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Collective bargaining and balanced recovery: The case of Austria

Christoph Hermann

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Foreword

This paper is part of a series of national studies on collective bargaining and effective responses to the crisis under the Global Product on ‘Supporting collective bargaining and sound industrial relations’. The national studies seek to examine the impact of the crisis on industrial relations and collective bargaining institutions; identify the ways in which collective bargaining was used to mitigate the effects of the crisis and the outcomes as they relate to: employment wages, working time, and employment relations. They identify good practices in this regard and consider the implications for balanced and effective recovery.

The economic crisis hit Austria in the autumn of 2008. While the banking sector was struggling with the insecure outlook for its investments in Central and Eastern Europe, demand for industrial exports started to fall in the winter months. What followed was a short but deep recession with the gross domestic product (GDP) falling by 3.6 per cent in 2009. The economic crisis quickly turned into a labour market crisis. However, at 1.4 per cent, unemployment increased significantly less than the economy contracted and less strongly than in many other countries in Europe.

Social dialogue and collective bargaining played an important role in mitigating the crisis in Austria. Tripartite social dialogue helped to reform the existing short-time working schemes and make them more attractive for companies as an alternative to laying off workers. Up to 30,000 jobs may have been saved through this measure. Tripartite social dialogue also succeeded in setting up a work foundation for young workers threatened by unemployment, even though the measure was less effective than expected. At the same time, collective negotiations on the implementation of short-time working made sure that workers did not suffer dramatic reductions in income even if they worked significantly fewer hours than usual. Social partner negotiations also led to the adoption to a more flexible system of mandatory staff retention, benefiting companies with long short-time working periods.

Just as importantly, collective bargaining boosted real wages in the crisis year, fuelling demand and mitigating the contraction of GDP. Austria recorded one of the highest nominal and real wage growth rates in the European Union in 2009. The Government agreed to increase the wages of the roughly 350,000 public-sector workers in 2009 to boost purchasing power. However, outside the sector the growth in real wages was the outcome of the traditional bargaining process, the timing of bargaining and the shortness of the crisis. Growth started to pick up again in the second half of 2009. Since real wage growth fell back in 2010, the wage agreements concluded during the crisis had a strong anti-cyclical effect.

DIALOGUE working papers are intended to encourage an exchange of ideas and are not final documents. The views expressed are the responsibility of the author and do not necessarily represent those of the ILO. I am grateful to Christoph Hermann for undertaking the study and commend it to all interested readers.

Moussa Oumarou
Director,
Industrial and Employment
Relations Department

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1. Introduction

This paper reviews collective bargaining practices during the crisis and its contribution to a balanced recovery in Austria.

It consists of three main parts: a summary of the social and economic impact of the crisis in Austria, a description of the main characteristics of the Austrian collective bargaining system, and an analysis of tripartite and bipartite responses to the crisis. Negotiations took place on several levels and on a number of issues. The negotiations are summarized according to three main issues: bargaining for jobs, including bargaining on short-time working, work foundations and shorter working hours; bargaining for wages and concession bargaining. In addition to providing an overview of major developments, the report cites specific examples to illustrate the dynamics of the negotiations. It ends with conclusions on the negotiating processes and their impact.

The study is based on a review of secondary literature and documents. In addition, expert interviews were conducted with trade union representatives and a representative of the Chamber of the Economy who were all heavily involved in the negotiations during the crisis. I am grateful to them for taking the time to answer our questions. The report also uses data and information from other research carried out at FORBA (Working Life Research Centre) and builds on insights and advice from Sepp Zuckerstätter of the Austrian Chamber of Labour. I gratefully acknowledge their support, although I take full responsibility for the report itself.

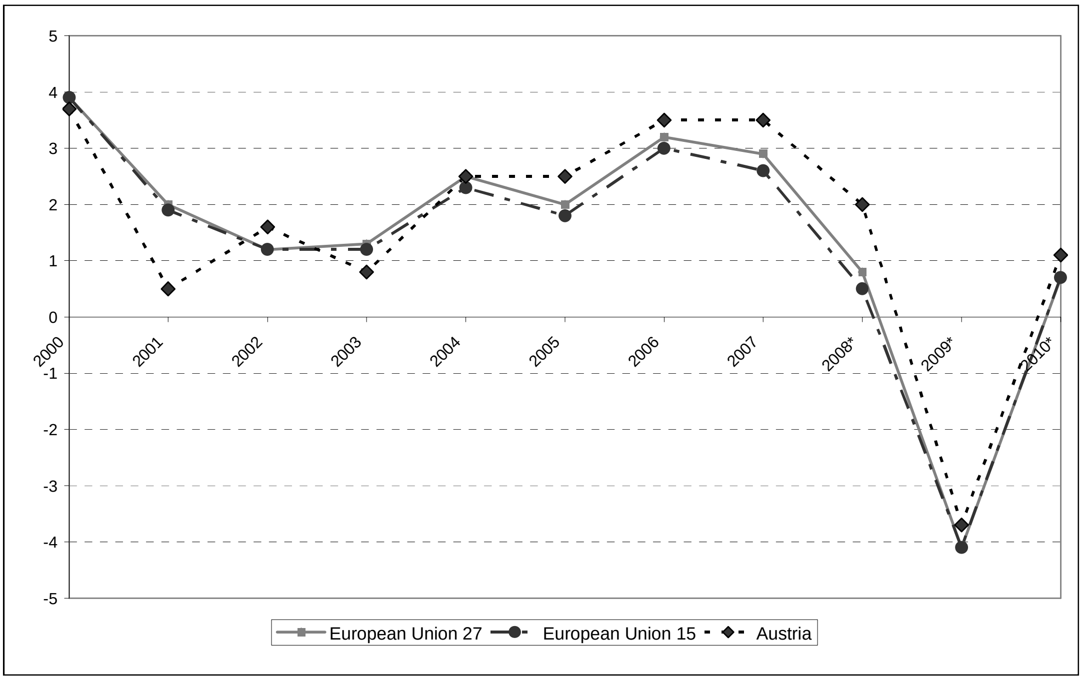
2. Social and economic impact of the crisis

The crisis hit Austria in the second half of 2008 and ended a phase of accelerated growth that had started in 2003. GDP growth rates reached 3.5 per cent annually in 2006 and 2007, fuelling profits and inflation. After years of stagnating wages, workers capitalized on the favourable economic climate and achieved significant real wage increases in 2006 and 2007. Growth also resulted in a fall of the unemployment rate which dropped below 4 per cent (Labour Force Survey measurement) just before the crisis unfolded in 2008.

GDP growth fell back somewhat in the second quarter of 2008 from the previous quarter, but plummeted in the second half of the year (Stiglbauer 2010: 26). The early warning system of the Labour Market Service indicated a marked increase in unemployment, but the effects of the crisis were not fully visible before 2009. GDP still grew by 2 per cent in 2008 and unemployment remained below the 2007 level (Scheiblecker et al. 2010: 322; WIFO 2010: 936).

The situation changed dramatically in 2009. In first quarter of that year the economy contracted by 2.2 per cent from the fourth quarter of 2008 and by 4.9 per cent compared to the first quarter of 2008. The economy continued to shrink until mid 2009, bringing down the GDP for the year by 3.6 per cent. The last time the Austrian economy recorded such a decline in GDP was in 1949 (Scheiblecker et al. 2010: 323). However, despite the massive blow, the Austrian economy performed better than many other European economies, including Germany where GDP fell by 5 per cent (ibid. 234).

Figure 2-1.
Economic growth in Austria



Source: Eurostat.

The Austrian economy is traditionally highly dependent on exports. While Germany remains its main trading partner, Austria intensified its economic relationships with new European Union (EU) Member States in Central and Eastern Europe (CEE), following the opening of these economies after 1989 and their accession to the Union (Hermann and Flecker: 2009a). While Austria profited from the years of above-average growth in the CEE countries, the massive exposure of Austrian banks in the region turned out to be a major risk when the crisis unfolded. Total bank assets fell by 3.3 per cent in 2009.

Apart from the banking sector, which was saved through the adoption of a hundred billion euro rescue package, the crisis initially affected mainly the export sector. Total exports fell by 20 per cent in 2009. Among the exporting sectors, manufacturing was hit particularly strongly and within the manufacturing sector the main victims were producers of investment and durable consumption goods and related intermediary products. The manufacturing output started to fall in the fourth quarter of 2008. The pace of contraction increased markedly in the first quarter of 2009 when value added dropped by 6 per cent. Over the year value added fell by 11.7 per cent (Scheiblecker et al. 2010: 323; 369-370). Some manufactures struggled with a 30 to 50 per cent decline in orders.[1]

Construction, too, was strongly exposed to the crisis. Even though Austria experienced a marked growth in construction in 2006 and 2007, the boom was not comparable to the Irish or Spanish housing bubbles. When demand started to diminish in the second half of 2008, construction firms still had plenty of work in their books from existing contracts. But in 2009 the lack of new contracts led to a substantial fall in construction activities. Output decreased by 7.6 per cent in the first quarter of 2009 and by 2.3 per cent for the year (ibid. 372). The decline in private demand was partly offset by public investments. These investments spurred growth in the construction sector in the fourth quarter of 2009 (ibid). The tourist industry also felt the consequences, but with a 3.5 per cent reduction in total revenues from 2008 to 2009, the industry did better than expected and better than in other tourist countries (ibid. 342).

[1] Manfred Engelmann, interview by C. Hermann, 31 January 2011.

The crisis in the export sector was partly mitigated by an expansion of national demand. Demand profited from a catch-up process. Despite accelerating economic growth, private consumption grew only moderately in 2007 and 2008 (0.8 per cent in real terms per year respectively). The rate of growth was halved as a result of the crisis, but consumers still spent more for private consumption in 2009 than in 2008 (while in the Euro Area consumption declined by 0.7 per cent over the same period). Interestingly, consumption decreased by 0.6 per cent in the first six months but bounced back strongly in the second half of 2009 to rise by 1.3 per cent (ibid. 350). As Marcus Scheibelcker and colleagues (ibid. 347) note, "consumption was the only demand aggregate which did not shrink in 2009 in Austria. It therefore prevented an even stronger contraction of the economic development."

Three developments were instrumental in sustaining private consumption during the crisis: increases in real wages (minimum wages rose nominally by 3.4 per cent and in real terms by 2.9 per cent in 2009), public subsidies for short-time working and educational leaves, and an income tax reform which pushed net wages up by 2.4 per cent in 2009. The first two measures will be discussed in more detail further below. According to the Austrian Institute for Economic Research (WIFO), these measures had a strong anti-cyclical effect and boosted consumption by roughly 0.8 per cent (ibid). As a consequence of sustained consumption, the retail trade was only mildly affected by the crisis: excluding the automobile trade, retail trade grew by 1.2 per cent in 2009 (ibid. 352).

Table 2-1.
Development of exports and household consumption

	2009		**2010**		**2011*** **		**2012*** **	
Exports	130.86*	- 16.1**	145.05	+ 10.8	155.76	+ 7.4	165.91	+ 6.5
Household consumption	139.62	+ 1.3	140.99	+ 1.0	142.53	+ 1.1	144.10	+ 1.1

* Billion euros.

** Change to the preceding year in percentage.

*** Forecast.

Source: WIFO (economic outlook).

The economic crisis quickly turned into a labour market crisis, but the reduction in employment was less severe than the contraction in GDP. While GDP fell by 3.6 per cent in 2009, unemployment increased by 1.4 per cent (Scheiblecker et al. 2010: 361). The number of unemployed persons climbed up by 57,000 from June 2008 to June 2009, while the number of participants in training programmes rose by almost 16,000 over the same period (Stiglbauer 2010: 28).

Following the trajectory of the crisis, job losses first appeared in the manufacturing sector with losses in February 2009 outstripping employment gains for the first time in six years. Over the course of 2009, employment in manufacturing fell by 6 per cent (Scheiblecker et al. 2010: 369). Other sectors also cut employment, with the effect that the pace of reduction increased until the third quarter of 2009 when total employment slumped by 1.9 per cent (ibid. 361).

Among the first workers who lost their jobs were temporary agency workers. The number of agency workers had increased significantly during the economic boom preceding the crisis. According to a survey of works council representatives from major Austrian companies, 52 per cent of the establishments cut or were planning to cut the number of temporary agency workers in February 2009 (Eichmann and Bauernfeind 2009: 6). The same survey also revealed that export-oriented companies (companies which produce more than 40 per cent of their output for export) were more inclined to reduce agency staff than other companies (ibid. 9).

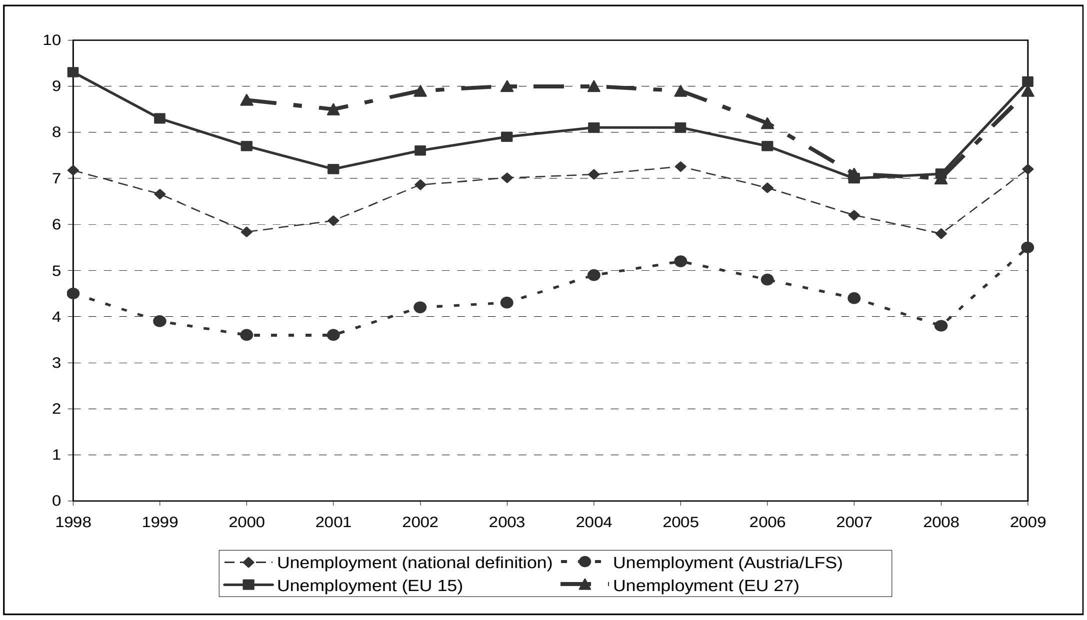
Overall the number of agency workers declined by 15.9 per cent between July 2008 and July 2009; in manufacturing the reduction amounted to 32.8 per cent over the same period (Scheiblecker et al. 2010: 365). Taken together, employment cuts in manufacturing and in employment agencies accounted for as much as the rest of the economy (Stiglbauer 2010: 28). However, while agency workers were the first to be laid off, they were the first to be rehired after growth started to pick up again in the second half of 2009 (Allinger 2011). Permanent employment also began to rebound in 2010, but by the end of 2010 the manufacturing sector was still lacking 56,000 jobs compared to the peak of employment in mid 2008 (Materbauer 2010: 922). The job losses in manufacturing were partly offset by job gains in the public sector, especially in education and the health and social services (Stiglbauer 2010: 41).

Unemployment increased quickly and at a growing pace until June 2009 when 33 per cent more unemployed persons were registered than in the preceding month. Overall unemployment expanded by 48,100 persons or 22.6 per cent from 2008 to 2009. Based on registered unemployment figures alone, the unemployment rate swung up from 5.8 per cent in 2008 to 7.2 per cent in 2009 (Scheiblecker et al. 2010: 366).[2] If people in training and other labour market service measures are included, unemployment reached 9.6 per cent in 2009 (ibid. 368). The unemployment rate would most likely have risen further without the three labour market packages adopted in 2009. These included the relatively generous short-time working schemes described further below. According to a company survey, companies also responded to the crisis by cutting back overtime (Eichmann and Bauernfeind: 2009).

With the economic recovery the unemployment rate started to fall again in the fourth quarter of 2009 and declined to 5.8 per cent in the third quarter of 2010 (WIFO 2010: 936). In Eurostat terms the unemployment rate was 4.8 per cent in 2009 and was therefore significantly lower than in most other European countries (Scheiblecker et al. 2010: 366). Given the impact of the crisis on the manufacturing sector, men were more frequently affected by unemployment than women. Young workers, migrants, and semi- or unskilled workers were also particularly affected (ibid. 366). The average duration of unemployment increased during the crisis, as did the proportion of long-term unemployed persons (ibid. 368).

[2] In Austria the unemployment rate is traditionally measured as the number of those registered as unemployed with the Labour Market Services as a proportion of dependent employees. This differs from Eurostat’s calculation of unemployment which is derived from the Labour Force Survey 8 carried out in Austria by Statistik Austria. Here respondents are asked about their labour market participation. A respondent qualifies as unemployed when he or she is not employed and has not worked for at least one hour in the reference period, even though he or she is willing and able to work. The unemployment rate is the number of unemployed persons as a proportion of total employees (not only dependent workers). The first method is sometimes referred to as national and the second one as European measurement. Figures based on the first one are usually higher than the second one.

Figure 2-2.
Development of unemployment



Source: Eurostat, Statistik Austria

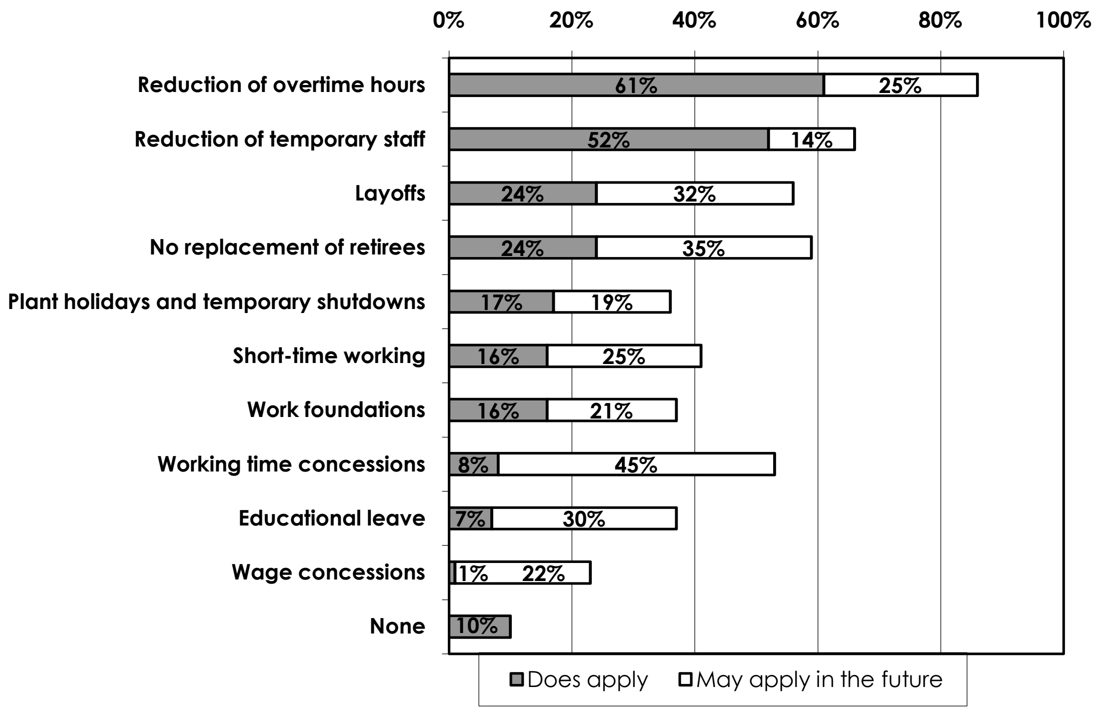
After the contraction in 2009, the Austrian economy started to grow again in 2010. GDP rose by 2 per cent in 2010 and the Austrian Institute for Economic Research expects a 2.5 per cent rise in 2011 (Eder 2011: 220). The growth was driven by a strong recovery of the export industry, mainly fuelled by the German recovery and by growing exports to the newly industrializing countries, especially China. Total exports expanded by 16.5 per cent in 2011.

Production in the industrial sector grew by 6.7 per cent in 2010 and is expected to grow by another 7 per cent in 2011 after falling by 14.3 per cent in 2009 (Eder 2011: 226). However, employment in the production sector dropped further by 1.3 per cent in 2010, indicating that companies rely on overtime and agency workers rather than on hiring additional permanent staff (Scheiblecker et al 2011: 256). After a prolonged period of stagnation, investments in production picked up again in 2011.

While the export sector has largely recovered, the construction industry is still struggling with sluggish demand (Eder 2011: 227). Unemployment fell to 6.9 per cent in 2010 and is expected to drop to 6.4 per cent in 2011 (ibid. 228). Real term growth in household demand, which partly compensated for the loss in exports, fell back to 1 per cent in 2010 (after increasing 1.6 per cent in 2009). Unemployment dropped to 6.9 per cent in 2010 and is expected to reach 6.4 per cent in 2012 (in Eurostat terms 4.4 per cent and 4.1 per cent respectively) (ibid. 229; Scheiblecker et al. 2011: 278 and 293).

While the manufacturing sector has, at least temporarily, weathered the crisis, public expenditure during the crisis led to the adoption of a first austerity package in late 2010. The austerity measures are supposed to save 15.5 billion euros until 2014 (Schratzenstaller 2011). The cuts in welfare state spending, including care benefits, and in research, education and culture may have some negative effects on public employment, but nowhere near the negative effects of the austerity packages adopted in the United Kingdom, Ireland, or Greece.

Figure 2-3.
Company measures against the crisis
(applied and planned in Feb. 2009)



Source: Eichmann and Bauernfeind 2009. Data derived from a works council survey carried out in Feb. 2009.

3. The Austrian system of collective bargaining

The Austrian system of collective bargaining stands out for its highly centralized, coordinated and comprehensive character. About 94 per cent of dependent workers were covered by a sector-wide collective agreement in 2005 (Bönisch 2008) and another 3 per cent by company agreements (Flecker/Hermann 2005: 39; Traxler/Behrens, 2002). Bargaining mainly takes place on the sectoral level. Even though there have been some tendencies towards fragmentation – especially in the liberalized and privatized public services – the collective bargaining system has remained amazingly stable in the last decade. In contrast to international trends, the social partners in Austria were even able to extend bargaining coverage into new areas such as IT services, social and health services and private education (Hermann/Flecker 2006). Company agreements cannot as a rule undercut the standards set in sectoral agreements. In some cases, however, the sector agreements grant the company-level social partners greater room for compromise (especially with regard to flexible working hours, and partly also with regard to variable increases in wages).

Table 3-1.
Bargaining coverage

Sectors	Bargaining coverage in %
Sectors represented by the Chamber of the Economy	
Craft and trade	98
Manufacturing	99
Retail and wholesale trade	99
Banking and insurance	95
Transport and traffic	95
Tourism and leisure industry	90
Information and consulting	85
Sectors not represented by the Chamber of the Economy (e.g., health and social services, professionals)	82
Agriculture and forestry	95
Total	94

Source: Bönisch 2008

The main reason for the extent and stability of the Austrian bargaining system is the mandatory representation of Austrian companies by the Chamber of the Economy (Wirtschaftskammer).[3] Unlike in Germany and other countries, employers cannot disregard bargaining units. Except for a few companies, all employers are required by law to be members of the Chamber of the Economy, which negotiates the vast majority of collective agreements with trade unions (Flecker/Hermann 2005; Glassner/Adam 2008). After a series of mergers within the Austrian Trade Union Federation, there are seven trade unions left, mostly organized along industrial sectors. An exception is the GPA-DJP (Gwerkschaft der Privatangestellten – Druck, Journalismus, Papier) which traditionally represents white-collar workers outside the public sector.

As a result, many sector agreements are concluded separately for white- and blue-collar workers. However, representatives of GPA-DJP and the respective sector unions for blue-collar workers usually coordinate their demands and bargaining strategies closely before and during the negotiations (ibid). While the Chamber of the Economy is also organized according to different branches, in addition there is a distinction made between large-scale industrial production (Industrie) and small-scale craft production (Gewerbe). The distinction is reflected in the conclusion of separate sector agreements for industrial and craft production (Glassner/Adam 2008).

Collective agreements in Austria typically last for one year. In some sectors such as construction, the social partners also negotiate two-year agreements. During the crisis several two-year agreements were concluded outside the construction industry. These agreements were the outcome of negotiations in which both parties weighed the advantages and disadvantages of shorter and longer than usual agreements rather than the result of a

[3] The social partners in Austria are represented by voluntary as well as legal interest organizations. The legal organizations, the Chamber of the Economy and the Chamber of Labour, are financed through mandatory employer and employee contributions respectively. As legal representatives, they are part of social partner arrangements and have certain legal rights such as the right to comment on bills discussed in Parliament. Traditionally a large part of their activities focuses on supporting their constituencies. The initial idea was that collective agreements should be negotiated by the voluntary organizations. This is the case with the employees, on whose behalf agreements are negotiated by the member unions of the Austrian Trade Union Federation, but not with the employers. For specific historic reasons, the Chamber of the Economy represents employers not only legally but also negotiates the bulk of collective agreements. There are voluntary interest organizations for the employers, some of which are involved in bargaining, but the largest and most powerful one, the Austrian Federation of Industry, works mainly as a pressure group.

systematic shift towards a two-year system. Most sectors returned to the one-year cycle after the crisis.

Public- and private-sector bargaining differ in that civil servants lack formal bargaining rights. In practice, however, negotiations are highly centralized, with wage increases being determined in top-level negotiations between representatives of the Federal Government and the leadership of the Union of Public Service (ibid). Outcomes are imposed via government decrees (through salary schemes) rather than collective agreements. Nevertheless, with the liberalization and privatization of public services, some parts of the public sector have gained independence from public-sector wage negotiations. While some providers adopted private-sector collective agreements, others introduced company agreements (Hermann 2008).

The round of yearly negotiations usually starts in the autumn with the metal sector. Another major agreement negotiated in the autumn bargaining round is the agreement for the wholesale and retail sectors and for civil servants (together the three sectors account for between 350,000 and 365,000 workers). The autumn bargaining round is followed by the spring round with negotiations in the chemicals and paper industries, among other sectors. Bargaining in the metal sector plays a special role in the private sector, since the metal sector agreement is widely considered a guideline for the succeeding agreements (ibid).

In terms of timing, procedures and outcomes, the Austrian bargaining system is highly coordinated, yet coordination does not necessarily result in an adjustment of wages (Traxler 2005). The Austrian trade unions do not pursue a Swedish style solidaristic wage policy aiming to narrow the gap between the lowest and the highest wages (ibid; Hermann 2009). On the contrary, Austria stands out for its significant and persistent sectoral wage differences (Hermann/Flecker 2009a).

Some of the differences stem from the widespread practice of paying workers more than what is required by the collective agreements. Workers in large and profitable companies benefit especially from these so-called excess payments (Überzahlungen). The fact that actual wages may be higher than the minimum wages set in the collective agreements is reflected in the bargaining processes, where occasionally two different growth rates are negotiated: one rate for minimum wages and one for the wages that are actually paid (Istlöhne). However, the rate for actual wages is typically somewhat lower than the one for minimum wages, resulting in a gradual closing of the wage drift (Pollan 2005: 6).

Another factor that explains the marked sectoral differences is the lack of a statutory minimum wage. As there is no uniform minimum wage, the lowest pay rates in the collective agreements are considered minimum wages (Hermann 2009). However, since the late 1980s, there have been at least union-wide minimum wage campaigns, aiming at increasing the lowest wage rates to a minimum standard (ibid.).

Wages are typically increased by a specific number of percentage points. Occasionally the increase refers to a fixed amount of money (Fixbetrag) or to a mix of percentage points and a fixed payment. Sometimes pay increases are limited to one-time payments (Einmalzahlungen). Wage demands are traditionally derived from productivity gains and inflation. The goal is full compensation for inflation and a partial reward for growing productivity, also known as the Benya formula (Glasner/Adam 2008).

The Benya formula

The Austrian trade unions, like other trade unions in Europe, adopted a productivity-oriented wage policy in the post-war decades (Schulten, 2004). The goal was no longer to gain the highest possible wage increase but the wage rise that would support the economy most, taking into account the Keynesian assumption that growing demand is essential for boosting growth. In Austria the productivity-oriented wage policy is called the Benya formula after Anton Benya, a former long-time president of the Trade Union Federation. According to the formula, wage increases should fully compensate workers for the rise in inflation and grant them a significant share in productivity growth (Glasner/Adam 2008). Productivity is understood to be labour productivity or output per working hour. Smaller industries rely on national indices of productivity; the larger sectors such as the metal industry also use sector-specific indicators.

According to a negotiator from the trade union PRO-GE, the economic indicators are used as reference points for negotiations rather than as a base for calculating a specific wage increase which would then be put on the table by trade union representatives. Whether and to what extent workers share in productivity growth depends on the negotiation process. In this process other factors such as the economic situation of the main companies in the sector also play a role. In fact, until the crisis, wage increases for many years lagged behind productivity growth, especially in capital-intensive sectors such as the metal industry.

Importantly, the trade unions base their demands on the inflation and productivity developments of the preceding year, rather than on future projections. As will be described further below, the ex-post approach had important consequences for wage developments during the crisis. The approach was challenged by the Austrian Federation of Industry which argued that, because of the fall in productivity during the crisis, wages should not increase.

Real wage growth was rather moderate in the years leading to the crisis. Between 2000 and 2009 real wages increased by a mere 6.5 per cent or 0.65 per cent yearly (Schulten 2010: 2000). This means that despite the use of the Benya formula real wage growth clearly lagged behind growth in productivity. According to figures provided by the Chamber of Labour, per capita labour productivity swung up by 17.8 percentage points from 1995 to 2005, whereas average gross earnings per worker adjusted for the rate of inflation increased by only 3.3 percentage points (AK Oberösterreich 2005: 5; Glasner/Adam 2008). The reasons include falling membership numbers, but the internationalization of the Austrian economy and the threat of relocation of production are at least as important. As in other parts of the world, Austrian companies often threaten to relocate production outside Austria, preferably to the nearby new EU Member States in Central and Eastern Europe, if their demands are not met (Hermann/Flecker 2009a). Moderate wage increases have resulted in a falling wage share, i.e., the amount of wages as a proportion of GDP. Between 1991 and 2003 the wage share declined from 72 per cent to 58.5 per cent (Guger/Marterbauer 2004). This trend was temporarily reversed by the crisis: as a result of contracting profits, the wage share shot up strongly in 2009 (see further below).

In terms of working time reductions, the trade unions were even less successful. Some companies introduced shorter working hours in exchange for more working time flexibility, but there were few reductions at the sectoral level. The average collectively agreed weekly working time amounted to 38.8 hours and effective working hours were 42.2 hours in 2008. Among the EU 15 countries, only Greece, Ireland and Luxembourg had longer collectively agreed hours, and only the United Kingdom had longer effective hours (Schulten 2010: 202). While the Austrian Trade Union Federation officially demands the introduction of the 35-hour week, the sector unions often prioritize higher wages over shorter hours. Yet, as discussed further below, shorter hours became a prominent bargaining issue in the aftermath of the crisis. Overall, the Austrian trade unions were more successful than their German counterparts in blocking the drive towards flexibilization and they were more steadfast in defending collective standards by rejecting company-based exemptions (Schulten/Bispinck 2011).

While the bargaining system at the sectoral level has shown remarkable stability and adaptability, company-level workers' representation has tended to decline over a number of years. Workers in companies with five and more employees are entitled to elect a company works council. In 2004, only 14 per cent of eligible companies had a works council. In companies with 5 to 10 employees, the proportion was only 3 per cent and in those with 11 to 19 workers only 6 per cent (Hermann/Flecker 2009b: 101).

Works councils enjoy a number of rights, including representation in company boards of public limited companies. They can also negotiate binding company agreements (Betriebsvereinbarungen). Working hours and wages are generally fixed at the sector level. In some cases, sector agreements allow for more working time flexibility if the firm-level social partners reach a company agreement. But the limits are set by compromises reached on the sector level (Flecker/Hermann 2005: 41).

The limits for wages are even narrower. Minimum wages are set at the sector level and cannot be undercut. However, some sector agreements grant works councils and management the possibility to distribute a smaller part of the yearly wage increase among different groups of workers. The so-called distributional option (Verteilungsoption) is typically used to improve the wages of the lower-paid job categories, but sometimes it is used to reward key personnel.

Trade union membership has also tended to decline. While about 35 per cent of dependent employees in Austria are still trade union members, the total membership has fallen by 25 per cent since 1990. Trade union membership differs significantly between sectors, but only in a few branches are unions winning more members than they are losing. Owing to the fact that collective agreements apply to all workers in the sector, the decline has had no immediate effect on collective bargaining (as mentioned before, 98 per cent are still covered by a collective agreement). However, viewed from the long term, decreasing membership raises questions about the ability of trade unions to organize effective strikes and subsequently weakens their position in negotiations with employers. The moderate wage growth of the past 15 years can partly be explained by the declining trade union membership.

So far both sides have been very reluctant to test the strike option. Except for a brief period of elevated strike activities under the far-right Government which ruled the country from 2000 to 2006, Austrian strike rates are among the lowest in Europe (and the strikes during this period mainly addressed government reforms rather than bargaining issues). While negotiations usually result in an agreement that is acceptable to both sides, several trade unions report that negotiations have become increasingly difficult and time consuming as employers refuse to grant significant improvements even during economically favourable years. For their part, employers demand more flexible pay agreements with sector wage increases only compensating for inflation and the limitation of negotiations on additional real wage increases to the company level.

4. Social dialogue in times of crisis

The Austrian social partners played an important role in mitigating the impact of the crisis. Social partner consultations took place at various levels and on a number of issues. Tripartite social dialogue concerned the reform of short-time working regulations and the establishment of a workers' foundation. Collective bargaining focused on the implementation of short-time working (at the intersectoral and company level) as well as on wages and working time (at the branch level).

4.1 Tripartite responses to the crisis

Reform of short-time working

The most popular response to the crisis was the adoption of a relatively generous short-time working programme. Short-time working had existed before the crisis and had been repeatedly used by companies affected by environmental disasters (e.g., flooding), but it played only a minor role as a labour market policy instrument. In October 2008, right before the outbreak of the crisis, 400 workers were registered as taking part in short-time working schemes (BMASK 2010: 300). In the following weeks the Chamber of the Economy received increasing reports from companies that demand was declining and production could not been maintained at the existing level. Several companies were considering short-time working as an alternative to mass redundancies.

Short-time working was a highly attractive for both employers and employees. It enables companies to retain staff and existing skills during temporary slumps, facilitating a rapid return to pre-crisis levels of production when growth picks up again (otherwise companies would have to find new workers with the required experience and skills). According to a survey of Austrian companies conducted during the crisis, firms with capital-intensive production and with a high proportion of highly skilled workers have tended to use short-time working, while those with labour-intensive production and a high share of young and low-skilled workers were more inclined to lay off staff (Kwapil 2010: 3). Trade unions like short-time working because it prevents workers from being laid off during times of crisis.[4] The Government welcomes the preservation of jobs, which holds down the unemployment rate. However, the measure creates additional expenses for the Government in short-time working aid (which are partly compensated by savings from lower unemployment). During the crisis covered by this report, the fact that the Government had to cover most of the costs certainly made it easier for the social partners to reach an agreement.

Even though Austria has institutions for tripartite social dialogue, the negotiations on short-time working took place in response to an ad hoc invitation from the Government. The social partners and the Government quickly agreed that short-time working should be central to combating the crisis. To facilitate widespread use of the measure, the parties also agreed that the existing regulations needed some adaptation.

In early 2009 the Government invited the social partners to negotiate a reform of the short-time working system. As a result, the social partners met representatives of the Government and other interest organizations several times between January and June 2009. The negotiations led to the adoption of two amendments, introduced as part of two broader labour market packages (Allinger/Flecker 2010).

The reform included a number of improvements. The two most important ones were an expansion of the short-time working amplitude and an extension of the maximum period of short-time working. According to the new regulation, any working hours between 10 and 90 per cent of the regular hours qualified as short-time working. At the same time the maximum duration for short-time working was first increased from 12 to 18 months and then to 24 months (BMASK 2010: 293-4). Another measure adopted to make short-time working more attractive was a rebate on social security contributions paid by the employers after six months of short-time working. Furthermore, the Government introduced additional incentives for workers who combine short-time working with training or further education (ibid). Even though it was a tripartite dialogue, the representatives of the Trade Union Federation and the Chamber of the Economy played a particularly important role as they repeatedly met before the negotiations in order to find a compromise which they would then propose in the larger negotiations (Allinger/Flecker 2010).

Short-time working is widely considered a success by the social partners. It was mainly used in automobile production and more generally by automotive suppliers, and the engineering and metal sectors. At the peak of the development in April 2009, more than 300 companies had introduced short-time working, affecting more than 37,000 workers (BMASK 2010: 300). Around 67,000 workers reduced their working hours in 2009, amounting to an average of 26,000 workers on short-time work during the year. In 2007 the numbers were 667 and 128 respectively (ibid. 301 and 64). In 2010, short-time working

[4] Karl Proyer, interview by C. Hermann, 13 January 2011; Peter Schleinbach, interview by C. Hermann, 10 January 2011.

started to fall. By September 2010, only 2,880 workers were still on short-time, while unemployment had decreased by more than 8 per cent from its level in September 2009 (Wagner-Pinter 2011; AMS 2011).

Table 4-1.
Development of short-time working

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Registered workers	55	148	263	9	147	166	128	151	~ 26,000
New workers	2,586	5,746	5,162	480	2,178	871	667	8,238	~ 67,000
Average duration (in days)	1	1	1	1	16	60	69	61	71
Public subsidies (in '000 euros)	1,964	6,644	3,249	864	2,626	849	388	1,008	113,513
Subsidies per worker (in euros)	759	1,156	629	1,800	966	975	582	122	1,693

Source: Federal Ministry for Social Affairs and Consumer Protection.

The Federal Ministry of Social Affairs and Consumer Protection estimates that short-time working saved approximately 30,000 jobs (BMSAK 2010: 304). Alfred Stiglbauer (2010: 35) reckons that the effect was much lower. Assuming that 26 per cent of the 26,000 employees on short-time would have lost their jobs – 26 per cent was the average reduction of time in short-time schemes – he calculates an employment effect of just under 6,800 or 0.2 per cent of total employment. Stiglbauer (ibid.) argues that short-time working made up only a small part of the total reduction in working hours during the crisis. As table 4-2 shows, the total working hours dropped by 4 per cent between 2007 and 2009.

Table 4-2.
Development of working hours

	Total working hours (in millions)	Normal average weekly working hours	Actual weekly working hours (including part-time hours)	Proportion of part-time work (%)
2007	7,253.4	39.1	34.6	22.6
2008	7,306.1	38.6	34.3	23.3
2009	6,970.5	38.2	32.9	24.6
2010	6.977.1	37.9	32.8	25.2

Source: Statistik Austria

Interestingly, only 64 per cent of the workers pre-registered with the Labour Market Service for short-time working – the Service had to be informed six weeks before the introduction of short-time working and four weeks before an extension – actually switched to short-time working. Hence, in the end, the measure was less widespread than expected by the Government. Of the 220 million euros reserved for short-time working, a little more than half was actually needed (BMSAK 2010: 300). Taking into account the different sizes of the two countries, short-time working was actually less frequently used in Austria than in Germany (Bock-Schappelwein/Mahringer/Rückert 2011: 45). Nevertheless, some argue that merely by being available, short-time working had a positive effect on the stabilization of employment during the crisis (Wagner-Pinter 2011: 8).

There was also less demand than expected for the additional subsidies offered to companies which combined short-time working with further education or training. Only 20 per cent of the workers on short-time work used the opportunity to improve their skills (ibid). One reason may be that the regulation offered additional benefits for the companies but not for the workers, many of whom received 90 per cent of their regular wages irrespective of whether or not they took part in further training.[5] Other reasons include the fact that qualification for short-time working typically needs long-term planning whereas the crisis demanded ad hoc action. In addition, in the economic downturn it was perhaps not particularly encouraging to invest in a highly insecure future (Bock-Schappelwein/Mahringer/Rückert 2011: 43).[6]

Some companies used temporary layoffs as an alternative to short-time working to cope with falling demand during the crisis. Jutta Bock-Schappelwein, Helmut Mahringer and Eva Rückert (2011: 45) assume that the use of suspension agreements explain the less frequent use of short-time working in Austria in comparison to Germany. Unlike short-time working, suspension agreements are based on individual agreements between the employers and their employees and do not require social partner involvement (Atzmüller/Krischek 2010). The employee concerned is registered as unemployed and receives unemployment benefit but has a reemployment guarantee from the employer (ibid). Suspensions usually last two to three months. The trade unions and the Chamber of Labour strongly criticize these arrangements because they do not really provide employment security – employers can decline to take workers back even if they have reemployment guarantees – and may have negative effects on future unemployment and pension benefits.

Before the crisis, suspension agreements were mainly used in connection with seasonal employment. Employers in tourism and construction have issued their staff reemployment guarantees during the seasonal breaks. It is widely accepted that the number of suspension agreements went up during the crisis. According to one interviewee, some companies were deliberately using temporary layoffs instead of short-time work to avoid time-consuming negotiations with works councils and trade unions.[7] The Labour Market Service does not officially collect data on suspension agreements. However, according to a newspaper report, the number of unemployed with the promise of reemployment rose by 18 per cent between July 2008 and July 2009, when 26,325 individuals suspended their employment contracts. The increase in the production sector was particularly high: the number of unemployed industrial workers with reemployment guarantees soared by 133.3 per cent over the same period. The report also quotes the head of the Labour Market Service as saying that suspension agreements were less frequent than short-time working and that they were certainly not a “mass phenomenon”.[8]

Work foundations

As mentioned before, agency workers were particularly affected by the crisis and were the first to lose their jobs. The Trade Union Federation and the Ministry of Social Affairs and Consumer Protection floated the idea that redundant agency workers should be placed in a work foundation rather than become unemployed. Work foundations are a traditional labour market instrument in Austria. They have existed since the mid 1980s and were initially introduced to cope with staff redundancies in the former nationalized industries (Atzmüller/Krischek 2010). The basic idea is that workers who are threatened by a job loss

[5] Karl Proyer, interview by C. Hermann, 13 January 2011.

[6] However, while workers rarely combined short-time working with further education, demand for educational leaves (Bildungskarenz) increased markedly during the crisis. Some 6,900 workers took this opportunity at the peak of the crisis in November 2009. This was six times more than in November 2007 (BMASK 2010: 302).

[7] Manfred Engelmann, interview by C. Hermann, 31 January 2011.

[8] The newspaper report does not mention the source of the figures.
“Unternehmen setzen häufiger auf Aussetzungsvertrag”, in *Wirtschaftsblatt*, 6 August 2009.

because of economic restructuring are admitted to specifically created work foundations where they receive individual support and specific training in order to help them to find new employment. Support usually lasts for three years; for participants older than 50, it can be extended to four years.

Work foundations are relatively successful. Roughly two-thirds of those trained in a work foundation actually find jobs (ibid.). Before the crisis, foundations were typically set up when a company ran into insolvency or laid off a substantial number of workers, or when a number of companies in the same region struggled with economic difficulties and cut employment.

The social partners play an important role in the establishment of work foundations: traditionally these foundations are approved by the Labour Market Service only if there is social partner consent. The bulk of a foundation's costs is paid by the Labour Market Services, but the companies are expected to make a financial contribution (ibid.). To facilitate the creation of a work foundation for agency workers, existing regulations had to be amended. Since February 2009 it has been possible for work foundations to be set up not only at the company and regional levels but also at the sectoral level (BMASK 2010: 294).

The examples of the agency workers' and young workers' foundations

After the reform of the existing regulations, the social partners started to negotiate the establishment of a work foundation for agency workers. The negotiations proved more difficult than anticipated. The main problem was the financing of the measure. As mentioned before, employers are expected to contribute to costs. In this case, however, the association of employment agencies, representing the employers in the sector, refused to pay. The employment agencies argued that it was not them but the companies hiring agency workers which profited from the training. The Chamber of the Economy supported the creation of a work foundation for agency workers, but also declined to contribute to its costs. Since the Labour Market Service was not willing to cover the costs on its own – this would have set a precedence for future negotiations on other work foundations – the negotiations broke down and the plan had to be abandoned (Wirtschaftsblatt, 3 Feb. 2009).

While the negotiations on an agency workers' foundation failed, the social partners agreed on a work foundation for young workers. The measure was introduced as part of the second labour market package in June 2009. Here the employers agreed to pay 1,000 euros for each employee admitted to the foundation. Eligible participants were between 19 and 24 years old and employed for at least three months by a small or medium-sized enterprise (SME) or an employment agency (the measure was partly a compensation for the failed agency workers' foundation). While being trained at the foundation, participants received unemployment benefit and an additional 100 euros monthly as a foundation scholarship benefit (BMSAK 2010: 294-5).

The plan was that up to 2,000 young workers would participate in the foundation at costs in the range of 10 million euros; of these two million euros were to be covered by the companies (ibid). While work foundations *per se* played a significant role in combating unemployment during the crisis – the number of workers entering a work foundation was more than 10,000 in 2009 and the average number of participants was 65 per cent higher than in 2007 – participation in the young workers' foundation clearly failed to meet expectations (ibid. 78 and 301).

4.2 Collective bargaining during the crisis

Apart from the traditional negotiations on wages and working hours, the trade unions and employers also negotiated the implementation of short-time working schemes during the crisis.

Implementation of short-time working

In addition and partly parallel to the tripartite dialogue on the reform of short-time working, representatives of the Trade Union Federation and the Chamber of the Economy also negotiated a framework agreement (Rahmenvereinbarung) laying down the principles for the adoption of short-time working schemes by companies. Negotiators came mainly from the PRO-GE production trade union and the industry section of the Chamber of the Economy which were both particularly affected by the crisis (Allinger/Flecker 2010).

While the tripartite social dialogue ran rather smoothly, the bipartite negotiations between employers and trade unions had to overcome a number of challenges. The first conflict emerged when the employers proposed a change to the implementation process. According to the employers, the implementation process should be made more flexible. Companies should be able to adopt the principles of the framework agreement without obtaining additional approval from the works council, the trade unions and the Chamber of the Economy. This, so the employers argued, would save companies time spent on unnecessary negotiations.[9] The employers pointed to the example of Germany, where companies could introduce short-time working without social partner approval. The unions disagreed on the ground that additional approval was necessary to ensure that companies would not misuse short-time working and demand unreasonable concessions from workers.[10]

The second conflict concerned the wages of workers on short-time working. The Labour Market Service pays short-term working support in the range of the applicable unemployment benefit, accounting for approximately 55 per cent of the regular wage. Short-time work subsidies can increase by another 15 per cent if the beneficiaries take part in further training, but workers could still suffer from a reduction of up to 30 per cent n of their regular wages, depending on the number of hours they work. The unions argued that the employers should cover most of the gap between the short-time working benefit and normal pay. As a result, they proposed to include a provision in the agreement which would cap wage losses for workers at 10 per cent regardless of how many hours they were working under the short-time working scheme (ibid). The average number of hours worked under short-time working schemes in 2009 was equivalent to 76 per cent of normal hours. The employers refused this provision, arguing that it would put an unjustifiable burden on companies.[11] Despite the employers' rejection, the PRO-GE and GPA-DJP trade unions decided that they would not approve individual schemes if the employers did not accept the so-called 90 per cent replacement rate (Lohnersatzrate) (ibid). Nevertheless, they made some concessions to SMEs. Here the difference between short-time work subsidies and normal wages was shared in equal parts by employers and employees (Allinger/Flecker 2010).

A third conflict emerged with respect to the obligation to maintain staff after the end of the short-time working period. Before the crisis short-time working regulations imposed a mandatory retention period, equalling the duration of short-time working. As the maximum period for short-time working was extended to a maximum of 24 months, employers argued that it was not feasible to issue an employment guarantee for two years, especially not during economically difficult times (ibid). Trade unions wanted as much security for workers as possible. But they also argued that without a mandatory retention period employers could make windfall profits by switching to short-time working, even though they already had plans to lay off staff.[12] As a compromise, the new regulation took the form of a sliding scale: the retention period was limited to one month after two months of short-time working, two months after four months of short-time working, three months after 12 months of short-time working, and four months when short-time working lasted more than a year (ibid).

Short-time working concerned social partners not only at the national and sector levels, but also within companies. As mentioned before, companies that wanted to introduce short-time working needed the approval of the works council (if the company had one) and the relevant trade unions. Most of these negotiations ran rather smoothly, but in a number of cases the negotiating parties had difficulties reaching an agreement. The main issues of disagreement were the 90 per cent wage replacement rate, which many employers found too high, and the mandatory retention period.

[9] Manfred Engelmann, interview by C. Hermann, 31 January 2011.
[10] Karl Proyer, interview C. Hermann, 13 January 2011.
[11] Manfred Engelmann, interview by C. Hermann, 31 January 2011.
[12] Karl Proyer, interview by C. Hermann, 13 January 2011.

Wages

Wages are at the core of the yearly or biennial bargaining rounds. As such they also played an important role in collective bargaining during the crisis, especially since the trade unions saw the protection of the income of workers and the resulting preservation of consumption as a core element in a possible recovery.

Before the crisis Austria had seen relatively moderate real wage increases. Even at the height of the last expansion in 2007 a nominal wage increase of 2.5 per cent turned into a real wage increase of 0.3 per cent. In 2008 the crisis had only a marginal effect on the development of wages. With an average real wage growth of 0.2 per cent, the negotiations resulted in wage increases that were almost on par with those of the preceding year.

In 2009 the crisis actually had a positive effect on the development of real wages. Average real wages grew by 2.9 per cent, which was almost 10 times higher than in 2007 and 2008. The main reason for the boost in real wages was the fall in inflation (from 3.2 per cent in 2008 to 0.5 per cent in 2009), but even the nominal wage increases were significantly higher than in the previous two years (3.4 per cent compared with 3.0 and 2.5 per cent respectively). In fact 2009 was the only year in a long time when wage growth actually exceeded growth in average prices and productivity (Schulten 2010: 198).

As mentioned before, the expanding real wages together with a net increase in wages from a tax reform sustained demand during the crisis. In addition, the 90 per cent replacement rate made sure that even the income of workers who had reduced working time as part of short-time working would not fall dramatically. Retrospectively, the growth in private income had an important anti-cyclical effect in a situation where demand for exports was falling (see further above).

However, with the exception of the public sector for which the Government agreed to an exceptionally high wage increase to maintain purchasing power (3.55 per cent nominally and 3.5 per cent in real terms in 2009), the growth in (real) wages was not necessarily the result of social partner consent and a common strategy to confront the crisis. In several cases the negotiations were particularly tense and temporarily broke down, especially in the spring 2009 bargaining round. The unions repeatedly had to mobilize works council representatives and members to increase pressure on employers to accept wage increases despite the accumulating economic difficulties. (As a first step to a possible industrial dispute, unions usually organize a national works council meeting and then hold so-called consultation meetings with members in major companies).

Bargaining was especially difficult in spring 2009 when the crisis reached its peak, as contrasted to autumn2008 when the crisis begun to emerge and the autumn of 2009 when growth picked up again. The obstacles to reaching an agreement caused several unions to organize a large demonstration with several thousand participants in Vienna on 13 May 2009. In sum, negotiations were at times more tense during the crisis than usual. The unions threatened more than once to call for a strike and organized meetings of works councils and members to inform the participants on the progress of the negotiations. However, no official strike days were recorded in 2008 and 2009. This was not unusual for Austria, which had not experienced a strike since 2005. Despite the difficult negotiations, the crisis experience will most likely have no negative long-term effect on the bargaining climate.[13]

The highly insecure economic prospect made it extremely difficult to find a compromise that satisfied both parties, and the difficulties led some sectors to adopt two-year agreements. Outside the construction sector, two-year agreements are relatively rare. The two-year agreements forged during the crisis were an outcome of negotiations in which both parties weighed their options rather than the result of a specific crisis strategy.[14]

[13] Karl Proyer, interview by C. Hermann, 13 January 2011; Peter Schleinbach, interview by C. Hermann, 10 January 2011.
[14] Peter Schleinbach, interview by C. Hermann, 10 January 2011.

Durations that were shorter than usual were also discussed during the negotiations. While some bargaining parties accepted two-year agreements, they returned to one-year agreements after the crisis.

Various factors helped to prevent the stagnation or fall of real wages: the coordination and coverage of the bargaining system, the timing of the negotiations and the use of retrospective data. The main collective agreements are negotiated in the autumn and spring. Hence the crisis was just developing when the first round of negotiations took place in autumn 2008, and growth was already picking up during the autumn 2009 bargaining round. The spring 2009 bargaining round was the most difficult but the crisis had not yet peaked at that point.

In addition to the timing of the negotiations, another factor also played out well for the unions. As mentioned before, trade unions base their wage demands on the so-called Benya formula. Wage increases should fully compensate for inflation and provide employees a share in productivity growth. Yet rather than using uncertain predictions of future developments, the unions traditionally rely on the data from the preceding 12 months when they calculate their wage demands. It happened that in the 12 months before the crisis, inflation and productivity increased strongly. The result was a significant wage growth even though the economy was in turmoil.

While the Federation of Industry proposed a wage cut based on the application of the Benya formula and the use of current data, the Chamber of the Economy mostly accepted the use of retrospective data.[15] The same mechanism worked in the Federation's favour in the 2010 bargaining round. Although the economy was on the upswing, average real wages declined in that year. In sum, the traditional bargaining procedure created a strong anti-cyclical effect during the crisis, but it did so only because the crisis was deep and short. If the crisis had lasted more than a year, stagnating or decreasing growth would have resulted in stagnating or falling real wages.

Bargaining in the metal sector

The autumn bargaining round in Austria traditionally starts with the metal sector negotiations. As mentioned earlier, the metal sector agreement is widely considered a guideline for subsequent negotiations. The negotiations started in October 2008. The metal industry, as did the economy more generally, had experienced record growth rates in the preceding 12 months and the unions wanted a "fair share" of the significantly increased revenues. In 2007, the unions had reached a 3.6 per cent rise in collective wages as well as a 3.5 per cent climb in actual wages. In addition workers received a one-time payment of up to 200 euros depending on the EBIT margins of their employing companies.[16]

When the negotiations began, the crisis had reached Austria. Among the first to feel the recession was the automotive supplier industry. Magna International, one of the main supplier companies, had already introduced short-time working. The employers were damping down expectations and initially offered a 3.6 per cent increase in collective wages and 3.5 per cent for actual wages. Given the marked price rises in 2008, the proposed increase hardly improved real wages. The unions rejected this, and the employers improved their offer by 0.1 per cent in the next bargaining round. The fourth bargaining round resulted in an agreement: Wages were hiked up by 3.8 per cent and those below 1,800 euros a month by 3.9 per cent. In addition, the employers agreed to a one-time payment of up to 250 euros in accordance with the companies' EBIT margins.[17] The result was a real wage growth of 0.3 and 0.4 per cent.

[15] "Breite Front gegen Industrievorstoß für Nulllohnrunde", in *Standard*, 29 March 2009.

[16] In companies with an EBIT (earnings before interest and taxes) margin of less than 6 per cent of turnover, the one-time payment is reduced to 150 euros. Companies with zero or negative EBIT margins are exempted from giving their workers one-time payments.

[17] In companies with an EBIT margin of less than 8 per cent of turnover, the one-time payment is reduced to 200 euros and in those with an EBIT margin of less than 4 per cent to 100 euros. Companies with zero or negative EBIT margins do not have to give their workers one-time payments.

When the negotiations reopened in the autumn of 2009, the Austrian economy had already passed the low point of the recession. Demand was increasing again, especially in the export-dependent metal industry. Still, the negotiations proved more difficult than in the preceding year. The main reason was that the employers made any increase in wages dependent on the unions' acceptance of more working time flexibility. The unions were willing to negotiate on working time but they strongly rejected the coupling of pay and working time negotiations.[18] The negotiations broke down in the fourth bargaining round. In response, the unions increased pressure by threatening to boycott overtime working and to call a strike if the employers did not agree to a wage increase.[19] An agreement was reached in the fifth bargaining round according to which working hours were to be worked out in separate negotiations in early 2010. Minimum wages, meanwhile, were increased by 1.5 per cent and actual wages by 1.45 per cent. Given the impact of the crisis, the 2009 agreement did not include one-time payment.

As mentioned above, the spring negotiations on working time flexibilization ended without a result. In autumn 2010, it was the unions who took the initiative and demanded a reduction of working time in order to cut the large amount of overtime worked in the sector. In addition the unions demanded a wage increase of more than 3 per cent, while the employers wanted this to remain below 2 per cent.[20] The negotiations ended in agreement in the third bargaining round after the unions waived their demand for shorter working hours.[21] As a result, minimum wages rose by 2.5 per cent and actual wages by 2.3 per cent. Given the growing profits recorded by the companies, the 2010 agreement included one-time payments of up to 150 euros.[22] One of the interviewees for this report stated that negotiations were less difficult and the mood clearly improved after the economy picked up again.[23]

Bargaining in the banking and finance sector

The banking sector was one of the first sectors to experience the consequences of the global financial crisis. As mentioned earlier, Austrian banks were particularly vulnerable owing to their massive investments in Central and Eastern Europe. The Government quickly adopted a banking rescue package. Under the circumstances, the negotiations in the banking and finance sector were particularly delicate. In 2007 the private employees' trade union GPA-DJP, which negotiates the collective agreement for some 75,000 workers in the sector, obtained a wage increase of 3.3 per cent plus a 0.2 per cent rise in employer contributions to pension funds. Negotiations started in late November 2008. The union emphasized that the financial crisis was not caused by the bank employees and that the banks had made record profits in the months leading up to the crisis.

The employers initially offered a 2.9 per cent wage increase and a one-time payment of 200 euros. The union declined and demanded a wage rise above 3.5 per cent, similar to the levels reached in the 2008 autumn bargaining round (including a 3.55 per cent increase for civil servants). According to a union representative involved in the negotiations, "the mood was frosty and the negotiations were tough".[24] The union increased pressure on employers by calling for a country-wide meeting of works council representatives on 15 December and by collecting signatures from union members who demanded a significant real wage increase. About 15,000 signed the petition within the first week. Following the mobilization, the social partners reached an agreement in the third bargaining round. It included a wage increase of 3.2 per cent plus a permanent addition of 10 euros, resulting in an average wage growth of 3.7 per cent. However, as a concession from the union, the implementation of the wage increase was postponed by a month to 1 March.

In the following year, negotiations proved even more difficult. This time agreement was reached in the fourth bargaining round in January 2010. The social partners agreed that wages would be increased in a two-step process and that the duration of the agreement would be extended to 14 months. As a result, the collective agreement for the banking and finance sector would in the future be negotiated as part of the spring bargaining round. Wages were raised by 0.75 per cent starting from 1 February 2010; this was to be followed by a permanent increase of another 15 euros from 1 August. According to the union, the two measures resulted in an average wage increase of 1.36 per cent.[25]

[18] "Lohnverhandlungen der Metaller ergebnislos", in *Standard,* 17 October 2009.
[19] "Metaller-Verhandlungen nach Sitzungsmarathon unterbrochen", in Presse, 14 November 2009.
[20] The negotiations started with a bang, as the employers who were hosting the negotiations departed from the traditional seating arrangement and were sitting on an elevated platform looking down on the union representatives ("Eklat bei Lohnverhandlungen", in *Wiener Zeitung*, 30 September 2011).
[21] "Metaller bekommen bis zu drei Prozent mehr Lohn", in *Presse,* 6 November 2010.
[22] For companies with an EBIT margin of less than 8 per cent of turnover, the one-time payment was reduced to 100 euros and for those with an EBIT margin of less than 4 per cent to 50 euros. Companies with zero or negative EBIT margins were exempted from giving their workers one-time payments.
[23] Peter Schleinbach, interview by C. Hermann, 10 January 2011.
[24] "Banken-KV-Verhandlungen neuerlich unterbrochen", in *Wirtschaftsblatt*, 10 December 2008)
[25] "Bankbeschäftigte erhalten knapp über ein Prozent", in *Standard*, 20 January 2010.

Even though the banking sector recorded substantial profits in 2010, the subsequent negotiations continued to be difficult. In accordance with the previous year's agreement, the start of the negotiations had been postponed to early 2011. The negotiations were again very tough. The employers offered a wage increase of 1.5 per cent. The union responded with a member survey in which 95 per cent stated that the employers' offer was "totally unacceptable." In addition, the union once again organized a meeting of the national works council in early March; this was followed by a series of workplace meetings in which members were informed about the negotiations in mid March. The employers improved their offer to a 1.7 per cent rise and an additional payment of 8 euros, but the union rejected this too. The agreement finally reached in the fifth bargaining round included an increase of 1.9 per cent and a permanent additional payment of 9 euros.

Bargaining in the chemical industry

Negotiations in the chemical industry traditionally take place in the spring bargaining round. In 2008, the social partners agreed to increases of 3.9 per cent for minimum wages and 3.7 per cent for actual wages. In addition, workers received a one-time payment of 35 euros. Negotiations for the new agreement covering some 40,000 workers started in late March 2009. From the beginning, the employers argued that given the crisis workers could not expect the substantial pay rises granted in the preceding year.[26] The subsequent negotiations were particularly tough. At some point the employers offered a 1.3 per cent wage increase plus a one-time payment of 300 euros. According to a newspaper report, the unions would have accepted this if the agreement were to cover a period of only five months and would then be renegotiated in the light of the new economic situation.[27] The employers responded with a lower offer for a five-month period (a 0.54 per cent rise and a one-time payment of 125 euros) which the union declined. The employers improved their offer to 1.5 per cent and 2 per cent for wages below 2,050 euros a month, but this, too, was not acceptable to the unions.[28] They countered with a country-wide works council mobilization in late April (ibid).

According to one of the interviewees for this report, the situation was extremely tense and the unions were only one step away from calling a strike.[29] The social partners finally reached an agreement in the fifth bargaining round on 18 May 2009. Instead of a shortening of the duration of the agreement, the social partners agreed to an extension to 24 months. In the first 12 months wages were increased by 2.6 per cent and all workers received a one-time payment of 50 euros. This was significantly lower than the 3.5 per cent or more reached in other sectors during the autumn bargaining round. However, for the second year the agreement provided for a wage increase of 0.6 per cent in addition to full compensation for inflation. Inflation was calculated as the average inflation growth between April 2009 and March 2010. As a result, wages rose by 1.1 per cent in the second year.

Negotiations for a new agreement started in April 2011 and again proved rather difficult. The social partners reached an agreement in the third bargaining round. Minimum wages went up by 3.15 per cent, and actual wages by 3.05 per cent. The increase had to amount to at least 56 euros, which means that workers with lower wages may see their pay rise by 3.64 per cent.

Average real wages in Austria increased by 2.9 per cent in 2009 which was significantly higher than in 2007 and 2008. As a result, Austria was among the countries with the highest wage growth in the crisis year in the EU. In terms of nominal wage increase it was second only to Finland, and in terms of real wage growth it was second only to Portugal (Schulten 2010: 199). The enforcement of the 90 per cent replacement rate for workers on short-time work (90 per cent of regular wages regardless of the number of hours actually worked) also protected workers' incomes and thereby mitigated the impact of the crisis.

Retrospectively, the employers regret the '90 per cent rule' and the high pay rises.[30] In their view the agreements did not sufficiently account for the deteriorating state of the economy (ibid). Given the insecure economic situation, the Chamber of the Economy was aiming at limiting wage increases to one-time payments. However, the Chamber at least acknowledged that workers should receive some reward even in economically difficult times (ibid). In contrast, the Federation of Industry repeatedly demanded the conclusion of 'zero increase agreements' (Nullohnrunden).

[26] "Chemie mit der Industrie stimmt nicht", in *Standard*, 30 March 2009.
[27] "Papierindustrie will KV-Runde aussetzen", in *Standard*, 3 April 2009.
[28] "Die Chemie stimmt nicht – Mittwoch ist Aktionstag in Linz", in *Wirtschaftsblatt*, 21 April 2009.
[29] Alfred Artmäuer, interview by C. Hermann, 5 January 2011.
[30] Manfred Engelmann, interview by C. Hermann, 31 January 2011.

One sector that took particular account of the economic difficulties was the electronics industry. Here minimum wages grew only by 2.7 per cent (2.2 per cent in real terms), significantly lower than in other sectors. As discussed further below, companies in notable difficulties could apply an even lower rate.

Table 4-3.
Effectively negotiated wage increases*

	2007**		2008		2009		2010	
Employment agencies	102.6	2.6	106.2	3.6	110.4	**4.2**	111.8	1.4
Social services	102.4	2.4	105.5	3.1	109.7	**4.2**	111.7	2.0
Banks	102.6	2.6	105.9	3.3	109.4	**3.5**	111.0	1.6
Chemical industry	102.8	2.8	106.5	3.7	109.7	**3.2**	111.5	1.8
Metal industry	102.8	2.8	106.5	3.7	110.2	**3.7**	112.0	1.8
Electronics industry	102.7	2.7	106.1	3.4	108.8	**2.7**	110.8	2.0
Wholesale and retail trade								
White-collar workers	102.3	2.3	105.7	3.4	109.5	**3.8**	111.3	1.8
Tourism								
Blue-collar workers	102.3	2.3	105.6	3.3	108.5	**2.9**	110.7	2.2
Food industry	102.3	2.3	105.3	3.0	108.7	**3.4**	110.2	1.5
Paper industry								
Blue-collar workers	102.2	2.2	105.7	3.5	109.2	**3.5**	111.0	1.8
Textiles industry	102.3	2.3	105.4	3.1	107.6	**2.2**	109.7	2.1
Public-sector employees	102.4	2.4	105.2	2.7	108.9	**3.5**	110.1	1.1
All collective agreements	**102.5**	**2.5**	**105.6**	**3.0**	**109.2**	**3.4**	**110.9**	**1.6**
Inflation		2.2		3.2		**0.5**		1.9
Real wage increases		**0.3**		**0.2**		**2.9**		**-0.3**

*Effective wage increases resulting from a variety of measures adopted in the collective agreements.
** 2006 = 100%
Source: Statistik Austria

The pendulum swung in the other direction in 2010, despite strong signs of economic recovery. Average minimum wages increased by only 1.6 per cent in that year. Because of an inflation rate of 1.9 per cent, the agreements actually resulted in an average real wage loss of 0.3 per cent.

Behind the average numbers are some notable sector-specific differences. In the metal sector real wages fell only by 0.1 per cent, while agency workers took a cut of 0.5 per cent. In contrast, the electronics industry did comparatively well in 2010, after a relatively small rise in wages in 2009. For this industry, the 2010 real wage growth had been fixed in the two-year agreement concluded in the preceding year.

The Austrian Institute for Economic Research expects overall wages to increase by 2.5 per cent in 2011. Yet because of a similar or greater growth in inflation, real wages will, for the most part, stagnate or even decline in that year (Eder 2011: 227).

Deviations from collective agreements are relatively rare in Austria. Unlike those in Germany and other countries, the Austrian unions were reluctant to grant opting-out clauses for companies in economic difficulties (Schulten/Bispinck 2011). This trend continued during the crisis. According to a survey by the Austrian National Bank, only 2 per cent of the responding companies had cut wages during the 2008/9 recession (Kwapil 2010: 36). A survey among works council representatives in the 300 largest companies showed a similar result, with only 1 per cent reporting wage concessions (Eichmann and Bauernfeind 2009). In some cases the unions agreed to temporary exemptions for companies in economic difficulties. The most important of these cases was the electronics industry (see below). There were also examples, including the Austro-Canadian automotive supplier Magna International, where management proposed voluntary wage cuts (of up to 20 per cent) against the will of the works council and the trade unions. Magna could do this because its wages were higher than the collectively agreed wage rates. However, Magna imposed similar pay cuts on all its European production sites.

The example of the electronics industry

The electronics industry agreement, covering some 50,000 employees, is negotiated in spring. The last agreement before the crisis was reached in May 2008 and it was concluded for a duration of 12 months. Minimum wages were increased by 3.5 per cent and actual wages by 3.4 per cent. When the negotiations for the new agreement started in spring 2009, the economy was quickly deteriorating. The Austrian Federation of Industry, an interest organization of large industrial companies but not a bargaining partner, had already demanded a "zero growth wage agreement" (Nullohnrunde), or the postponement of the negotiations (Standard, 3. April 2009). For the unions this was not an option and even the (conservative) Minister of Economic Affairs rejected a wage freeze and a delay of negotiations and instead suggested a moderate increase as "the right signal" (ibid). The signs pointed to tough negotiations.

The negotiation process was, indeed, extremely difficult. An agreement was reached only after more than two months of negotiations in the fifth bargaining round. As in the chemical industry, the agreement was concluded for 24 months. Again, as in the chemical industry, wages were increased in two phases. In the first 12 months wages were to rise by only 2.2 per cent; alternatively they could be increased by 2 per cent if they were coupled with a one-time payment of 8.4 per cent of the monthly wage rate. In both cases, the wage increase would be significantly lower than those reached in the autumn bargaining round. However, in the second year wages were to increase by 1.1 per cent in addition to full compensation for inflation. As in the chemical industry, inflation was defined as the average inflation for the period March 2009 to February 2010. The result was a wage increase of 1.6 per cent, which was higher than in most other sectors.

In addition to setting a comparatively low level for wage increases in the first 12months of implementation, the electronics industry agreement was also the only collective agreement that included so-called hardship clauses (Konjunkturklauseln). The agreement granted companies in extraordinary economic difficulties the option to limit the wage increase to 1.4 per cent (instead of 2.2 per cent). Companies wanting to take advantage of the lower rate of increase had to prove that turnover fell by at least 15 per cent in the first quarter of 2009. In addition they also needed approval from the works council and the trade unions.

According to the Chamber of the Economy, 60 companies took advantage of the hardship clause, affecting some 16,000 workers (initially 78 companies had announced that they would do so). As a result, more than a quarter of all workers in the electronics industry saw their wages increased at a lower rate than in the rest of the sector. As stated above, the clause was applicable only to the first 12 months of the contract; after that companies that were hard up had to raise wages like the other companies in the sector (Schulten/Bispinck 2010).

The negotiations for a new agreement started in spring 2011 and again proved difficult. Following the sector's recovery from the crisis, the unions were demanding a substantial real wage hike. According to union sources, the employers offered a wage increase of 2.3 per cent and a possible one-time payment. The negotiations were interrupted in mid April and the unions held a national works council meeting and a series of members' meetings in companies. The agreement reached in the third bargaining round in mid April includes a variable increase of between 2.8 and 3.2 per cent, with lower wages rising at a larger rate than the higher wages. As in the chemical industry, the bargaining partners returned to the traditional 12-month negotiation cycle

Working hours

While initially the focus of the trade unions was to protect wages, working time also became a prominent issue in the course of the crisis as several unions demanded shorter working hours to combat unemployment. However, the social partners draw contradictory conclusions from the crisis experience. While the Chamber of the Economy insisted on further flexibility as regards working time, the trade unions demanded a reduction of working hours.

Initially it was the Chamber of the Economy who took the initiative and raised the working time issue at the negotiation table. The employers' organization argued that the crisis had shown that there was an urgent need for more working time flexibility and threatened to block wage negotiations when the workers' representatives continued to reject negotiations on flexible working hours. As a result, the autumn 2009 metal sector negotiations came to a halt for several weeks until the unions threatened to call for a strike. Also as the working time controversies focused on the metal sector, a metal sector agreement on flexible working hours would have been widely regarded as a blueprint for similar agreements in other industries. It therefore became more important for the unions to withstand pressure to erode existing working time regulations. As described earlier, the social partners resolved the crisis by agreeing to continue separate talks on working time issues in spring 2010 (Allinger 2010).

The negotiations that followed were extremely difficult. The employers demanded an extension of the maximum working day and week, a prolongation of the averaging period from one to two years and a stepping-up of overtime accounts to a maximum of 150 hours.[31] According to the employers, overtime accounts were a highly effective tool as they allowed workers to reduce working time during the crisis by consuming 'banked' overtime from their overtime accounts. Some employers argued that more working time flexibility would allow them to reduce the number of agency workers – a long-standing trade union demand.[32] The unions rejected this argumentation. In their view, Austrian companies already had great flexibility in scheduling working hours. From the unions' standpoint, the proposed changes were not much more than a strategy to save labour costs.[33] As both sides showed little flexibility during the bargaining process, the negotiations broke down and no compromise was reached (Allinger 2010).

Table 4-4.
Development of overtime

	Total overtime hours	Average weekly overtime per dependent employee	Average weekly overtime per employee working overtime	Paid overtime hours
2007	3,390.1	2.1	8.8	6.1
2008	3,463.8	2.0	8.5	6.0
2009	3,466.4	1.7	8.2	6.2
2010	3,461.9	1.7	8.1	6.2

Source: Statistik Austria

In the following bargaining round, the metal sector workers' union (PRO-GE) and the union of salaried employees (GPA-DJP) raised the working time issue in the negotiations for a new collective agreement. In the view of the trade unions the crisis had shown not the need for more flexibility, but the need for a reduction of working hours. Trade union representatives argued that overtime hours remained high even during the crisis. As table 4-4 shows, average weekly overtime hours came down somewhat in 2009, but remained high – especially when calculated as the average overtime of workers working overtime (and paid overtime hours per employee working overtime even increased). As mentioned before, Austria has one of the longest actual working hours in Western Europe.

According to the unions, long working hours and the widespread practice of overtime working would not only impact negatively on the health and wellbeing of the workers, but also contribute to a lack of jobs for the unemployed. In contrast shorter hours would improve working conditions and reduce unemployment. As a result, the GPA-DJP

[31] Averaging periods are periods during which employers can vary working hours without having to pay overtime supplements if the average over the period does not exceed the collectively agreed working time.

[32] Manfred Engelmann, interview by C. Hermann, 31 January 2011.

[33] Karl Proyer, interview by C. Hermann, 13 January 2011.

demanded the introduction of a 35-hour week in the retail sector negotiations in the autumn of 2010 (the current weekly working hours in the retail trade are 38.5 hours). Trade union leaders also asked for the introduction of a general sixth week of vacation, currently confined to workers who have been employed for more than 25 years by the same company.

The demand for a 35-hour week is not exactly new. Since the 1980s the Austrian Trade Union Federation has routinely included the 35-hour week in its programme. However, this time trade union negotiators placed the working time issue on the very top of their bargaining agenda and their members were prepared to go on strike if necessary.[34] The issue was widely discussed in the news, with the employers strongly opposing a working time reduction. As in preceding working time negotiations, the social partners were unable to reach a compromise on the issue.

5. Conclusion

Social dialogue and collective bargaining helped mitigate the effects of the crisis in Austria on employment. Perhaps the most prominent example is the adoption of hundreds of short-time working schemes for more than 37,000 workers at the peak of the crisis. The Ministry of Social Affairs and Consumer Protection estimates that some 30,000 jobs were saved through this measure. Others think that the employment effect was significantly smaller. However, the tripartite dialogue on the reform of the short-time working system which made short-time working more attractive was instrumental in facilitating the widespread collective negotiations on the implementation of short-time working schemes. This does not mean that these negotiations were free of problems. As shown in this paper, several controversies had to be overcome to implement the measure. Among the hotly debated issues were the wage rate for short-time work and the mandatory staff retention periods.

By imposing a rule according to which workers would receive 90 per cent of the regular wages regardless of how many hours they actually worked, the unions made sure that the workers on short-time working would suffer only minor wage cuts. This helped to maintain demand during the crisis. But more important for the preservation of demand was the favourable outcome of the wage negotiations during the crisis. Average real wages grew by 2.9 per cent in 2009, which was substantially higher than in the preceding years and higher than in most other European countries. Together with the positive effect of an income tax reform, the growth in wages fuelled domestic demand and partly compensated for the dramatic fall in exports during the crisis.

While the Government deliberately agreed to a higher than usual wage increase in 2009 to maintain purchasing power during the crisis, outside the public sector the growth in real wages was not the result of a consensual social partner strategy. For the most part, the negotiations during the crisis were particularly tense and controversial. Rather it was the result of a high level of wage coordination and the traditional bargaining processes – with bargaining concentrated in the autumn and spring and oriented to the economic indicators of the previous year. The outcome was a strong anti-cyclical effect, with real wages rising particularly strongly during the crisis and falling back again when growth picked up in 2010. However, the anti-cyclical effect was possible only because of the short duration of the crisis. If the crisis had continued in 2010, stagnating or falling real wages would have amplified the negative growth trend.

While the trade unions in general managed to protect the incomes of workers during the crisis, at least in one case the unions accepted the employer argument that wage moderation would help companies to survive the crisis. The electronics industry agreement not only provided comparably moderate wage increases, but also included a hardship

[34] Karl Proyer, interview by C. Hermann, 13 January 2011.

clause allowing companies in economic difficulties to apply an even lower growth rate. However, as part of the compromise, the agreement was concluded for a period of two years instead of one year, and the employers accepted a significant real wage increase for the second year. Here the unions agreed to temporary wage moderation in anticipation of future gains. The 2010 increase was indeed higher than in most other sectors.

A number of other agreements were also concluded for two years instead of the usual one-year period. These also turned out to be favourable for the unions. However, the two-year duration was an outcome of the negotiation process with the partners weighing their options rather than of a systematic strategy to cope with crisis. After the crisis the bargaining parties returned to the regular one-year agreements.

The unions also showed flexibility in the negotiation process by agreeing to an exemption from the 90 per cent replacement rule for small and medium-sized enterprises as well as by accepting more flexible rules for the mandatory retention period imposed on companies after the end of short-time working. Apart from the mandatory retention periods imposed by the short-time regulations, employers did not offer employment guarantees. In fact in the case of Magna Steyr management fiercely rejected the trade union demand for an employment guarantee in exchange for voluntary wage cuts.

Bargaining during the crisis was not always a success story. On several occasions the bargaining partners failed to reach an agreement, with the consequence that the proposed measures could not take effect. Among them was a proposed work foundation for agency workers who were hit particularly badly by the crisis. The proposal discussed in the tripartite dialogue failed because the employment agencies declined to contribute to the costs of the work foundation. Yet the social partners managed to set up a work foundation for young workers affected by the crisis.

Perhaps the most spectacular failure was the failure to reach a working time agreement. Employers had demanded more working time flexibility and the unions wanted shorter working hours. Both sides claimed that the crisis experience supported their arguments. In the employers' view more flexibility would have allowed them to retain staff during the crisis, while in the trade union perspective shorter hours helped to reduce unemployment. Since both sides were not prepared to make concessions, working time remained unchanged.

Despite its positive contribution to the economic recovery, bargaining during the crisis was more difficult than during periods of growth. In several cases an agreement could be reached only after lengthy negotiations and after the unions had threatened to call for a strike (but no worker actually went on strike). In spring 2009 the unions organized a large demonstration in Vienna to protest the delay of several negotiations. The spring 2009 bargaining round was particularly tense, while in the autumn of 2008 the full scale of crisis was not yet clear and in autumn 2009 the economy was already improving.

The crisis was rarely used to improve the skills of workers even though the short-time working regulations provided special financial incentives for companies when workers on short-time working took part in training. Perhaps the incentives were directed to the wrong addressees (the companies instead of the workers) and the future was too insecure for businesses to invest in human capital. However, applications for individual educational leaves increased markedly during the crisis.

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