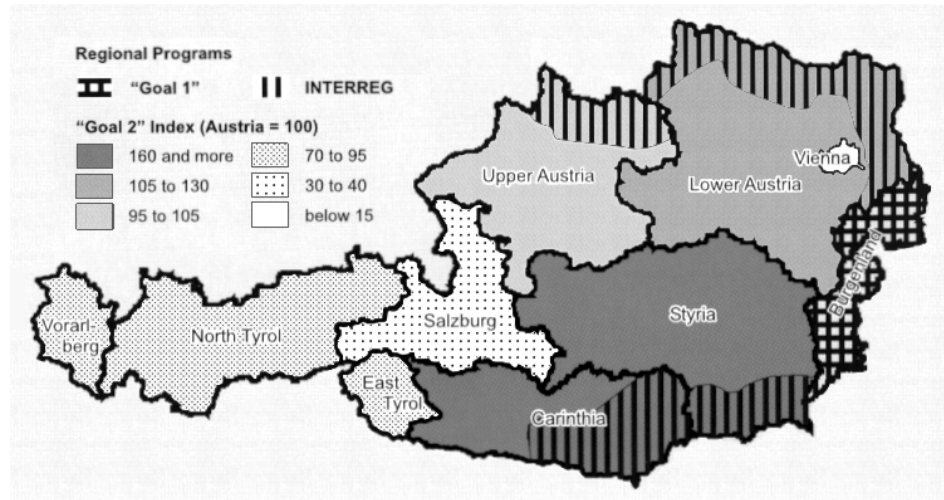


Fig. 1: EU development areas by priority zones 2000-2005

less than 75% of the EU average) and the border regions (supported through the INTERREG Program) adjacent to the states applying for membership, viz. Hungary, Czechia, Slovakia, Slovenia. In order that these border regions may become more competitive by the time of the EU's actual expansion to the East, the INTERREG funds were considerably increased.

The new target regions 2 replace the target regions 2 of the years 1995-1999 which had featured regions of industrial crisis. The money is allocated by the state governments. The map shows the intensity of support by federal states: indicating the per capita sums as a percentage of the Austrian average (1.158 ATS). The highest amount of support- viz.almost 200%- goes to Styria, followed by Carinthia. Thus, the historical unity of Inner-Austria as the relatively least developed region of Austria has been recognized also by the EU's regional support authorities. On the other hand, the sums allocated to the prosperous western states Vorarlberg, the Tyrol and Salzburg are lower than the Austrian average. Vienna brings up the rear.

Upon admission, Austria, as an Alpine country, had large Goal-5b-regions. From 1995 to 1999, they comprised 29.2% of its resident population and received 1,025 bil. EUR support from EU and Austrian funds. "Agenda 2000" has taken the subsidies earmarked for rural areas out of the EU regional policy programs and transferred them to the more comprehensive sector of agriculture (see above).

It remains to be seen how Austria's regional policy can be harmonized with EU policies in the future, not least in view of the EU enlargement eastward early in the 21th century, which will necessitate a reorganization of EU Structural Funds. It is quite possible that in case of full membership of the associated Central-European member countries (Hungary, Czech Republic, Slovakia and Slovenia), EU Regional Policy will entirely abandon the richer EU member states, as new peripheries and regions worthy of support are identified in those eastern states.

Source:

Elisabeth Lichtenberger: Austria. Society and Regions.
Austrian Academy of Sciences Press, Vienna, 2000.