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„Trying to Make the Best of the Crisis: The Austrian  
Labour Market (Opportunities and Risks)“

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Lejla Adanalić

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# **1 Introduction**

The Great Recession started in the USA at the beginning of 2008. It had its roots in the developments in the real-estate sector. When the prices of houses soared, already indebted households had their financial resources restricted. The consumption of durable goods decreased, and demand shock shook the market. The construction industry had no buyers so the prices of the houses declined. It impacted the value of financial assets related to the prices of the houses. (Appelbaum, 2011)

Globalization and the financial integration of the markets led to the spread of the financial and economic crisis to the rest of the world. The crisis affected national outputs due either to direct involvement of the countries in the speculations on the real-estate prices, or indirectly through the trade and financial linkages with other countries.

The timing and intensity of the crisis upon different economies differed between countries. The range of the fall of GDP rates was as high as 15 percent in the Baltic countries (European Commission 2011).

When demand for products and services decreases, the existing level of productivity of the firms becomes unjustifiable. There are two possibilities for the firms to adjust to the lower level of productivity, either by decreasing number of hours worked or the number of workers. This decision influences the level of the unemployment.

The adverse effects of the crisis on the labour market, gauged by the level of the unemployment rate, have shown cross-country variations as well, from the high growth of the unemployment rate in Spain, the US, or Ireland, to the moderate growth in Norway, Denmark, or Austria, to the almost insignificant growth in Germany (Amable and Mayhew, 2010).

This paper discusses the developments of the Austrian labour market during the crisis: how Austria weathered the crisis' effects on the labour market due to the demand shock that occurred through the trade and financial linkages to other countries; and how in spite of it, Austria succeeded to exhibit a favourable growth pattern in the unemployment rate. The question of what made Austria's labour market resilient to the adverse effects of the crisis is examined in depth.

The paper proceeds as follows. In the second section are presented the emerging conditions in the Austrian economy during the crisis: the developments of the main economic indicators, GDP and unemployment rates, as well as the participants in the labour market who suffered the most consequences.

The third section should provide an overview of the cross-country developments of the unemployment rates. Comparisons of the growth levels of this rate should reveal the extent of the markets' reactions during the crisis and single out the countries that performed comparatively well. The section further examines the established regularity of the behaviour of the two economic indicators, GDP and unemployment rate. The main focus in the chapter is on the Austrian performance relative to other countries. All comparisons account for the cross-country heterogeneity in the time when the crisis started and when it ended.

The fourth section discusses the risks and opportunities of the Austrian labour market that led to its performance. Since Germany turned out to be an intriguing case because it had its cumulative GDP rate decreased for 6.9 percentage points during the crisis while its unemployment rate rose only by 0.4 percent (OECD Statistics 2012a), it challenged the theory that the unemployment rate and the GDP rate move together. That tickled the interest of economists who then performed detailed considerations of possible rationales for the good performance of the German labour market in spite of the demand shock.

Out of the great deal of literature on unemployment in general during this crisis, and out of the discussions on the developments of the German labour market during the crisis, I identified the reasons that are recognized as being influential on the behaviour of the unemployment rate. After I argued their relevance based on the reviewed literature, I have applied these factors to the case of Austria and tried to assess their validity in the Austrian context.

Whether due to the labour market legislation, different government programs directed towards mitigating the crisis effects, social dialogue, wage policy, instruments targeting working hours, or the valuable human capital, the Austrian labour market exhibited a favourable growth level of the unemployment rate.



Special emphasis is given in the fourth section to the issue of the human capital as a possible reason for the reluctance of employers to lay off their workers.

The fifth chapter provides an overview of the surveys which indicate the favoured methods of Austrian firms in dealing with the crisis, while the sixth chapter presents an interpretation of the interviews I have carried out with the relevant persons from the political elite and prominent university professor, which shed light on the rationales behind the Austrian “miracle” and allow for some conclusions given in the seventh chapter.

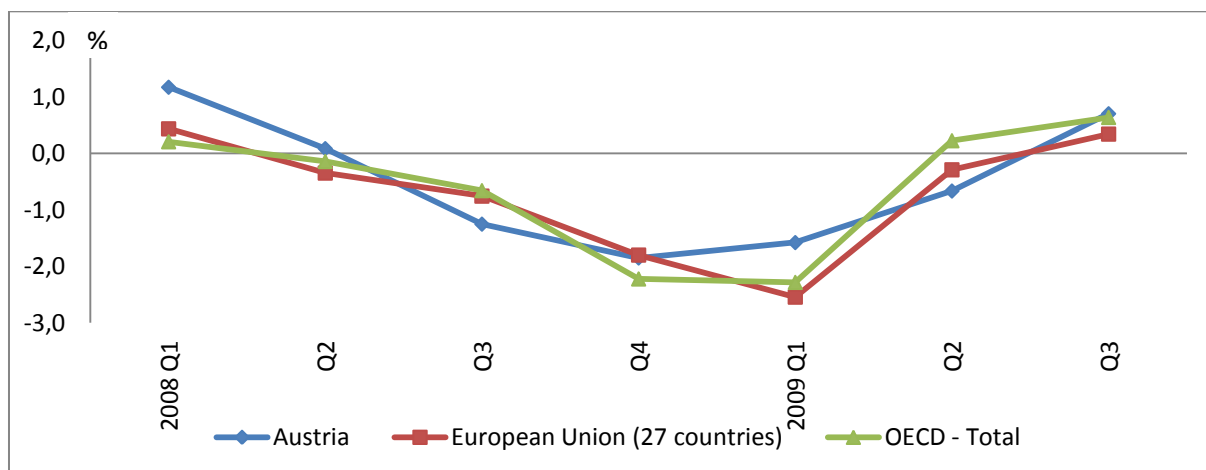
## 2 Important developments in the Austrian economy in the crisis

The performance of the Austrian economy during the 2008-09 economic crisis is evident in the development of its main economic indicators, GDP and unemployment rate, further presented.

Figure 1 depicts quarter-to-quarter GDP rate changes and covers the period from the first quarter of 2008 up until the second quarter of 2009 when economic development picked up. This data is from the OECD statistics (2012a).

The figure enables inferences on the reaction of the Austrian economy to the crisis. The severity of the repercussions of the crisis on the level of national output can be discussed relative to other countries. In the figure is the Austrian GDP rate compared with the average GDP rates of EU (27) and OECD member countries.

Figure 1. Quarterly growth rates of real GDP, change over same quarter, previous year



Source: OECD statistics (2012a)

The Austrian GDP rate decreased slightly at the beginning of 2008, then became negative and continued to fall until it reached its lowest level in the fourth quartile. Still, its peak-to-trough (-1.9%) was higher than the peak-to-trough of the average GDP rate of EU (27) (-2.5%) or OECD countries (-2.3%). (OECD statistics 2012a) Thus, the crisis left negative consequences but relative to the international context, they were not so overwhelming.

If the duration of the crisis is defined, as in Groot et al. (2011), as the period between the quarter in which GDP first declined for two succeeding quarters, and the quarter before GDP first picked up, then it lasted in Austria from Q2 of 2008 for the next four quarters. Real GDP contracted in this period by a total of 5.4 percent.

Scheiblecker et al. (2010) suggested that what kept the GDP rate from sinking further was consumption as the only demand aggregate which did not decline in 2009 in Austria. Namely, moderate growth of the consumption rate from 2007 was interrupted after the crisis unfolded by a modest drop, but rose again in the second half of 2009 to an even higher level than that seen before the decline.

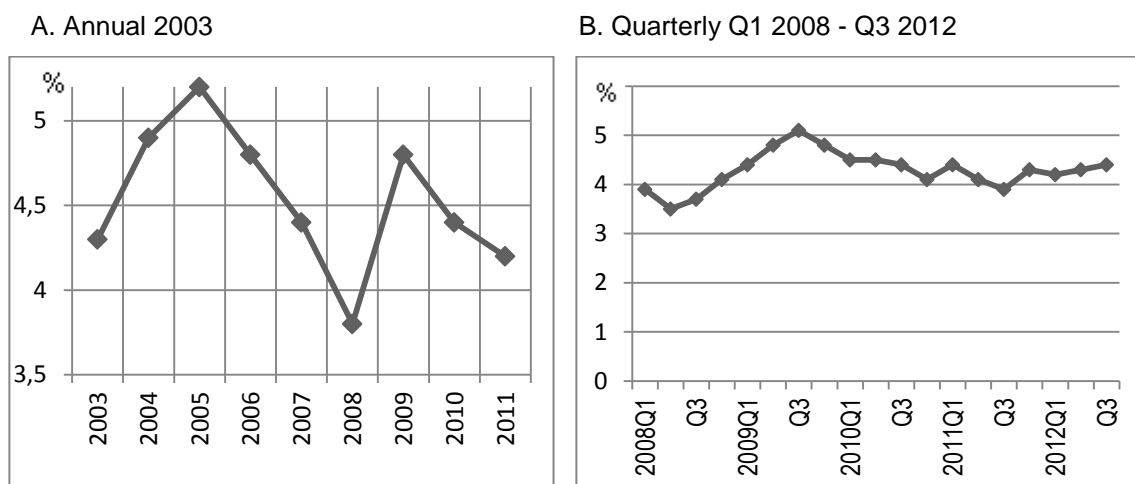
The origin of this assumption is the Keynesian view that growing demand is crucial for boosting short-term economic growth, especially in a recession (Hermann 2011).

The consumption was underpinned by the increase of real wages and short-time work public subsidies and paid educational leave. The short-time work subsidy enabled workers to preserve 90 percent of their income no matter the number of hours worked. This combined with the income tax reform, prevented income from falling significantly. (Scheiblecker et al. 2010, Hermann 2011).

Development of the output level was for decades strongly related to the development of the unemployment rate. The relation between these two variables is negative and is established by Okun's law. Reaction of the Austrian labour market, in comparison to some other countries, does not show deviation from this law. It also does not differ from previous Austrian experiences. (OECD 2011)

Evaluation of the unemployment rate in the last decade is shown in the figure below.

Figure 2. Developments of unemployment rate



Source: Eurostat (2013a,b)

Figure 2A depicts unemployment rate over the period 2003-2011 based on the Eurostat (2012) calculations. It shows favourable development from 2005 until 2008, whereas in 2009, 47 000 employees lost their jobs (BMASK 2010a).

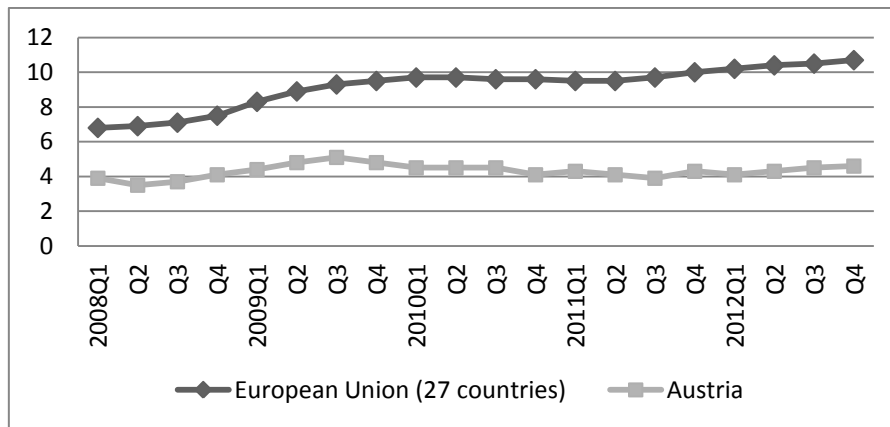
More detailed development of unemployment rate is given in figure 2B which covers quarterly change in the period from 2008 until Q3 2012. The unemployment rate in Austria steadily grew from Q2 2008 until the Q3 of 2009. From the end of 2009 onward, the unemployment rate has taken a positive course, hovering around 4 percent and reaching 3.9 in Q3 of 2011. This result was outstanding in international terms.

Its increase from trough-to-peak was 1.6 percent (from 3.5% in Q2 2008 to 5.1% in Q3 2009), and was less than the average trough-to-peak marked for the EU (27) countries of 2.9 percent (Figure 3).

The government tried to cushion the effects of the crisis on the labour market by introducing a number of measures. They were all conceptualized to lower the labour supply while keeping workers employed. Whether as a result of the government's actions, initial conditions in the economy, economic structure, expectations for the future, or other factors, the Austrian labour market's reaction to the adverse impacts of the crisis was much lower in comparison to most other countries.

The Austrian unemployment rate grew shortly before it returned to its declining trend. This was contrary to the average unemployment rate of EU (27) countries, which kept growing until mid-2010 when this trend was interrupted for only four following periods.

Figure 3. Comparison of unemployment rates (%)



Source: Eurostat (2013a)

My reading is that the Austrian labour market witnessed a fast recovery during the last crisis and successfully sustained its low unemployment rate relative to other nations.

## 2.1 Most affected actors

The economic ties forged between Austria and the countries of Central and Eastern Europe in the years prior to the crisis contributed largely to the growth of Austrian economic performance indicators; including GDP, productivity, competitiveness, and employment. Austria prospered by opening up its economy, but when the crisis came, Austria felt its adverse effects mostly due to trade and financial linkages to these countries. (OECD 2007, 2009a)

Even before intensifying relations with the Central and Eastern European countries, Austria was a country with a traditionally high export rate (Hermann 2011). Through the slackening of the international demand and weakening of trade ties Austria was exposed to the crisis. Therefore it is not surprising that the most affected sectors were export-oriented sectors.

Export of goods and services accounted for over 50 percent of the GDP from 2004 onwards. In 2007 exports made up 59.4 percent of the GDP. This number fell in 2009 to 50.1 percent. Even more than a year after the crisis, in 2011, with exports

accounting for 57.3 percent of the GDP, the export share of the GDP has still not reached its pre-crisis level. (OeNB 2013a)

Moreover, total exports fell by 20 percent in 2009, and not until 2011(122.163 mil EUR) did it exceed the level from 2008 (117.525 mil EUR). (OeNB 2013b).

Due to aforementioned developments in its economy, Austria saw more than a 2 percent growth in employment annually from 2006 on. The biggest share of growth was attributed to the manufacturing sector due to the high export rate. Of course, since exports were the most affected in the crisis, all the employment gained was lost throughout 2009. Employment in the manufacturing sector decreased the most, especially in the manufacturing of vehicles and vehicle parts, mechanical engineering and equipment, and production of metal goods. (Mahringer 2010)

After these considerations, the inference that could be drawn is that where the most jobs were created there were also the most job losses seen in the crisis. Möller (2010), in his consideration of developments on the labour market in Germany, asserted that a huge decrease in employment, in Germany, during the recession was avoided, because the increase of employment did not take place during boom years due to pessimistic expectations of the employers. This argument is used to explain the mild response of the German labour market. Other way around happened in Austria, in boom years most jobs were created in the manufacturing sector and that sector suffered the most losses in the crisis aftermath.

Along with manufacturing workers, temporary workers and young people were other groups that suffered high levels of unemployment. (Mahringer 2010)

My readings are that manufacturing workers lost their jobs to a greater extent, because their employers lost the customers for their products<sup>1</sup>; temporary workers, because there is a lack of employment protection of these workers and the costs that such dismissals produce are lower. Regarding youth unemployment, firms have kept rather experienced employees.

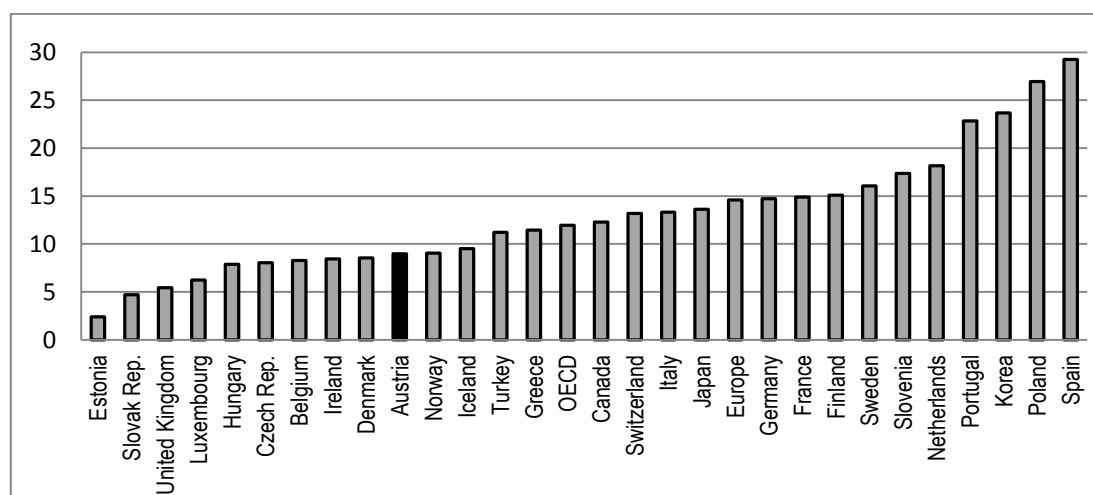
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<sup>1</sup> Later in the text will be discussed that manufacturing firms were also the ones that mostly reached for the measures that enabled them to keep the workforce. It is than to be assumed that in the absence of these measures the rise of unemployment would be higher.

It is important to mention here that since Austria has, in comparison to other OECD countries, a relatively low share of temporary workers, 9.1 percent, Kwapil (2010) found the intensified loss of the jobs within this group not to be crucially important. In Spain, where the share of temporary workers represents 30 percent of total dependant employment, the repercussions are much greater if the most affected group in the crisis are these temporary workers.

Figure below depicts share of temporary workers in total dependent employment in OECD countries, in 2008, given in ascending order. We see that Austria is positioned left at the chart, with the share of temporary workers that is under one third of the highest share.

Figure 4. Share of temporary workers (%)



Source OECD Statistic (2010d)

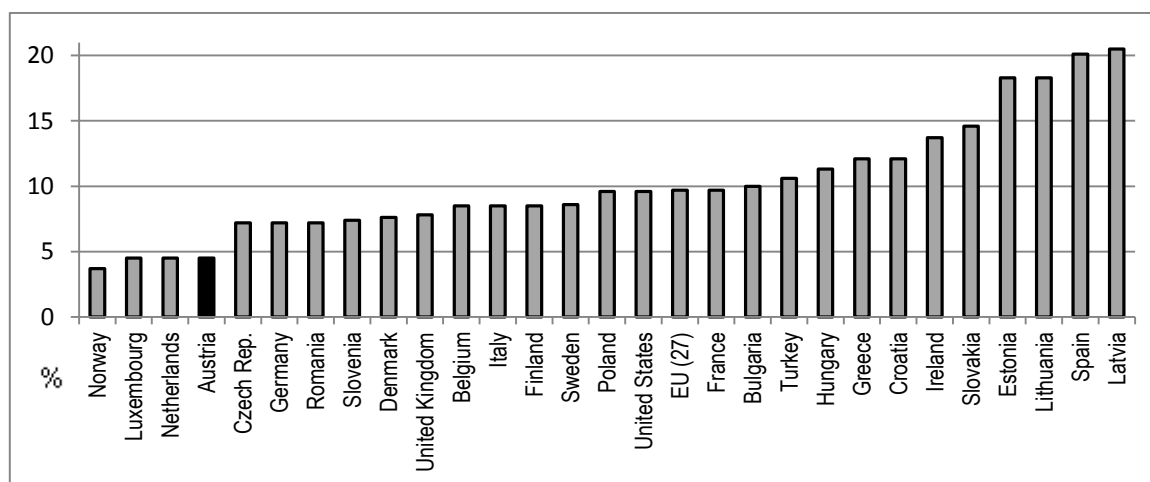
### 3 International comparison of the labour market performances

Looking internationally, the impact of the crisis on the national economies varies in form, extent, and intensity, depending on the conditions in which the crisis hit the economy of each country, and on the way the country coped with it. Therefore, some countries came out of the crisis with fewer consequences than others. The following considerations should ascertain the degree of the adverse effects of the crisis exhibited on the labour market of different countries, measured by the development of the unemployment rate of each country.

In the second quarter of 2010, Austria's unemployment rate was among the lowest. Eurostat (2013a) identified the unemployment rate of 4.5 percent, which ranked

Austria after Norway, Luxembourg and Netherlands, and before all other countries within the European Union. In addition, the average unemployment rate of the EU (27) countries was significantly higher, at 9.7 percentage points.

Figure 5. Comparison of unemployment rate in EU (27) countries in Q2 2010



Source Eurostat (2013a)

Imitating the analysis of Groot et al. (2011), I did my own cross-country comparisons. By calculating trough-to-peaks of unemployment rate for the OECD member countries, I got the figures that show which country has had the most severe reaction of the labour market to the economic contraction. The data of the unemployment rate and the GDP rate are extracted from the OECD statistics (2012a,b) and are on a quarterly basis.

Hence, from the sample of OECD members, I excluded countries that did not undergo the crisis and the ones that showed no trend in the behavioural pattern of the economic indicators used. Countries whose GDP rate trajectory was not characteristic of the crisis conditions were Australia, Poland, and Korea. The rate of Iceland marked a constant switch of upward and downward moments, which did not allow for my analysis. However, this does not impair observations or inferences.<sup>2</sup>

I followed the logic of Groot et al. (2011), in aiming to encompass cross-country heterogeneity in responses to the crisis. I defined the beginning of the crisis as the period in which the GDP first declined for two successive quarters, and the end of the

<sup>2</sup> These are my own inferences based on the data from OECD Statistics. Method used for determining relevant periods and figures is taken from Groot et al. (2011).

recession as the last quarter before the GDP picked up. Determination of these time points was crucial for determination of further relevant figures.

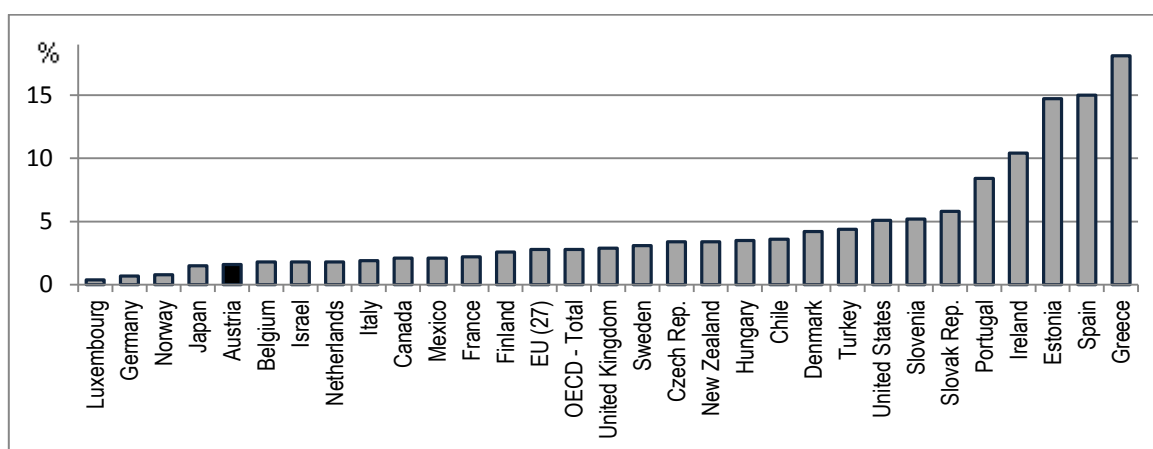
I defined the trough of the unemployment trajectory as the unemployment rate in the period in which it was the lowest after the start of the crisis, and the peak as the unemployment rate after which it declines for the following two periods. In the particular cases of Greece, Spain, Slovenia, and Portugal, rates kept growing steadily, thus I used the last given data: Q3 of 2012.<sup>3</sup>

Calculating the difference between these two resulted in trough-to-peaks of unemployment movement for each country. These are given in the ascending order on the figure below. The change of unemployment rate, from its lowest to highest point, shows how severe the repercussions on the labour market were. It gives the comprehensive conclusion of the rate development in the crisis.

It would be wrong to make inferences based on the values of the unemployment rate in one randomly picked period, because of the fact that in each country, the crisis began in different time periods and that therefore, the unemployment rates have had different progress.

The figure reveals that Austria's trough-to-peak (i.e., total growth of the unemployment rate during the crisis) was among the lowest. It positioned itself at the mere beginning of the list of 31 OECD member countries. Of the European countries, only Luxembourg, Germany, and Norway saw better results than Austria.

Figure 6. Trough-to-peak of the unemployment rate



Source: OECD statistics (2012a,b), Authors calculation

<sup>3</sup> For the details of determination of relevant periods and figures see Annex.



### 3.1 Originality in labour market response

The following analysis should indicate that the Austrian labour market responded to the crisis differently than expected according to the empirically defined regularity in movement of unemployment and GDP rate during and after the crisis. This exhibited difference is positive.

The aforementioned regularity is emphasized in Groot et al. (2011). Apparently, GDP rate and unemployment rate should move together, with the values of the unemployment rate following close behind. Furthermore, unemployment increases „(...) relatively fast about when GDP starts to recover again, and unemployment often still (keeps) increasing gradually for one or more years afterwards“ (Groot et al. 2011: 439).

What we observe in the Austrian case is, as foreseen, that unemployment rate and GDP rate both grew, with the unemployment rate having a lower rate of growth. Then came the point where Austria exhibited its specialty. Instead of increasing even faster as anticipated when the economy entered recovery, the unemployment rate started to decrease.

Following the method that was used by Groot and his colleagues (2011) when examining sensitivity of countries to the crisis, I compared the unemployment rates at the end of the recession with the ones in the third quarter of 2010, because that is when the recovery took place in almost all countries. With this comparison, I tried once more to present how Austria deviated from the expected trend of growing unemployment in the crisis aftermath.

Relevant determinants and figures, and the sample of observed countries are the same as before, as well as the source of the data. Different time points of the start and of the end of the crisis are regarded.<sup>4</sup>

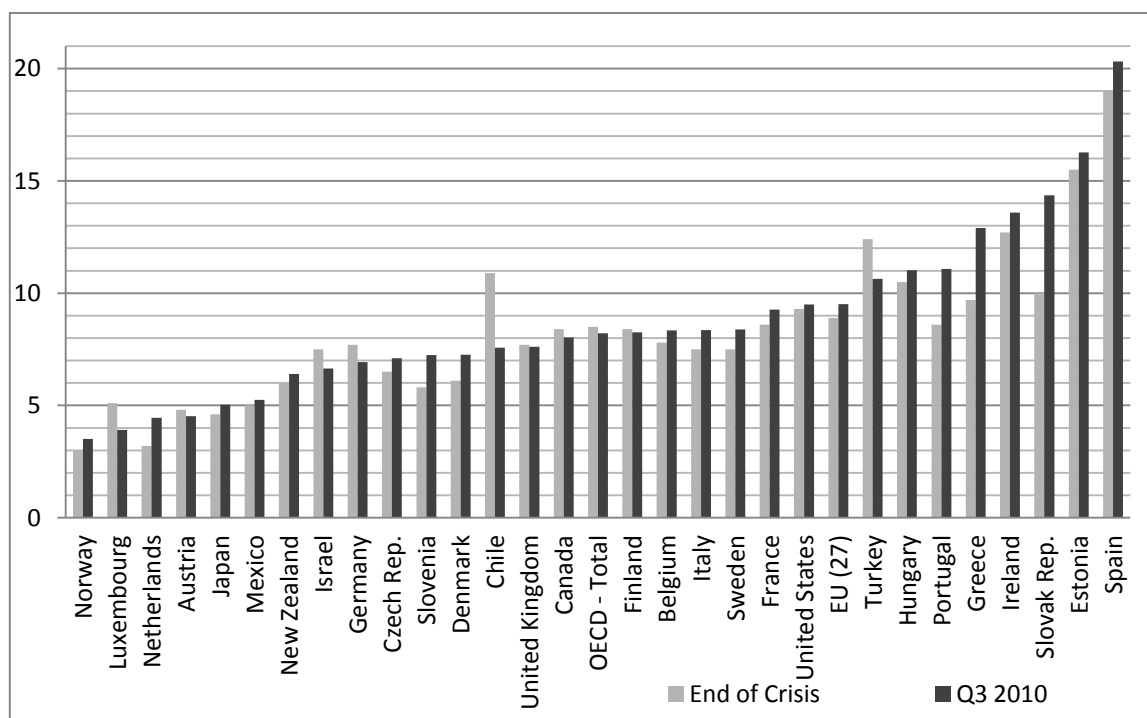
In the figure, countries are given in ascending order of unemployment rate in Q3 of 2010. It depicts that Austria, together with Finland, Luxembourg, Germany, and the United Kingdom, from the European countries in the sample, saw a decrease in unemployment while it was still increasing in most other countries. It is in the figure

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<sup>4</sup> For the details see the Annex.

indicated, for Austria, with the dark gray column representing the value of the unemployment rate in Q3 of 2010, that is lower than the light gray representing the end of the crisis.

Figure 7. Change of unemployment rate in Q3 of 2010 relative to the end of the crisis (%)

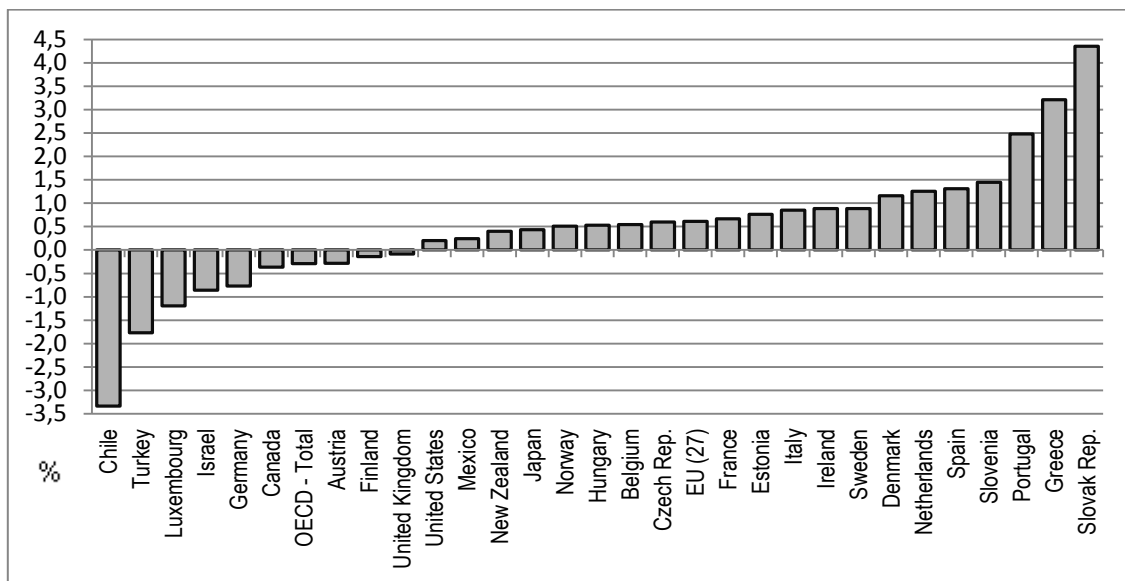


Source OECD (2012a,b), Authors calculations

The results of this comparison and the following inference are more obvious in figure 8, where the difference between level of the unemployment rate in the third quarter of 2010 and at the end of the recession is depicted. Positive values mean that the unemployment rate in one country grew after the crisis ended. This further reveals the extent of the growth of the unemployment rate. Countries are shown in ascending order of this difference.

Favoured results have, of course, countries with the negative values, and such is noted in Austria. Only two other European countries, Luxembourg and Germany, have slightly better results.

Figure 8. Difference between unemployment rates: Q3 2010 and end of recession



Source: OECD (2012a,b) Authors calculations

To summarize, the behaviour of the unemployment rate should have exacerbated in the period when the GDP picked up, but this was not the case. The unemployment rate in Austria actually fell. That placed Austria among few countries with such a reaction. This proved that Austria's labour market is resilient to adverse movements in the economy.

### 3.2 From crisis to recovery

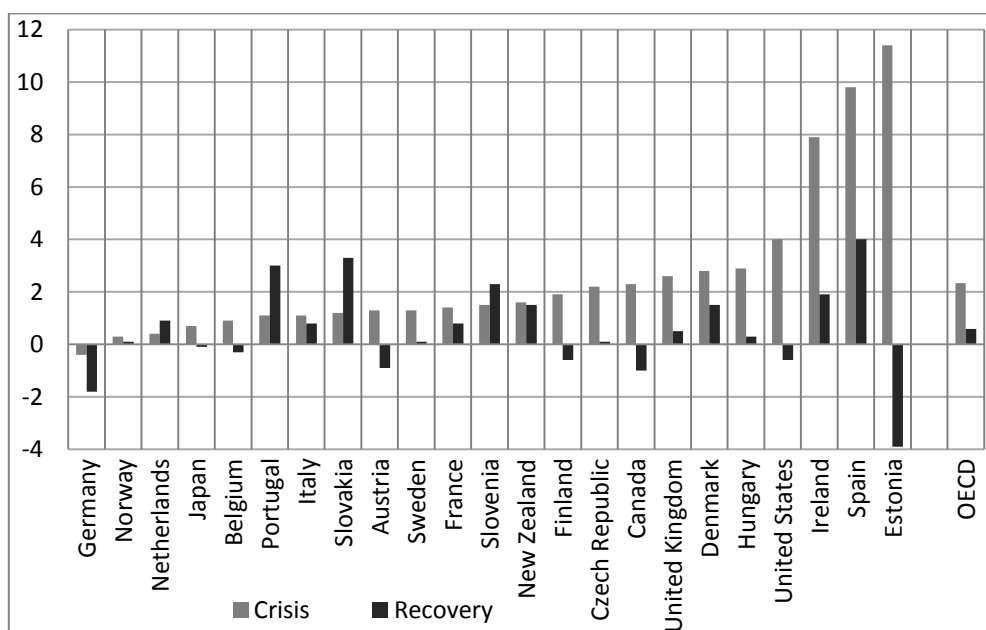
Previous basic calculations and analytical observations of the developments of the unemployment rates in the OECD and EU countries in the different time periods serves to emphasize the extent to which the reaction of the Austrian labour market to the crisis was unusual.

How did the situation on the labour markets evolved during the recovery phase that already was on stage for most countries for about two years is further discussed. My aim is to show that the developments of the Austrian labour market are not a matter of luck but rather, that they are a set of different but goal-directed actions that enabled sustainability of the good performance through the recovery period as well.

The following observation is made by OECD authors (2012c: 62) and it is similar to the ones I made before, but within the extended period of time. The percentage change in the unemployment rate during the crisis is compared with the percentage

change of the unemployment rate in the recovery period. “The crisis is defined from the peak in real GDP to its trough, whereas the recovery is defined from the trough in real GDP to the latest values available (2011 Q4 for the majority of the countries). Peak (trough) dates are defined as the start of the longest spell of consecutive decreases (increases) in real GDP since 2006 Q1“OECD (2012c: 60).

Figure 9. Changes in unemployment rate: Crisis vs. recovery (%)



Source: OECD (2012c: 60), Author's adaptations

<http://dx.doi.org/10.1787/888932651104>

In the figure above the countries are given in ascending order by the percentage change of unemployment rate during the crisis and these are represented by the blue columns.<sup>5</sup> Hence, from the peak of the GDP rate to its trough, the unemployment rate in Austria grew as well as in all other countries except Germany. This analysis placed only a few countries in front of Austria in terms of better results during this period. But in the recovery period i.e., the period from the trough of the GDP to the end of 2011, the unemployment rate has fallen in Austria as it is clearly depicted in the graph by the gray column. Besides Austria, only Estonia, Finland, Belgium, and Germany had such development of this rate. These are outstanding results: among 23 analysed OECD member countries, Austria is in a group of 5 countries that had their labour market conditions improved in the recovery phase.

<sup>5</sup> For the method of determining relevant figures see OECD (2012c: Annex 2.A1)

## **4 Review of risks and opportunities: Austrian labour market**

Change of the output level due to the economic and financial crisis of 2008-09 caused various responses of the national labour markets. How severely the Austrian labour market was affected, and which differences it exhibited in comparison to other national economies, was the topic of the previous chapters. In the following chapters, I will narrow the considerations to the characteristics of the Austrian labour market: conditions, relations, and measures that could be held responsible for its outstanding outcome that pushed this relatively small economy into the forefront of the economic scene.

### **4.1 Labour market institutions**

Labour market institutions is an overall term for rules, practices, policies, customs, and structures that govern relations among the participants in the market. Important groups of institutions are employment protection legislation, unemployment benefits, taxes on the labour, wage settings, active labour market policies, education and training, working arrangements, human capital investments in firms-specific settings. (Eichhorst et al. 2010: 5)

Opposite opinions are documented in the literature in regard to the capability of the labour market institutions to keep their stability when the labour market is shaken by the demand shock. “(..) (D)emand shock that reduces demand for goods and services leads to a fall in employment or to fall in average hours of work (or to some combination of these two approaches)” (Appelbaum 2011: 598). This nature of the reaction of the labour market to the demand shock depends on the nature of labour market institutions (ibid.).

However, regression analysis of Eichhorst and his colleagues (2010) that examined 20 OECD member countries showed no relevance of the labour market institutions to the different responses of the national labour markets to the crisis. According to the authors it is rather the internal flexibility that makes the difference (but the internal flexibility is determined by the labour market institutions!). The authors have themselves called the results into question due to many reasons.

I find that labour market institutions frame the processes of the labour market. All the structures, rules, and customs manage the development of its indicators, like rates of unemployment or employment. Since they define the level of rigidity or flexibility of the labour markets they may exacerbate unemployment or preserve employment. Labour market institutions, especially in times of impaired business activity, raise incentives for usage of certain measures, or discourage the usage of others, and thereby direct the course of the necessary market adjustments.

There is a high complexity and intertwinement of the variables of labour market institutions, as will be proved later. One should not overlook these mutual linkages because ultimately the set of them together results in the particular response. Due to the variety and complexity of the whole system, the line between good and bad labour market institution schemes cannot be drawn.

#### **4.1.1 The question of flexibility: Austria**

The flexibility issue is often referred to when arguing about the performance of labour markets. Flexibility of the market is derived from the flexibility of the participants in the market. Atkinson (1985 as cited in Eichhorst et al. 2010) differentiates between five types of flexibility; numerical external and numerical internal flexibility, functional external and internal flexibility, and wage flexibility.

Different types of flexibility are determined by the labour market institutions but are defined by the way companies deal with the downsizing demand, whether they reduce production level by dismissals or by reduction of the working hours. The flexibility is important because it makes up the options of the firms to react to the fluctuations of the demand.

Functional flexibility is always higher if there is a strong educational system and labour market policies that promote the skills and qualifications of the workforce or if there are employers willing to invest in it. Indeed, functional flexibility accounts for the employees' capability to perform different tasks so that the adaptation to the fluctuations on the market could be achieved through the reorganization of the production process, or through the mobility of workers within the market. This can only be achieved through the cultivation of a skilled and trained workforce that easily adapts. (Eichhorst et al. 2010)

Numerical flexibility, either external or internal, stands for adjusting the number of workers, or the number of working hours, respectively. Numerical external flexibility is determined by, e.g., employment protection legislation or the labour supply that is influenced by unemployment benefits, or taxation. (ibid.)

Important in general but especially key to this work is the contribution of Eichhorst and his colleagues (2010), who emphasized education as an institution that influences developments on the labour market and the way it adjusts to turmoil. I will prove, in this work, that education is highly regarded in Austria and that it significantly contributed to the performance of its labour market in the crisis of 2008-09.

First, Eichhorst et al. (2010) have assigned Austria to the *educational cluster* in the categorization of countries according to the prevailing type of flexibility (internal, external, wage) in each country. This categorization was based on the overall indicator of labour market flexibility created by the authors. Educational cluster is characterized by low external numerical and wage flexibility but high external functional flexibility. Wage flexibility is higher than external numerical, meaning that adaptation happens through wage adjustments before it happens through adjustment of the number of workers. When the authors included internal flexibility in cross-country categorization, Austria was allocated to the cluster that adapts by reducing working hours.

It is true that the wage flexibility is higher on the sectoral level, but on the level of individual firms, a survey made by Kwapil (2010) of 322 companies<sup>6</sup> in Austria showed existence of the downward wage rigidity. It means that the companies decided to hardly decrease wages during the crisis, even though it would have been a feasible solution to diminish the costs. The aforementioned survey also confirmed that the firms have chosen mostly to adapt through the reduction of working hours.

## **4.2 Policy measures**

The Austrian government quickly responded to the developments of the labour market. It agreed upon the labour market and stimulus packages, employed them and successfully cushioned the negative consequences of the financial and economic crisis on the labour market. Two stimulus packages, tax-reform,

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<sup>6</sup> Survey consisted of more participants (see text below) but answers of 322 companies are regarded here.

supplementary measures of trade partners, and the three labour market packages preserved and enabled 100 000 workplaces. Already in the fourth quarter of 2009 employment picked up slightly. (BMASK 2010a)

Labour market packages I, II, III (*Arbeitsmarktpaket* I, II, III), enacted in 2009, present a coordinated set of measures that prioritized employment promotion, job preservation and the improvement of skills of unemployed persons. A total number of persons who received funding for the first time in 2009 as a part of labour market promotion measures rose by around 2.5 percent compared to the previous year. (ibid.)

An important contribution of the labour market packages was the provision of a 20 percent increase in the budget for expenditures for conducting labour market policies over the previous year. These policies consist of active and activating measures. Only the funds for active labour market policies increased by 24 percent. If looking at the numbers given in the Report of the Bundesministerium für Arbeit, Soziales und Konsumentenschutz, for the year 2009-10 (BMASK 2010a), the largest relative increase from year 2000 was not in the year of crisis but rather in 2003.

Table 1. Expenditures of Austrian government for labour market policies

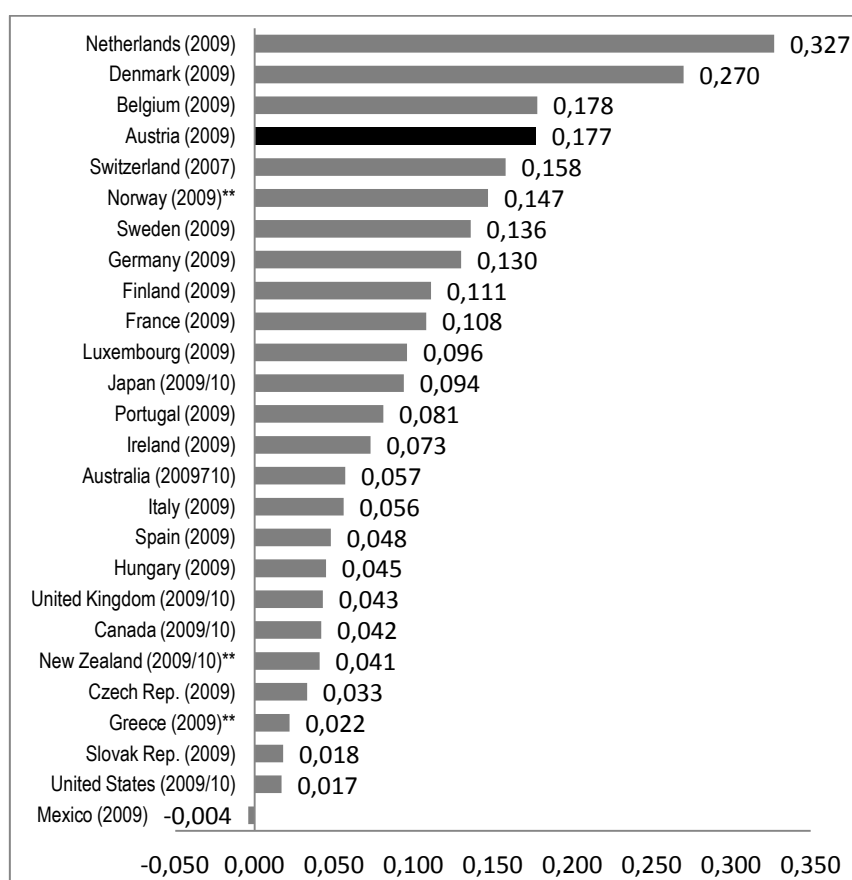
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>active + activating LMP</b>	760	910	1.066	1.481	1.660	1.680	1.920	1.836	1.790	2.146
<b>% change to previous year</b>	0	20	17	39	12	1	14	-4	-2	20

Source BMASK (2010a: 41), Author's adaptations

International comparison of public expenditures for labour market policies, given as a percentage of GDP per 1 percentage point of the unemployment rate (calculation and figures BMASK 2012), positioned Austria at the top of the ranked list of OECD member countries. High investments in measures for preserving and improving employment reveal that the government places a high value on the working class. On the figure below is an overview of the extent of these investments.



Figure 10. Public expenditure for LMP as a percentage of GDP  
(per 1% point of unemployment rate)



Source: BMASK (2012: 23), Author's adaptations

#### 4.2.1 Labour market policies

With the labour market policies, the Government counteracted the negative trends caused by the crisis. It subsidized employers offering them other solutions beside dismissals. It participated in wage and non-wage costs to encourage the use of shortening of working time schemes; enabled funds for education and training courses for up-skilling and re-qualification; created incentives to raise job acceptance and more (BMASK 2010a). These measures have long-lasting effects; introduced during the crisis, they secured gains after it.

Active labour subsidies in 2009 can be sorted into three areas: skills training, employment subsidies, and support-measures.

Trainings, up-skilling, and apprenticeships are the core of the active labour market policies. 62 percent of budget funds were spent on these activities and 72 percent of

the total number of persons supported received subsidies from this category. (BMASK 2010a,b)

Among the employment subsidies that are paid to the companies or job scheme operators in exchange for the jobs preserved or provided, the short-time working program is the most prominent. The increase of 101.4 percent in the usage of the employment subsidies compared to the previous year was mostly due to the short-time working scheme (58.733 short-time work subsidies were granted, which corresponds to a 713.5 percentage increase of usage of this scheme). (ibid.)

Support measures were manifested in labour-market related advisory and guidance services, business start-up programmes, and subsidies for start-ups. (ibid.)

Some of individual measures besides those for counteracting the unemployment of young people and the short-time working scheme (the most used and most comprehensive subsidy, examined in separate chapters below) included subsidized wage schemes for „work-returners“, programs for elderly (50+), and for people with disabilities (*Kombilohn Neu*). These measures initiated two positive trends. Namely, they created incentives for the acceptance of lower paid jobs, and on the other hand, they motivated companies to employ the groups of people that they targeted. (ibid.)

More job opportunities were created by *Action 4 000 (Aktion 4 000)* that secured jobs in the public and non-profit sectors, community, church, and welfare organizations. Subsidized study leave (*Bildungskarenz*) saw 4 times more participants at the beginning of 2010 compared to 2008. (ibid.)

#### **4.2.2 Counteracting youth unemployment**

According to the OECD statistics (2012d) the 2009 overall unemployment rate among the youth population was 10 percent, which corresponds to an increase of 1.9 percentage points from the previous year. This has already fallen to 8.8 percent in 2010. It is an extremely good indicator of how well the government's measures to fight youth unemployment were received.

Perceived as most affected by the crisis, the young population was addressed with more than a few programs that aimed to improve their position in the labour market. Arrangements such as career advising, orientation programs, apprentice trainings,

and production schools addressed the issues of young people between 15-19 years old. (BMASK 2010a,b)

The *Future of Youth Campaign* was a campaign directed to young adults, aged between 19 and 24 years, that provided them with jobs and skills training. In 2009 there was an increase of 37 percent in participation in training courses and a 2% higher rate of job take-ups. Even youth who lacked sufficient qualifications or practice were addressed by the government's measures. Specifically, Campaign +6 000, provided them with job opportunities. (ibid.)

„(..) (U)nemployment among workers aged below 19 was clearly below average in recent years. Even during the crisis, the rise in unemployment in this age group remained rather moderate at 0.8%. This seems to indicate that measures to curb youth unemployment and support Austria's dual system of vocational training, for example by guaranteed apprenticeship placements, seem to work“ (Atzmüller, Krischek 2010: 30).

#### **4.2.3 Short-time work subsidy: An overview**

The short-time work scheme (STW, *Kurzarbeit*) is the powerful instrument used by the government to fight negative effects on the labour markets caused by the decreased demand for goods and products due to the economic and financial crisis of 2008-09. By granting the subsidies encompassed in the short-time work scheme, the government tried to induce employers to adjust their level of productivity to this decreased demand by reducing the hours worked instead of the number of workers.

The broad outlines of the scheme are as follows. An employer applies for the subsidy that is used by employees and financed by the government. An employee on the subsidy works fewer hours than before and for the hours worked he gets paid by the employer. For the lost part of the wage, due to the reduction of working hours, the employee is partially compensated by the government, and the small remaining part the employee bears himself. The scheme envisaged additional allowances and subsidies if the employer would introduce training programs. (Hogrefe, Groll 2010)

Short-time working made all participants better off; workers preserved their jobs and most of their income; employers could opt to keep their workforce because on one

side, they had their costs subsidized and on the other, the level of labour productivity was decreased; and the government mitigated imbalances in the economic and social environment.

The number of workers participating in the scheme implies its effectiveness, and is determined by its design. It does not surprise then that the governments, in the times of the crisis, reformed the subsidy to increase the rate of participation. Namely, they eased (i) the eligibility criteria; (ii) the conditionality criteria that encompasses behavioural requirements for participants in the scheme; iii) they improved the financial terms of the subsidy and IV) prolonged the length of the period of time in which it would be granted. (Hijzen and Venn 2011; OECD 2010c)

The short-time work scheme prevents or reduces the extent of layoffs that would not take place in the times of normal business activity. The only shortfall is that it might spare the jobs that would be saved in any case, i.e., without the scheme (OECD 2009b: 89).

#### **4.2.3.1 Short-time work subsidy in Austria**

The short-time working scheme was in place prior to the crisis in many countries, including Austria. In contrast to Germany, the scheme in Austria has not been used extensively, only in individual cases of application by the firms in economic trouble were recorded and less than 1 000 workers were on the scheme annually. Hence, until this crisis, neither Austrian workers nor the employers had gained much experience with the short-time work. (Eurofund 2010)

After the onset of the crisis, legislative procedure for the introduction of the short-time work in Austria included as a prerequisite the agreement of social partners, i.e., representatives of employers and employees. The agreement contains the essential points around the short-time work, such as duration, number of workers affected, number of reduced working hours, and if anticipated, the training program. This consent of social partners should evidence the economic need for the subsidy, since it is in the interest of unions only if the second alternative is dismissal. Otherwise, the employers could misuse it for their own benefit. (BMASK 2010b; Hijzen and Venn 2011)

Measures to increase attractiveness of the STW scheme in Austria were envisaged by the two labour market packages enacted in 2009. The revised scheme implied (i) that the subsidy can be received for a maximum of six months within two years in the case that it is granted by the end of 2010 at the latest; (ii) government reimbursement of the costs for social insurance of the worker from the seventh month of his participation; (iii) training subsidies, if the company includes training measures in its STW scheme, in duration of up to 18 months or longer. (BMASK 2010b)

A further characteristic of the short-time working is that the hour reduction could range between 10 and 90 percent. This limit on the maximum reduction in working-hours should have prevented arrangements for temporary layoffs (BMASK 2010a). In spite of this, there are indications that these were still in place. Bock-Schappelwein et al. (2011) found temporary layoff agreements (*Kündigungen mit Wiedereinstellungszusagen*) as the reason for the lower take-up rate of short-time work in Austria compared to Germany.

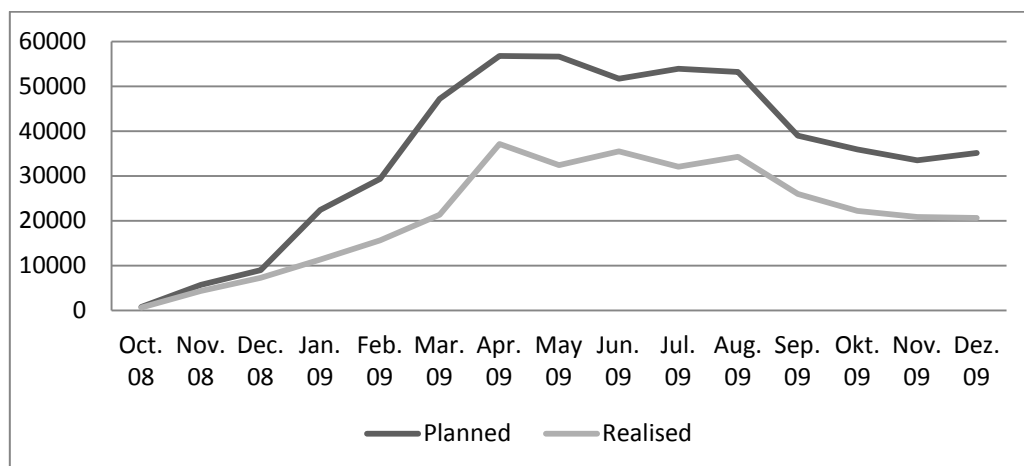
The advantage of the temporary layoffs agreement over the STW was a simplified procedure since they are made only between the employer and the employee. Additionally, the participation in the STW scheme has accounted for work council or trade union approval and thus was time consuming. (Hermann 2011)

The demanding procedure is the reason that the number of planned and actually realized short-time work subsidies differ. Namely, it is probable that from the total number of workers (56 728) registered to be granted the subsidy in the April 2009, only 66 percent of them actually received it, because of the prescribed period of 6 weeks before introducing short-time work, or 4 weeks before extending subsidy duration, to register with the Labour Market Service. (Hermann 2011, BMASK 2010b)

From October 2008 on, employers have extensively used the short-time work subsidy. In total, 66 400 workers were on the short-time working scheme in 2009, while on average only about 25 800 workers were on it. Average reduction of hours worked was about 24 percent. The participation peaked in April of 2009 with 37 652 workers in more than 300 companies. In April of the next year participation was at a neglected level. (BMASK 2010b) It has been calculated that the STW scheme contributed to the total hours reduction in Austria of about 3.6% by about ¼ percentage points (OECD 2011: 15).

From figure 11 it can be seen how the number of workers covered by the short-time working subsidy was developing in the period between 2008-2009.

Figure 11. Number of workers subsidized by the short-time work scheme



Source: BMASK 1994-2010 (2010c: 303)

#### 4.2.3.2 Effectiveness of the short-time work subsidy

In existing literature on the response to the crisis, short-time work has been evaluated. Overall its importance is highlighted, only the scope of its success is disputed.

Merits of this scheme cannot be denied but its role might rather not be decisive. Hijzen and Venn (2011) in their analysis of 19 countries with and without the STW scheme provided clear evidence that STW schemes preserved permanent jobs during the 2008-09 recession. Hogrefe and Groll (2010) also acknowledged that the scheme made great contributions in the case of Germany, but find it to be an inadequate explanation for the low unemployment rate and more as a useful measure of internal flexibility. They based their conclusion on the absence of difference in the extent of the usage of the STW subsidy in the last crisis compared to the usage in previous ones. Even so, the unemployment rate this time did not increase, meaning that something else has functioned well.

The effectiveness of the STW is difficult to assess. There are calculations being carried out that indicate the number of workers spared. The results differ due to different measures of the take-up rate or other assumptions but some overall conclusions can be made.

„A first indication of the potential job saving impact of STW schemes, (...) can be derived from a simple accounting exercise: using information on the number of workers participating in STW schemes and the average reduction in hours worked, the total subsidised reduction in hours worked can be calculated and converted into full-time equivalent workers” (OECD 2010c: 61). Stiglbauer (2010) did exactly that (see also Mahringer 2010) based on data given by the Federal Ministry of Economy, Family and Youth<sup>7</sup> stemming from 2010. He multiplied the average of around 26 000 short-time working arrangements actually subsidized in 2009 with an average reduction in working hours of around 26%, which resulted in a rough estimate of spared jobs of 6 800, or 0.17% of total employment in 2009.

Somewhat more discouraging figures on the numbers of saved jobs are given in OECD report on employment (OECD 2010:71) where in Austria 3983 jobs were saved. The STW in Austria provided a lower rate of unemployment by 0.12 percent than would have existed in its absence.<sup>8</sup> In comparison to Germany (221 541, 0.73%), or Italy (123 975, 0.74%) it is a modest result. Still, even though the figures are much higher for Italy, Austria exhibited a much lower rate of unemployment than Italy. This only proves that the short-time work subsidies cannot alone take credit for the developments on the labour markets.

Furthermore, it is surprising to see that even the 1.5 million workers that were on the short work time in Germany in May of 2009 (3.8 percent of total employed persons) had not made a decisive contribution to the positive development of the unemployment rate but rather “only” hindered its rise by 0.7 percent. When comparing figures, it is then difficult to praise the results of short-time work in Austria, where the peak of employees on the scheme (reached in April 2009 with 38 000 workers or 1.8 percent of the total employed persons) preserved the unemployment rate to rise an additional 0.12 percent. (Hogrefe and Groll 2010, OECD 2010c: 71, Bock-Schappelwein et al. 2011)

The figures on the effectiveness of the STW scheme reveal that in Austria it might not be as remarkable as in other developed EU countries, but Austria nonetheless had an outstanding evolution of the unemployment rate.

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<sup>7</sup> Bundesministerium für Wirtschaft- Familie und Jugend

<sup>8</sup> The figures for the total employment are taken from the OECD.Stat database (OECD 2013). Data refer to 2009. Austria marked 4.077.550 employed persons above 15 years old and Germany, 38.471.100.

### **4.3 Working time accounts**

Short time work is in literature (see Burda and Hunt 2011, Hogrefe and Groll 2010) assumed as an insufficient explanation for the actual extent of the decrease of total hours worked. Working time accounts of the employees take further credit.

These accounts enabled variations in hours worked with no variations in the pay due to positive balances of the hours worked on the personal accounts of the workers. At first, it could be said that the employers used them only as the part of the strategy to diminish working hours and achieve the necessary decrease in labour productivity. When this instrument is considered more closely, it is clear that actually leveling out overtime hours was more cost effective for the employers than to dismiss the workforce.

Working time accounts existed before the recession and were broadly used, thus, they had the power to make some important contributions in the recession, leading to more adjustments along the intensive than the extensive margin. These accounts function such that employees work more hours in some periods of time and then have the option of working fewer hours at some other time in the future. “When the recession arrived, workers had built up large surpluses in these accounts, which would have had to be compensated at the overtime premium if the workers were then laid off. Employers therefore laid off fewer workers in the 2008-09 recession than in earlier recessions when working time accounts were less widespread, preferring to draw down the surpluses by cutting workers' hours (at unchanged pay)” (Burda and Hunt 2011: 277).

Therefore, working time accounts allowed for the postponement of the increase of the costs, but the employers had to refrain from dismissals.

### **4.4 Working hours overview**

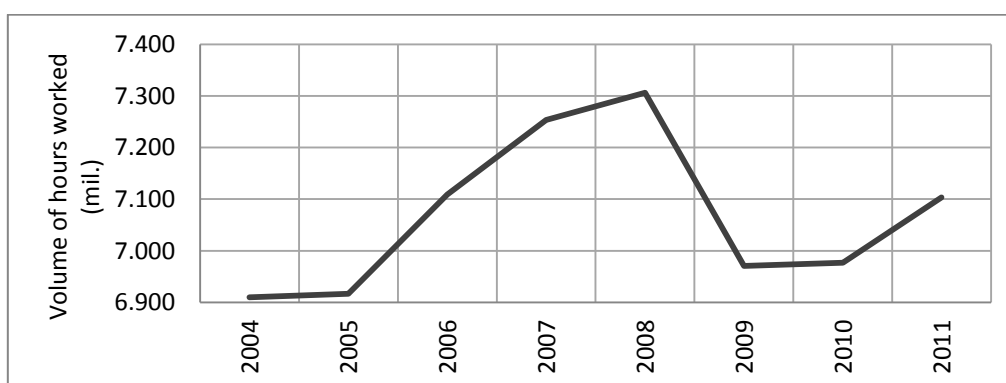
In the survey of Kwapił (2010) out of 322 Austrian firms, 70 percent of respondents have cut their costs by cutting labour costs. From these firms, 33 percent cut working hours, which was shown to be the most favoured way of Austrian firms in dealing with the consequences of the crisis. The small part of the working time reduction is achieved by the short-time working scheme. (OECD 2011)



According to a survey of the 300 largest companies (Eichmann and Bauernfeind 2009), firms responded in the greatest extent to the crisis by cutting back overtime. With 61 percent of establishments that reached for this instrument, it was the most widely used way of dealing with the crisis, whereas the short-time work scheme was used by 16 percent of companies. I have to call into question these results since the sample of the companies that actually took the part in the survey consists of 109 companies.

Data from the Statistik Austria indicate that the overall volume of hours worked was reduced by 4.5 percent in 2009 compared to 2008. Figure 12 depicts the trajectory of the volume of actual hours worked in Austria during the period of 2004-2009. This figure makes obvious how large the drop of later in 2008 was.

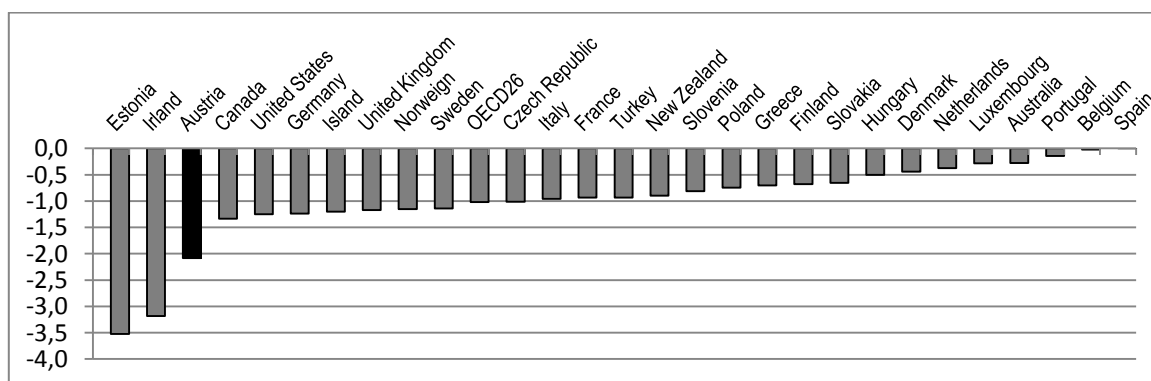
Figure 12. An overview of volume of hours worked in Austria



Source: Statistik Austria 2013

From the next figure it can be seen to what extent Austrian firms reduced actual weekly working hours in comparison to other countries. It turns out that Austria comes just after Estonia and Ireland, ahead all other countries, even Germany.

Figure 13. Reduction of actual hours worked Q4 2007 - Q4 2009



Source: OECD (2010c: 28), Author's adaptations

<http://dx.doi.org/10.1787/888932292137>

„Weekly hours worked fell by over 3 hours in Estonia and Ireland, and by around two hours in Austria. The average reduction for the countries analysed was one hour“(OECD 2010c: 27). This reduction of around 2 hours in Austria represents a reduction of around 5 percent, considering that the average usual weekly working hours in Austria were 38.1 hours according to OECD statistics (OECD 2010e), in 2009. Therefore, this represents a significant reduction.

#### **4.5 Employment protection legislation: merits and weaknesses**

Whether or not the employment protection legislation can be linked to the developments of the labour markets and the good performance of some countries is argued in the recent literature that considers the Great Recession. As will be seen in the discussion below some analyses revealed that employment protection legislation has an impact on the rate of unemployment; others found no relevance to it at all.

„Various institutional arrangements can provide employment protection: the private market, labour legislation, collective bargaining agreements and, not the least, court interpretations of legislative and contractual provisions“(OECD 1999: 51).

Employment protection legislation (EPL) frames the procedure of hiring and firing of workers, e.g., gives some group advantages over others or sets standards for temporary and fixed-term contracts. (OECD 1999) Because the termination of a working contract and its reestablishment creates costs for the employer, e.g., due to severance payments, it is justifiable to assume that it influences the decision of the employers to actually release workers. The EPL imposes the costs not only to employers, but to workers, e.g., costs for searching for new jobs, and to society as well, e.g., subsidies for unemployed persons. (Belot et al. 2007 as cited in Venn 2009)

That the EPL has this impact on the unemployment rate was shown by Amable and Mayhew (2011) in their regression analysis. Due to exceptionally high growth of the unemployment in spite of the very strict employment protection, Spain tends to blur results. That is why the authors excluded Spain from the regression sample of OECD member countries.

However, Möller (2010) investigated the impact of the real GDP growth rate and the OECD employment protection index<sup>9</sup> on the change in unemployment rate in 30 OECD member countries. He regarded the period from Q2 of 2008 until Q2 of 2009. The results came out to be not statistically significant. It means that there is no particular relevance of the EPL for the development of the unemployment rate. Hogrefe and Groll (2010), in their own considerations, came to no different conclusions in regard to employment protection legislation.

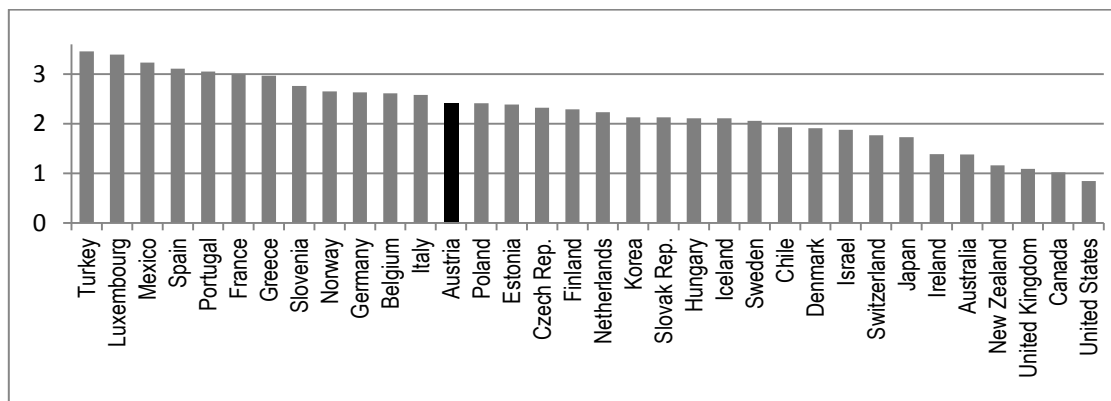
Furthermore, these regulations were shown in the analysis of Hijzen and Venn (2011), not to have an influence on employers' choices between adjusting the number of workers or working hours. "The results do not suggest that employment protection had a significant impact on the pattern of labour demand adjustment during the downturn in countries with STW schemes compared with those without such schemes". (ibid.: 27)

Following the practice of Amable and Mayhew (2011), based on the data from the OECD statistics (2010a), I ranked 34 OECD Member countries by the size of the *indicator for the overall strictness of the employment protection legislation* being in force from the beginning of 2008. Version 3 of the indicator, regarded here, stands for the weighted sum of sub-indicators for regular employment, temporary employment and collective dismissals. On the figure below countries are ordered in a descending manner. Austria ranks in the middle of this list. It is shifted enough toward the low-protection end to not be considered a country with rigid employment protection legislation, and sufficiently towards the second end, i.e. not to be taken as too flexible.

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<sup>9</sup> OECD Employment protection index consists of protection of permanent workers against individual dismissal, regulation of temporary forms of employment and specific requirements for collective dismissal.

Figure 14. Strictness of employment protection legislation: Overall



Source: OECD Statistics (2010a)

By mere observation of the order of the countries in the figure above, taking into account previous discussions on cross-country developments of unemployment rate, I infer that there is no pattern that could be drawn in the relationship between the unemployment rate that the countries exhibited in the crisis and their EPL. There are countries that in spite of quite strict employment protection legislation (such as Spain, Portugal, and Greece) exhibited a tremendous decline in employment; or countries such as Canada or the United Kingdom that performed fairly well even though they are positioned at the bottom of the list with their relaxed employment protection provisions.

In general, from this empirical evidence, there is no benchmark in the legislation or in the level of its strictness that would ensure labour protection. As shown, a high level of protection legislation did not succeed in preserving employment, or the opposite. Indeed, it might be said based on many recent analyses whose conclusions were presented previously in the text, that the success or failure of the labour markets was not due to the form, extent, or strictness of the employment protection legislation.

Nevertheless, employment protection legislation cannot be neglected. Kwapil (2010) implies that it might play a role in Austria. She refers to employment protection legislation as the possible reason for the higher rate of dismissals of lower-aged workers in Austria, which has been established in her survey. Provisions of employment protection legislation give privileges to workers with families, who tend to be older.

In my own considerations, EPL plays a role in preventing the employment level from deteriorating mostly due to the fact that it implies costs. These costs are unjustifiable when the terminated employment contracts are to be established again just after the crisis passes.

Groot et al. (2011: 445) asserted: “If the costs of firing employees are higher, firms are more likely to retain employees during a recession, which makes final demand less sensitive to the business cycle”. Appelbaum (2011: 598) confirmed, “If employment protections are weak and the costs to employers of reducing employment are low, much of the adjustment to a lower demand for products will fall on employment rather than hours of work and much of the cost will be borne by workers. “

Therefore, among the two possibilities to respond to the demand shock, either through shortening of working hours or through dismissals, it is rational for employers to choose the less costly option. For example, in the US the employment protection according to OECD data is 0.85, where 0 is the lowest margin. The fact that employers are free to decide on termination of the employment contracts without material consequences, and that having workers on short working-time would imply expenditures, especially for health insurance, made laying off the better option for the employers. (Appelbaum 2011)

The answer to the question of whether the variable reaction of the unemployment rate in different countries was caused by the different level of EPL is probably no, but the answer to whether EPL had an impact on the labour market response to the crisis effects is surely yes.

#### **4.6 Social partner response: Collective agreements**

A great deal of literature emphasizes the importance of crisis measures like reduced working hours, but Hogrefe and Groll (2010), shifted the emphasis to social dialogue and its manifestation. They wrote: “Collective agreements now allow much more for deviations from the regular weekly working time” (p. 48). Therefore, collective agreements gave the green light to the enforcement of arrangements like working time accounts or short-time working and actually enabled greater flexibility of the firms and the labour market.

Two authors, Bellman and Garner (2012), investigated whether the collective agreements on the company level (known as *pacts for employment and competitiveness (PEC)*) in German companies served their purpose. These agreements are created with the aim of preserving and creating jobs and competitiveness and have been tried out in the recent crisis.

Authors used data from the IAB-Establishment Panel Survey<sup>10</sup> on PEC: their presence and content in German firms from the year 2006 to 2010. Findings indicated that in companies with PEC the employment had more favourable development during the crisis in 2008-09. Among the companies affected by the crisis that saw a fall in revenue in 2009 compared to 2008, the ones with the PEC had their employment fall by only a modest 1.5 percent, compared to a 7 percent fall in companies without PEC. The general conclusion is that the companies with PEC were using more active measures to counter the crisis.

While most attention to the unprecedentedly mild reaction of the German labour market (despite the historically large drop of GDP) is directed towards the measures aimed at reducing working hours, the arrangements that promoted it, as empirically proven, are neglected in these considerations.

The German case, where the collective agreements on the company level were shown to have an impact on the extent of dismissals that occurred during the crisis, motivated me to investigate the effects that collective agreements had in Austria and the issues they dealt with.

#### **4.6.1 Social partnership in Austria**

Social partnership in Austria does not end at the collective agreements, wrote Atzmüller and Krischek (2010). Its influence extends to the legislation processes due to close ties with Austria's major parties and the inclusion of social partners in advisory boards ("Beirat für Wirtschafts- und Sozialfragen"). Furthermore, social partners are members of the management bodies of Austrian social insurance, the Austrian National Bank, and the board of the Austrian Public Employment Service (PES). "Thus a tight network of vertical links with the major parties and horizontal

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<sup>10</sup> IAB- Establishment Panel Survey is survey of near 16 000 establishments in Germany carried out yearly. It is based on interviews conducted with the firm's managers on various topics regarding employment issues. For more details see official webpage: <http://www.iab.de/en/erhebungen/iab-betriebspanel.aspx> (27.1.2013)

links among interest groups is in place to coordinate economic-policy activities.” (ibid.: 34)

Stable, comprehensive, and centralized bargaining systems characterize social partnership in Austria (Hermann 2011). Employers are legally obligated to membership in the Chamber of Economy, and with 98 percent employer representation, Austria holds first place compared to other EU (27) countries (European Union Report 2011).

High bargaining coverage implies higher influential power of social partners due to the greater extent of employers that are bound to conduct the agreed measures, i.e. the number of workers that will be influenced by the negotiated outcomes is greater. This is noteworthy for combating crisis effects. (Glassner et al. 2011, Hermann 2011) Regression analysis carried out by Amable and Mahew (2011: 218) showed that “(..) [C]ountries with higher collective bargaining coverage tend to experience lower unemployment increases”.

On the other hand, trade union density has no direct impact on the response to the crisis but does matter because it can impair the power of trade unions to react, e.g., organize strikes. Trade union density stands for the number of employees who are members of trade unions relative to the overall number of employed persons. (Hermann 2011) It has displayed a dominant downward trend for the last decade. From 2000 until 2008, trade unions in EU (27) countries lost about 3 million members; the average density rate fell by 4.4 percentage points. In 2008, it varied between 7.4 percent measured in Estonia, and 68.3 in Sweden. Austria, with 29.1 percent, was among the countries with a higher representation level. The decline in Austria in this eight year period was 7.5 percent. (European Commission 2011, OECD Statistics 2010b) It might be justifiable to say that the workers are losing their confidence in the effectiveness of trade unions.

#### **4.6.2 Reflections of the crisis in the collective agreements**

Collective agreements, as described in Glassner et al. (2011), provide the assurance of cooperation and a higher effectiveness of employer-employee mediation and mitigation of tensions between conflicting goals. Such agreements become even more vital during times of crisis. On the one hand, collective agreements make jobs

more stable and secure workers' income, on the other, they enable employers to retain a skilled workforce, or to have the possibility of manoeuvring work-time and costs when it is justified (Glassner et al. 2011).

The particular response of the social partners depends on the repercussions of the crisis on the labour market, and on the existing industrial relation institutions. Successful agreements on some issues, such as the short time work scheme, depend on the well-played role of the government. Public policies might be initiators or facilitators in the negotiation processes. (Glassner et al. 2011, EU 2011)

Issues addressing the effects of the crisis were part of the bargaining agreements in Austria, negotiated since the onset of the crisis in 2008. The main subjects of these agreements, as summarized by Hermann (2011: 1), were, i) bargaining for jobs, including bargaining on short-time working, ii) work foundations, iii) shorter working hours, iv) bargaining for wages and v) concession bargaining.

Negotiations in the crisis, as common, took place at the national, sectoral, and company level. The sectoral level kept its role as the highest instance of negotiations about minimum working conditions, working hours and wages. In Austria, each sector defines its own level of minimum wage.

A direct impact of the crisis on the agreements made during the crisis was that the duration of these agreements was prolonged from one to two years and that the issues of working-time and wages got more attention. (Hermann 2011)

The government has initiated negotiations on the short-time work scheme, which have resulted in reforms of this scheme. The negotiations proved to be successful, which is not surprising since they were freed from questions on financing because the government provided the funds for that scheme. These funds were invested in contributions to wage replacement of 55 percent; contributions to social insurance; and into subsidies for additional trainings and education. (ibid.)

Negotiations between trade unions and employers were subject to a number of disagreements. One side threatened to move production out of Austria, and unions threatened to call for strikes or to hinder other negotiation processes if particular conditions were not accepted. Compromises were reached on the wage replacement



rate and on the obligatory retention period of workers on the STW scheme. The wage replacement rate was agreed to be 90 percent, regardless of the number of hours worked with a concession to the small and medium-sized enterprises. Employers requested a change of the procedure of introducing the STW scheme in the firm that anticipated the consent of trade unions, but an agreement on this issue was not reached. (ibid.)

Bargaining for wages took place between the federal government and the representatives of trade unions and was characterized by tensions, threats of strikes, rejections and dissatisfactions, and agreements were usually only reached across industries after the fifth attempt. Nevertheless, the wage bargaining resulted in a wage increase (ibid.).

The common practice for defining wage increases is to account for the inflation rate and previous productivity growth. However, when reviewing data on real and nominal wage average growth rates in the period previous to the crisis, it is noticeable that wages did not follow productivity growth. The wage increase in previous years was rather moderate but the growth rate exploded in 2009 to 2.9 percent from its previous 0.2 percent. This was mostly due to the drop of the inflation rate to 0.5 percent. (ibid.) “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 as cited in Hermann 2011: 19).

Trade unions, stated Hermann (2010: 16) “(..) saw the protection of the income of workers and the resulting preservation of consumption as a core element in a possible recovery.” Wage growth in the crisis, according to him, had an anti-cyclical effect. Looking at the broader picture of the national economy as a whole, social partner conclusions on wages helped to keep the consumption rate from falling, thereby preventing larger decline of demand as well as of the level of national output.

The major success of the partners in the crisis negotiations, as Hermann (2011) explained is that wages did not decrease or stagnate, but rather increased. These developments were prompted by chance, in that the previous settings of the bargaining system were perfectly convenient and conducive to newly arisen adverse conditions. According to him, these favourable circumstances were: (i) central

coordination system and high level of coverage; (ii) timing of negotiation, first round of negotiations took place just before the onset of the crisis and the second one before the growth picked up; (iii) the calculation formula according to which wage growth accounts for previous development and rather than for future development.

The question of work foundations or working hours took place on the negotiation schedule, but failed, except for work foundations for young people. Work foundations anticipate trainings and support for agency workers that lost their jobs first. These were not introduced because partners could not agree on financing. Another negotiation that did not achieve success was on working hours. It proceeded in 2010 as well. Unions asked for fewer working hours, employers for more and for raising the maximum level of overtime working hours that are not compensated. (Hermann 2011)

To sum up, social dialogue in Austria had a few important implications for the developments on the labour market but also for the whole economy as well. The short-time scheme was made more attractive, the income level was maintained or increased, and work foundations for young people were established though this did not proceed smoothly or without disagreements.

#### **4.6.3 Wage policy fighting the crisis**

National economies have reacted differently to the recent crisis. Okun's law, that links evolution of the unemployment rate only to GDP movements, lost its credibility. Variations in the response of the unemployment rate to the GDP decrease indicated that it must be more factors that have impact on employment than just the level of output. Labour costs per hour or real gross wages got much of the attention in the work of Högrefe and Groll (2010). Authors noticed a divergence from the usual movement of labour costs per hour in the German case. Namely, in the years before the global economic crisis in 2008, real gross wages have grown at a very low rate, with even negative values in some years, compared with periods prior to former crises when they grew strongly.

Additionally, labour costs per hour were the only variable from among the relevant variables for the movement of the unemployment rate, which had

different behaviour when comparing the trajectories of each before the two great recessions in Germany.

In the recession in 1974, unit labour costs grow strongly and in the recession in 2008, they grow moderately. All other variables behaved more or less the same. That is why the responsibility for the difference in the development of the unemployment rate (which dropped during the crisis in 1974 but remained stable in the crisis in 2008) is attributed to the wage moderation in the periods before the last crisis. (Gartner, Merkl 2011).

This wage moderation resulted in higher labour demand, and Germany was caught in upward movement of labour adjustment when the crisis began, which according to Hogrefe and Groll (2010: 45), “(..) mitigated considerably the negative effects of the recession.”

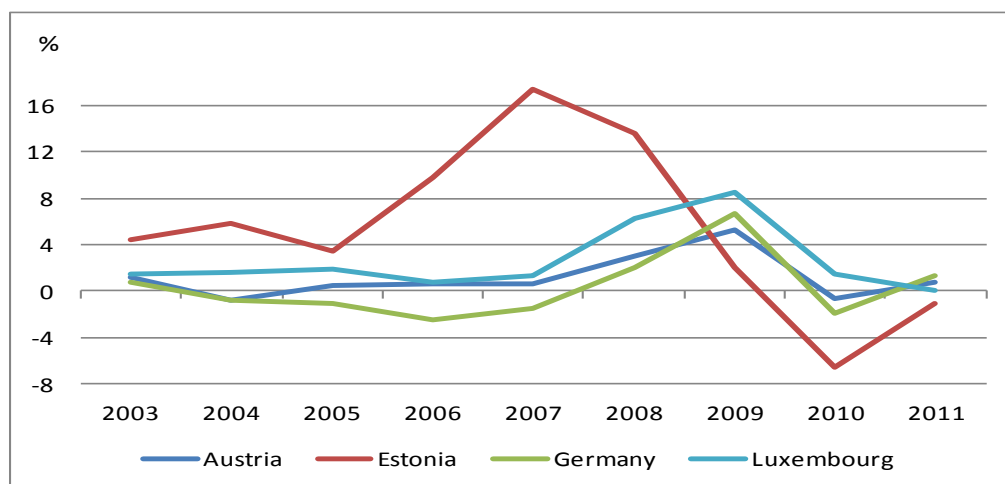
Furthermore, lower wage costs before the crisis made employers financially more capable to opt to keep their workforce. But the expectations of employers that the crisis would be temporary is an important fact in this context, because the employers assessed that they could deal with the increased costs for the shorter period of time. (ibid.)

The German case indicated the impact of the wage moderation on the unemployment rate. To check whether this relation is applicable to other countries as well, authors did an analysis on the sample of OECD members and found evidence that the rise of unit labour costs before the recession had a negative impact on the unemployment rate during the recession.

In my considerations, I observed the trajectories of unit labour costs in Estonia, Germany, Luxembourg, and Austria throughout the period from 2003 until 2011 (figure 15). The last three countries had extremely favourable development of the unemployment rate despite the huge drop of the GDP (Luxembourg had a cumulative GDP loss of -7.2%, and Germany -5.8% in the first six quarters of the crisis, as in Groot et al. (2011: 451).). From the graph in figure 15, it can be seen that all three of them saw wage moderation in the years before the crisis, whereas Estonia is an opposite case in both terms: its unemployment rate fell tremendously, and the unit labour costs grew strongly throughout the observed period. This might stand as

empirical evidence that the evolution of the wage costs influences the evolution of the unemployment rate.

Figure 15. Evolution of unit labour costs during the period 2003-2011



Source: OECD Statistics (2012b)

What can be further inferred from the figure above is that the labour costs peaked in 2009 in these well-performing countries. It is reasonable to assume that the increase of the wages during the crisis prompted consumption and contributed to the rise in demand for goods and services, which kept people employed. If Austria, Germany, and Luxembourg, all three having increased wages, exhibited such good results on the labour market, then it may be that this is a favourable movement of the labour costs for the periods of recession.

Burda and Hunt (2011) oppose the importance of the level of wage costs during the crisis in fighting its negative effects on the workers, but they have considered their fall, which they argue came too late to make a difference or to induce employers to refrain from dismissals.

Employers could lower labour costs not by dismissals but by reduction of the wages from their side. Union contracts, actually allow this in downturns, but the companies refrained from doing so. This reduction has not taken place in Germany (Burda and Hunt 2011). In Austria out of 322 companies, 70 percent cut the labour costs in response to the crisis, and as the way to do so, only 0.5 percent used the strategy of cutting base wages (Kwapil 2010). In the survey of the 300 largest companies, only 1 percent of them reported wage concessions (Eichmann and Bauernfeind 2009).

This reluctance to draw down the wages has its roots in the expectations of employers that such actions would be badly perceived among the public and that it would impair the company's perspective after the crisis is over. (Kwapil 2010)

#### **4.7 Employers' willingness**

Employers hesitate to ease their burden of an excessive workforce by laying them off because they assume that their employees are part of their advantage. I believe that employers assessed that it will not only be more cost effective to keep them but also will be more beneficial after the crisis is over and the demand picks up.

Intensity of technology and skills can be observed as key drivers of labour hoarding because they require the workforce that is capable of handling advanced technologies, as well as the knowledge of special skills (OECD 2010c). Employees of such firms are, due to possession of firm-specific knowledge, skills, and experience, observed as the human capital that is a valuable asset to the firm which cannot be easily compensated.

That is why the manufacturing firms, which are mostly technology and skill-intensive, are more likely to hoard labour than is the case with firms in other sectors that have also been severely hit by the crisis (e.g. construction). Again, the expectations of the employers that the fall in demand is temporary must be taken into account; otherwise, keeping surplus workforce for a longer period would not be feasible. (Hijzen and Venn 2011)

Considering that the crisis was perceived to be of a short lifespan, it made no sense for the employers to risk losing their valuable asset if there is any other possibility to deal with the ongoing situation. Employers are aware of the high costs they would meet to replace lost employees. Namely, the first expenses that they would incur are related to employment protection legislation and the items that regulate termination of permanent contracts that these workers are on. Afterwards, when the output recovers, employers would have to meet recruitment costs that involve expenditures for searching, re-hiring, and training. (Möller 2010) The opportunity costs of time spent in these activities should not be overlooked, nor should the issue of making a proficient workforce available to competitors. Therefore, dismissals seemed not to be a good option at all.

That is when the work-time scheme and other programs offered by the government, that contained training and other education measures come into play. Möller (2010) has well indicated the advantages of these. They enable lowering of productivity since the workers are temporary and are not included in the production process, but later they contribute to the recovery because workers are still in the service of the enterprises and their capabilities did not deteriorate, but rather were improved.

#### **4.7.1 Structure of the firms in Austria**

From the data on the structure of firms in Austria, given by Statistics Austria (2011), I singled out the data on firms that are technology intensive, assuming from the previous discussion that these are the ones having employees that are a human asset worth keeping. My purpose is to show how many firms in Austria were especially motivated to spare the workforce.

Table 2 consists of data on firms from the high-technology and medium high-technology manufacturing branches. Additionally, two given branches belong to the medium low-technology manufacturing sector because these are among the ones assessed as the most affected by the crisis.

The intensity of technology of the manufacturing industries is defined by The Statistical Classification of Economic Activities in the European Community (NACE, Revision 2)<sup>11</sup>.

Data show that 2.4 percent of all enterprises operating in Austria in 2009 belong to the technology intensive manufacturing sector. They employ 308.808 persons, which is 11.6 percent of total employed population.

Furthermore, these 2.4 percent technology intensive firms made contributions to the total investments to the extent of 10.4 percent.

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<sup>11</sup> Data available at: [http://epp.eurostat.ec.europa.eu/cache/ITY\\_SDDS/Annexes/hrst\\_st\\_esms\\_an9.pdf](http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/Annexes/hrst_st_esms_an9.pdf)

Table 2. Technology intensive manufacturing branches

Structural Business Statistics 2009					
Sectors	ÖNACE 2008		Number of enterprises	Persons employed	Investment in Thsd. EUR*
		<b>TOTAL (Sections B-N, S95)</b>	<b>297 484</b>	<b>2 662 853</b>	<b>34 273 268</b>
	C	<b>Manufacturing</b>	<b>25 319</b>	<b>606 526</b>	<b>6 015 579</b>
High-technology manufacturing	C21	Manufacture of basic pharmaceutical products and pharmaceutical preparations	82	10 705	254 328
	C26	Manufacture of computer, electronic and optical products	563	22 944	150 385
Medium high-technology manufacturing	C20	Manufacture of chemicals and chemical products	322	16 800	355 509
	C27	Manufacture of electrical equipment	466	43 673	410 051
	C28	Manufacture of machinery and equipment n.e.c.	1 341	72 781	503 563
	C29	Manufacture of motor vehicles, trailers and semi-trailers	289	30 208	376 939
	C30	Manufacture of other transport equipment	72	6 231	37 189
Low-technology manufacturing	C24	Manufacture of basic metals	162	33 872	823 396
	C25	Manufacture of fabricated metal products, except machinery and equipment	3 860	71 594	643 146
		<b>Sum</b>	<b>7 157</b>	<b>308 808</b>	<b>3 554 506</b>
		<b>Percentage of the total</b>	<b>2,41%</b>	<b>11,60%</b>	<b>10,37%</b>

Source: Statistics Austria (2011)

Manufacturing technology intensive firms might purposely preserve workers during the economic downturn because, as discussed before, such enterprises employ and develop professionals and have incentive not to lose them.

Because of the high number of workers they employ, 11.6 percent of all employed persons, their deliberate choice not to dismiss people might have been reflected in the lower unemployment rate.

#### 4.7.2 Use of the short time working scheme by the sectors

In the next table the total number of participants in the short time work scheme is broken down by branches. According to it, the most usage of the government's subsidized program of short time work was made by the manufacturing branches that were severely hit by the crisis because of their high involvement in the export activities. When exempting the temporary work agencies (which as described in the first chapter include automobile production, mechanical engineering and metal

industry) (Mahringer 2010) it turns out that all these branches belong to the manufacturing branches classified as technology intensive as seen in table 2.

More than half of the persons that were granted the short-time work subsidy stem from the aforementioned branches, 40.342 out of 66.965 (60 %).

Table 3: Number of granted short-time work subsidies by sector (2009)

Wirtschaftszweig	Anzahl Betriebe	Anzahl Personen
Maschinenbau	68	10.821
Herstellung von Kraftwagen und Kraftwagenteilen	24	12.177
Metallerzeugung und -bearbeitung	33	6.995
Handel mit Kraftfahrzeugen, Instandhaltung und Reparatur von Kraftfahrzeugen	14	2.385
Großhandel (ohne Handel mit Kraftfahrzeugen)	46	4.546
Herstellung von Metallerzeugnissen	64	10.349
Herstellung von Datenverarbeitungsgeräten, elektronischen und optischen Erzeugnissen	18	2.584
Luftfahrt	5	3.501
Herstellung von Möbeln	13	1.818
Herstellung von Glas und Glaswaren, Keramik, Verarbeitung von Steinen und Erden	16	2.086
Sonstige Wirtschaftszweige	213	9.703
<b>Gesamt</b>	<b>514</b>	<b>66.965</b>

Source: BMASK (2010a: 28)

This leads to the conclusion that the employers from the technology intensive sectors, even though they were strongly affected by the crisis, chose to reach out for the measures against these adverse effects that allowed them to keep their workforce.

### 4.7.3 Investing in knowledge

Research and innovation activities secure economic growth and national competitiveness in the international context. In the narrow sense of firms, competitiveness means to stay in business. Sustainable success of companies is only driven by their constant innovative activity. (BMVIT 2010)

Innovations and human capital are linked. Namely, to develop and implement innovations firms need qualified employees. This relationship means that if the firms



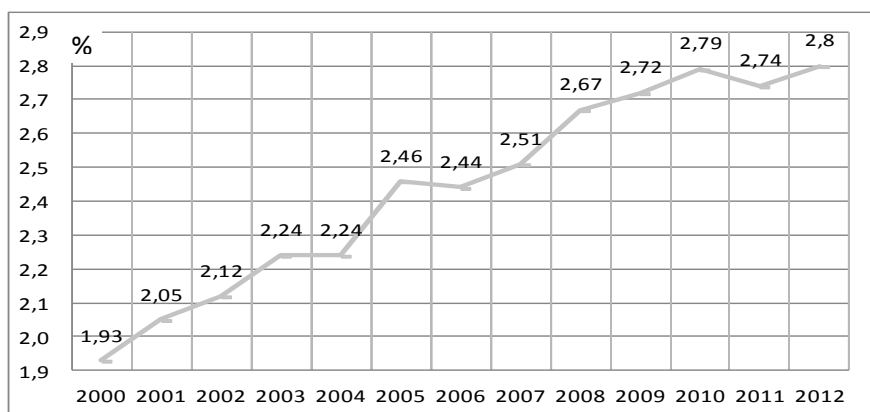
are geared towards innovation, they have to make use of a skilled and educated workforce and on the other hand, by investing in innovation they invest in their workforce's abilities and knowledge as well. (ibid.)

Thus, in the context of this work, I claim that innovation and research activities raise the significance of the workers for the companies by influencing their professional development. Consideration of these activities in Austria should highlight the fact that Austrian workers were deemed to be worth keeping during the time of slackening demand.

Recognized as important and prompted by the economic policies and enterprises themselves, innovation and research activities have expanded within the business enterprise sector and the number of firms conducting R&D has recently increased. Additionally, the Austrian federal government acknowledged that innovation fosters growth and sets the long term goal of making Austria one of the most innovative countries in the EU by 2020. (BMVIT 2012)

The extent of the involvement of Austrian firms in innovation and research activities could be measured by the expenditures for R&D. In the period from 2000-2012 expenditures for R&D as the percentage of GDP were growing steadily (figure 16).

Figure 16. Annual expenditures for R&D as the percentage of GDP



Source: Statistics Austria (2012c)

Furthermore, extensive support and prompting of innovative behaviour brought Austrian R&D intensity rate to the front of the average R&D intensity rates of both EU (27) and OECD member countries. Austria had one of the highest R&D intensity growth rates in the period from 2000-2010 with +0.82 percentage points. Only Denmark (+0.88 percentage points) and Portugal (+0.86 percentage points) reported

higher (absolute) growth in research intensity. Moreover, Austria positioned itself at the top of countries conducting the most R&D activities with Finland, Sweden, Denmark and Germany. (Last figures for international comparison stem from 2010). (BMVIT 2012)

Austria is singled out from other countries for the fact that 40 percent of the firms with technological innovation activities are financed by the public sector, which is in contrast with the usual practice of prompting only one or a few successful firms. The aforementioned share positioned Austria above all other European countries.(ibid.)

Distribution of expenditures among investors reveals how much importance they attribute to these activities. From the report on the research and technology activities (ibid.) in the period from 2000-2012, on an average of 45 percent, R&D activities have been funded by the business enterprise sector and 30 percent by the federal government.

The value that the Austrian firms place on their further development through activities that ensure innovation comes particularly to the fore when looking at exact figures. Before the crisis, in 2008, total expenditures for R&D performed in Austria amounted to around € 7.512 billion (BMVIT 2008). It means that firms invested around 3.380 billion Euros into these activities just before the beginning of the crisis. And due to their relation to the knowledge level of the employees, it is then justifiable to say that companies did not want to gamble with their investments by dismissing their workforce.

From the above, it can be concluded that firms and the Austrian government attach much importance to innovations, thus, its innovation system evolved in the “(..) “mature”, modern innovation system that continuously produces its own new knowledge (that now) can be considered as complete”(ibid.:83). This knowledge can be regarded as the reason why the employers reached for other possibilities to save the workforce, such as the subsidized government scheme.

#### 4.7.4 Innovative activities by the manufacturing branches

Statistics Austria (2012b) carried out a survey that provided data on research and development activities on the national level within the enterprise sectors. In the following table are the figures that reveal the number of firms involved in innovation activities in the period from 2008-2010. They belong to manufacturing branches that were mostly affected by the crisis. This data should explain why these firms had an interest in keeping their workforce.

Innovative active firms are defined as the ones that introduced new or significantly improved products or processes, conducted organizational or marketing innovations, or the ones engaged in innovative activity. Taking this into account, 57 percent of firms in the enterprise sector have been innovative active. Of these, 20.7 percent belong to the previously mentioned manufacturing branches. In each branch, 80 percent of firms on average were innovative active.

Table 4. Innovative activities by the manufacturing sectors

Innovation active enterprises in the years 2008-2010				
Industries (NACE Rev. 2) Size classes		All enterprises	Of which with innovation activities	
			all	in %
<b>Total</b>		<b>15968</b>	<b>9016</b>	<b>56,50</b>
<b>Industries</b>				
19-21	Coke and refined petroleum products; chemicals and chemical products; pharmaceutical products	183	154	84,20
24-25	Basic metals; fabricated metal products	1216	738	60,70
26-27	Computer, electronic and optical products; electrical equipment	393	355	90,30
28	Machinery and equipment n.e.c	630	499	79,20
29-30	Motor vehicles, trailers and semi-trailers; other transport equipment	156	125	80,10
<b>Sum</b>		<b>2578</b>	<b>1871</b>	
<b>Percentage of total</b>		<b>16,14%</b>	<b>20,75%</b>	

Source: Statistics Austria (2012b)

## **5 Overview of the choices of Austrian firms to deal with the crisis**

A review of the following surveys reveals the way the companies acted in the crisis. I use it as arguments in favour of the idea that the high employment level during the crisis and afterwards was maintained because employers refrained from dismissals due to the qualifications of their workforce.

Kwapil (2010) gave an overview of the firm surveys carried out in 2007 and 2009 by the Austrian National Central Bank (OeNB). Both surveys were answered by 322 firms, the one from 2007 by 557 and from 2009 by 731 firms. Information on the number of surveyed firms should acknowledge that the results are not to be overlooked. The results are further corrected to be representative of the private sector.

Here are the inferences on the reaction of the Austrian firms when provoked by the crisis that “(f)or most of the firms felt like a demand shock” (Kwapil 2010: 14).

Surveys revealed that between strategies like: (i) reduce costs; (ii) reduce output; (iii) reduce profit margins; (iv) leave prices unchanged; and (v) reduce prices; Austrian employers decided in most cases to reduce costs. (Kwapil 2010: 15, 16). Labour cost-cutting won against non-labour by a proportion of 70:30 percent (sample of 322 firms). (ibid.)

It is obvious that the enterprises cut their labour cost when faced with slackening demand but the question is how they did it. In the Austrian case, it is evident that they did not lay off the employees or we would not now observe almost the lowest unemployment rate in the international frame.

The most conducted used strategy of Austrian firms was quite the opposite. When faced with the crisis, their approach was to reduce working hours (33% of companies decided in favour of labour cost cutting), followed by the strategy of reducing flexible wage components (17%). (ibid.)

Kwapil (2010), further, used the data from the survey and did her own analysis. These showed that the decisions to terminate work contracts Austrian firms made were dependent on productivity function: whether it is more labour or more capital

intensive, competitiveness of the environment, skills level and age of the workers. Capital intensity means technology and skill intensity that is discussed as the reason for preserving employment level. The decision of the contract termination turned out to be independent of the size of the shock that hit the firm, or of the share of the kind of working contract: temporary versus permanent.

Regarding competitiveness, Amable and Mayhew (2011) stated that competitiveness influences the choice of the strategy to be applied when demand shock occurs. According to them, Germany, Austria, and Japan belong to the group of economies where the competition is lower. In such conditions „(..), it is argued, the competitiveness of firms is dependent on the firm-specific human capital embodied in the workforce“ (ibid.:212). That is why these countries opted instead to keep their workforce.

When looking at data on firms that did decide in favour of layoffs the results showed themselves to be in line with the considerations that the firms keep more skilled, and experienced workforce. Indeed, layoffs were chosen by labour-intensive firms 17 to 18 percent more than capital-intensive ones; or firms facing low competition, who chose it 9-12 percentage points more than high competition firms. It turned out that the age of workers and skill level matters significantly. The 10 percent higher share of young people in the firm means 7.8 percent higher likelihood of dismissals. Therefore, the higher level of unemployment is seen among young workers (sample of 322 firms). (Kwapil, 2010)

Summing up, firms with labour-intensive production functions and with lower-skilled or lower-aged workers are more likely to resort to dismissals.

The work council survey carried out by FORBA of 300 top firms in Austria in 2009, which was participated in by 109 companies, confirmed what was previously stated and showed further that the most affected workers were agency staff (76%), unskilled and semi-skilled workers (66%), persons with temporary employment (61%), and free employees (57%). An important point of this survey is that it acknowledges that the most secure jobs were the jobs of top-level employees, managers, and highly skilled workers (*technischen Angestellten*) and apprentices.

## **6 Insider view**

From interviews carried out with the people who are highly involved in creating economic policies and who are aware of the long term plans and aims to be achieved for Austria's benefit, I have gotten a clearer picture of the developments in the labour market and what has driven them in their particular directions.

The Minister of the Finance of the Republic of Austria, Maria Fekter, and the president of the Austrian Trade Union Federation, Erich Foglar (who was directly engaged in negotiations with representatives of employers and the government during the crisis) identified the existing conditions, opportunities, and activities that are part of the rationale for the successful performance of the Austrian labour market. This performance was not only a one-time miracle but is the outcome of continual investments and focus on particular areas such as knowledge and education.

Professor of Economics at Vienna University, Monika Merz, who teaches about labour markets, clarified their effects on the market. Her opinion differs in a few points from the other interviewees but different standpoints gave me better perspective.

### **6.1 Why Austria has a better unemployment rate during and after the crisis**

Most credit for the positive developments in the Austrian labour market could be assigned, according to Merz (2013) to two "phenomena". According to her, due to its different economic structure, Austria reacted better to the crisis than most European countries. Austria was not directly involved in the speculations on rising real estate prices and interest rates, but through trade and financial relations with other economies was nevertheless exposed to the crisis' effects.

What professor Merz (2013) claims is that the Austrian economy was not so severely hit by the crisis, because the GDP rate of Austria at its lowest point was still above the average GDP rate of EU (27) and OECD member countries. Other countries, states Merz (2013), happened to have indebted households, rising interest rates, aggregate demand falling behind, firms cutting the level of their production, and consequently, lay-offs of the workforce. Because the demand shock in Austria was not that severe, employers could overcome the level of the decrease in demand by

resorting to the instrument of short-time work. Data shows that hours worked decreased and the number of workers that went on short-time working increased, both by a large extent. This instrument represents the second aforementioned “phenomenon”.

The President of the Austrian Trade Union Federation, Erich Foglar (2013), explained the short-time work scheme and how it was designed: the reduction of the working hours, partially reduced income and the short-time working allowance from the Labour Market Service, were all created with the purpose of enabling firms to survive the crisis economically without having to dismiss people. Politicians and unions agreed upon this subsidized scheme because they themselves had an interest in preventing the unemployment rate from rising too much, therefore they offered feasible solutions like short-time work. That employers were willing to make use of this measure lies in their considerations about the future when the crisis ends and the economy recovers, and that it might then be hard to get the skilled workers again.

By introducing the short-time work scheme, employers could avoid the costs that would occur when the time for re-hiring comes in the event that the dismissals took place, and they would also have the advantage of a quick recovery to the level of production prior to the crisis. Thus, the employers weighed their options and decided to apply for a subsidy, but it would not be possible if the government had not reformed the scheme, eased the criteria, and made it easier for employers to resort to it. (Merz, 2013)

To sum up, employees did not lose their jobs in the crisis for two main reasons, firstly; employers had an interest in preserving the workforce, and secondly; the government provided acceptable solutions for the adjustment to the turmoil in the economy as alternatives to dismissals. All measures such as short-time working, *Bildungskarenz* (unpaid leave for further training or education), and training opportunities were developed to help enterprises keep their qualified workforce. Moreover, these instruments enabled workers to improve their skills and thereby their chances in the market as well.

Many employers have used the crisis to get prepared for the day after the crisis. They invested in qualification and re-skilling of their workforce and reorganization processes, all actions for which there is no time when production is in full swing.

When the crisis started to ease, all expenditures and effort invested in measures for coping with the crisis paid off because the Austrian economy showed itself to be at an advantage in international comparisons. (Foglar 2013)

At its core, the reason why employers were willing to reach for the instruments at their disposal and not to dismiss people when the demand for the products and services dropped, as asserted by Foglar (2013), is the value that the qualified and skilled workforce represents for the firms. Austria has invested throughout its history in the competence of its workers. Especially since the Second World War Austria has continuously shown great interest in maintaining high employment rates and securing jobs for its citizens. The main way to reach this goal has been through focusing on the education system and on employment of young people.

This education system enabled Austria to achieve record employment, and to preserve unemployment during the turmoil.

## **6.2 Excellent education system provided and secured jobs**

Austria established and developed and advanced and advantageous education system that qualifies young people to be accepted into the labour market. Its actual success might be measured by the youth unemployment rate that has declined by 4 percent since the crisis. The qualifications are created through the dual system and the vocational schools. (Fekter 2013b, Foglar 2013)

Dual system implies apprenticeship and vocational school. Young people who by age 15 do not want to continue with their education work four days a week in a firm where they have practical training, and in the vocational school one day a week where they learn theory. Since they are trained through the production process, companies practically create the professionals that they need, and these young people are eligible to be incorporated into the labour market immediately after their graduation. (Fekter 2013a, Foglar 2013)

The dual system is a peculiarity of Austria. It can only also be found in Baden-Württemberg in Bayern and to a low extent in Switzerland. Other countries, even though they have tried, did not succeed in establishing the same practice that is necessary. It requires reliable partners for the achievement of the educational goals,



partners for the design of trainings, and the adequate legislative and organizational structures. (Fekter 2013b)

The second element of the educational system in Austria is vocational schools where young people obtain professional knowledge, but in a general way so that they are later authorized to proceed on to the universities but also always have the competencies and knowledge of the profession they learned and therefore the possibility and ease of integrating whenever they want into the labor market. (Fekter 2013a)

It is important that vocational schools exist in all areas of occupation, in social professions, in creative professions, as well as in the area of aircraft construction or wood, meaning, that they cover all the fields of interest of the youth, and create a qualified workforce from all segments of the economy. (Fekter 2013b)

### **6.3 Qualified workforce ensures competitiveness**

These training models make up a competitive advantage for the Austrian economy. They are costly but they provide specialized workers (*Facharbeiter*). Although the labor force is relatively expensive in Austria in an international comparison, it is an asset for the economy. Austria, as the high-wage country, is in an enviable position against the countries with cheap labour and low cost products, such as Bulgaria or China, but it builds its competitive advantage on the skilled workers and competes with innovative products, expertise in manufacturing, or high productivity. (Foglar 2013)

Fekter (2013a) emphasized Austrian engagement in securing and promoting competitiveness in the international frame (Standortspolitik) through continuous promotion of research and innovation activities, and through the qualification of the workforce. That is how Austria ensures its economic attractiveness. The favourable conditions and environment for firms to conduct their business in Austria, such as its competitive tax system and qualified workforce, draw the headquarters of many companies to Austria that then provide jobs. (Fekter 2013a).

Investments in education and the resulting workforce kept the unemployment rate from rising during the crisis, and ensured jobs by making the matching process easier

and improving the competitiveness of the country which further created and secured jobs.

#### **6.4 On the Austrian wage policy**

Social partners agreed during the crisis on an increase of wages that was too high compared to key economic figures, but in the years after, when the economic indicators started to recover, unions accepted a lower increase of wages than it might have been. These two movements have then leveled out. Unions justified the high increase of wages by arguing that it supports consumption during the years of crisis, and this affected the recovery. Indeed, from the viewpoint of the firm, wages represent costs for the employer, and it is not optimal to raise them when the crisis is ongoing and employers already struggle with decreased profit. But unions look at the bigger picture, and do not only consider one firm but the national economy as a whole and have the long-term in mind when negotiating labour conditions. (Foglar, 2013)

Professor Merz (2013) argues that to justify the increase in wages with the Keynesian argument that aggregate demand would be boosted would not be appropriate, since the people cannot buy significantly more, making this immaterial. The President of the Trade Union (2013), on the other side, opposed this view with the argument that it is not about buying more, but saving. When the workers are fearful for their jobs they save money, they do not spend it on usual activities like travel or restaurants, and if the people do not consume, then the companies do not produce, do not make a profit, and do not invest; rather, they dismiss people, tax and social contribution payments decrease, the unemployment benefits rise, deficits increase, GDP shrinks, and there is no economic growth.

One of the important roles of the social partnership is striking a balance between business arguments coming from the employers and the arguments that are in the interest of the nation that are represented by the unions. Social partnership forces opposing parties to move from their standpoints, and to converge and when the compromise take place then the whole system functions at its best.

Foglar (2013) justifies the level of wages that were high during the crisis and are still high in the international comparison with the skill level of Austrian workers. Merz (2013) find them high, but appropriate corresponding to the level of productivity. Austria succeeded in achieving that level of productivity by being innovative. If it were not innovative it would lose its competitive edge and productivity would fall, and the gap between the price of labour and labour productivity (when the price of labour is higher than what has been produced for it) would result in unemployment. One has to have in mind that the deliberate choice of employers to keep the workforce depends upon the price at which they are to be kept. (Merz 2013)

## 7 Conclusion

During the crisis of 2008-09 the Austrian labour market performed comparatively very well. With an unemployment rate which grew slightly from the Q3 of 2008, exhibited a trough-to-peak of 1.6 percent, and started its downward path already in the Q4 of 2009, Austria positioned itself at the very top among well-performing countries, considering the labour market.

The overall conclusion on the intensity by which labour markets of different countries reacted to the crisis, drawn from the sizes of trough-to-peaks, is that Austria (together with Germany and Luxembourg) had the lowest increase of the unemployment rate of the European countries. Furthermore, Austria saw unprecedented behaviour in the unemployment rate, which was actually falling at the beginning of the recovery period when it was expected to rise. That placed Austria in a group of very few European Countries; namely, Germany, Luxembourg, Finland, and the United Kingdom.

In the crisis aftermath Austria reached and maintained a rate of unemployment that floats around 4.4 percent, and nowadays, it competes with Norway among the European countries, and in a wider context with Japan, for the country with the absolute lowest unemployment rate (OECD Statistics 2013).

It is difficult to point out individual reasons for the developments of the labour markets, because labour markets are influenced by the repertoire of the institutions that form the compound system through mutual relations and interplay. Hence, one institution, as empirically shown, proved itself important in one country, while in other had no relevance for the labour market performance. Important groups of institutions are employment protection legislation, unemployment benefits, taxes on the labour, wage settings, active labour market policies, education and training, working arrangements, and human capital investments in firms-specific settings (Eichorst et al. 2010: 5).

After reviewing the literature on unemployment and statistical data I draw some conclusions. Crucially important for my inferences were interviews conducted with the President of the Trade Union of Austria and the Minister of Finance, who are highly involved in forming economic policies, and with a prominent university professor engaged in research of the labour markets.

My inferences are following. The austrian government has well recognized the importance of the working class for the prosperity of the nation, which is reflected in its strong inclusion in the developments of the labour market during the crisis. It invested one-fifth more funds in labour market policies than in the previous periods, and in an international comparison, Austria invested more than the average per one percent of unemployment rate, and more than bigger countries like Germany.

These funds were directed into training programs and subsidized schemes. The most prominent scheme was short-work time, where the government participated in the costs, softened criteria for participation in the scheme, and improved its design.

The increased number of employees on the short work time subsidy and the increased number of participants in the training programs indicated that these measures were important instruments against the crisis' adverse effects. Besides the short-time work scheme, employers decreased hours worked by the usage of the work time accounts and probably also by the agreements on temporary termination of the working contracts.

Promoting the training and re-qualification of employees was a wise and thoughtful move that in the short run enabled reduction of productivity because workers were temporarily shifted out of the production process, but in the long run, secured benefits through the improved skills of the workforce and the possibility of raising the productivity immediately after the demand picked up.

The firms that mostly reached for short work time scheme operate the export-oriented manufacturing sector: in the automobile industry, mechanical engineering, and the metal industry. These firms employ a skilled, educated, and specialized workforce, whose dismissals would incur redundancy payments after the crisis passes, which created an incentive for the firms to keep their workforce.

The question that arose was: could the performance of the Austrian labour market be attributed to the deliberate choice of employers to retain valuable human capital, with all other measures just being means to achieve it.

To sum up, i) Austrian workers possess firm-specific knowledge which induced the employers to refrain from dismissals; ii) Austria continuously invests in its rare, highly developed, and specific education system that trains young people who are then easily accepted into the market; iii) huge investments are being made by the government and by firms themselves in innovation activities, (between education and innovations is causal relation); iv) a skilled workforce and high innovative activity make up the competitive advantage of the country and elevate the level of productivity that then justifies the high level of Austrian wages; v) a large increase of the wage level during the crisis was the success of the social partners. That is how the role of the social dialogue gained special importance during the crisis. It led to the compromise between employers for whom the wages are costs, and the trade unions whose arguments account for the nation's well-being. The goal of the wage increase was to preserve the consumption rate and thus contribute to the aggregate demand and the recovery.

Because the way in which Austria counteracted the repercussions of the crisis on the labour market was not of a transient nature, the stable and low level of its unemployment rate is maintained today, three years after the crisis ended.

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## 9 Annex

Determination of the relevant periods and figures for calculations and comparisons in the section 3.

Table A1. Determining relevant periods: The start and the end of the crisis.

Subject	B1_GE: Gross domestic product - expenditure approach													
Measure	GPSA: Growth rate compared to previous quarter, seasonally adjusted													
Period	Q1-2007	Q2-2007	Q3-2007	Q4-2007	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Q1-2010	Q2-2010
<b>Country</b>														
Australia	1,7	0,7	0,7	0,6	1,3	0,3	0,7	-0,7	1,0	0,0	0,7	0,9	0,6	0,7
Austria	1,3	0,5	0,2	1,0	1,2	0,1	-1,3	-1,9	-1,6	-0,7	0,7	0,8	-0,1	0,6
Belgium	0,9	0,3	0,7	0,5	0,7	0,3	-0,5	-2,1	-1,8	0,0	1,1	0,7	0,1	1,0
Canada	0,5	0,9	0,7	0,2	-0,1	0,5	0,7	-1,1	-2,2	-0,9	0,4	1,1	1,2	0,8
Chile	1,7	0,8	-0,1	1,7	1,0	1,0	0,3	-1,2	-2,3	0,7	2,1	1,7	-1,3	4,5
Czech Republic	2,4	-0,1	1,6	1,5	0,5	1,1	0,1	-1,7	-3,3	-0,7	0,4	0,6	0,6	1,1
Denmark	0,9	-0,5	0,8	1,0	-1,4	1,5	-1,8	-2,4	-2,2	-1,8	0,4	-0,2	0,0	1,8
Estonia	3,6	0,2	0,8	0,0	-1,8	-0,2	-0,5	-9,7	-3,9	-2,8	-2,1	0,2	1,6	2,4
Finland	2,0	1,4	0,6	1,3	-0,6	0,1	-0,5	-2,0	-6,8	-1,0	1,6	-0,8	0,6	3,4
France	0,6	0,5	0,4	0,3	0,3	-0,6	-0,5	-1,6	-1,7	0,0	0,1	0,5	0,3	0,7
Germany	0,6	0,5	0,9	0,4	1,0	-0,4	-0,4	-2,0	-4,1	0,2	0,8	0,9	0,7	2,2
Greece	2,1	0,6	0,8	0,1	0,1	0,5	0,3	-0,8	-1,1	-1,0	-0,6	0,7	-1,9	-1,3
Hungary	-0,9	-0,4	0,2	0,7	1,3	0,0	-0,9	-2,7	-3,4	-1,0	-0,6	0,3	1,1	0,4
Iceland	-2,0	5,9	3,1	-0,1	-2,8	2,7	-3,0	3,0	-7,8	0,8	-1,4	0,3	-4,4	-0,8
Ireland	5,5	-1,8	-0,9	3,6	-1,6	-1,6	-0,3	-3,6	-0,3	-1,3	-1,6	-0,9	0,9	0,3
Israel	1,7	1,6	1,4	1,5	1,3	0,8	0,3	-0,4	-0,6	0,5	1,0	1,3	1,4	1,4
Italy	0,1	0,1	0,4	-0,5	0,5	-0,5	-1,3	-1,6	-3,6	-0,2	0,4	-0,1	1,0	0,6
Japan	1,0	0,1	-0,3	0,9	0,7	-1,3	-1,0	-3,3	-4,0	1,7	0,1	1,8	1,4	1,1
Korea	1,4	1,4	1,2	1,6	1,0	0,4	0,2	-4,6	0,1	2,5	3,4	0,2	2,2	1,4
Luxembourg	1,7	1,7	0,8	-0,2	0,9	-0,2	-1,2	-6,3	0,9	-0,7	2,3	-0,2	-0,1	1,3
Mexico	0,8	1,8	0,2	0,7	0,8	-0,3	-0,1	-1,5	-6,5	0,1	2,5	1,9	0,8	1,5
Netherlands	1,3	0,5	1,5	1,3	0,5	-0,5	0,1	-1,1	-2,2	-1,5	0,9	0,5	0,4	0,5
New Zealand	1,3	0,8	0,7	0,2	-0,4	-1,0	-0,3	-0,6	-1,1	-0,4	0,6	1,6	0,1	0,8
Norway	-0,2	0,1	1,6	1,2	-1,6	0,2	-0,4	0,1	-1,0	-0,7	0,4	0,3	1,1	-0,9
Poland	1,8	1,6	1,3	2,2	1,4	0,7	0,7	-0,4	0,4	0,5	0,5	1,4	0,7	1,1
Portugal	1,5	0,0	-0,1	1,0	0,0	-0,2	-0,4	-1,1	-2,4	0,3	0,7	0,0	1,1	0,4
Slovak Republic	2,0	2,4	2,4	6,2	-2,4	1,3	1,3	1,1	-8,5	1,4	1,4	1,4	0,9	0,9
Slovenia	1,6	1,4	2,3	0,2	1,5	1,1	-0,3	-3,9	-4,6	-1,0	0,1	0,0	0,1	1,1
Spain	0,9	0,8	0,8	0,7	0,5	0,0	-0,8	-1,1	-1,6	-1,1	-0,3	-0,2	0,1	0,2
Sweden	1,0	0,5	0,7	1,5	-1,2	-0,1	-0,1	-3,8	-2,5	0,2	0,0	1,1	2,5	2,1
Switzerland	1,2	0,8	0,7	0,7	0,8	0,9	0,2	-2,2	-1,1	0,0	1,0	0,3	1,0	0,9
Turkey	0,9	1,5	0,9	1,6	1,5	-1,6	-0,5	-6,2	-5,6	5,1	4,2	1,1	0,9	3,5
United Kingdom	1,1	1,2	1,2	0,2	0,1	-0,9	-1,8	-2,1	-1,5	-0,2	0,4	0,4	0,6	0,7
United States	0,1	0,9	0,7	0,4	-0,4	0,3	-0,9	-2,3	-1,3	-0,1	0,4	1,0	0,6	0,6
European Union (27)	0,9	0,6	0,8	0,5	0,4	-0,3	-0,8	-1,8	-2,5	-0,3	0,3	0,4	0,5	1,0
OECD - Europe	0,9	0,6	0,8	0,6	0,5	-0,4	-0,7	-2,0	-2,6	0,1	0,6	0,5	0,6	1,1
OECD - Total	0,7	0,8	0,6	0,6	0,2	-0,1	-0,7	-2,2	-2,3	0,2	0,6	0,9	0,7	0,9

OECD (2012), "Quarterly National Accounts", *OECD National Accounts Statistics*.

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a) Start of the crisis: the first quarter in which GDP decline for two succeeding quarters.

b) End of the recession: the last quarter before GDP started to recover.

Table A2. Determining relevant figures for the unemployment rate

Subject	Unemployment rate, Aged 15 and over, All persons																							
Measure	Level, rate or quantity series, s.a.																							
Country	Time	Q1-2007	Q2-2007	Q3-2007	Q4-2007	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Q1-2010	Q2-2010	Q3-2010	Q4-2010	Q1-2011	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012
Austria		4.4	4.6	4.7	4.1	4.0	3.6	3.8	4.1	4.5	4.8	5.2	4.9	4.5	4.5	4.5	4.2	4.4	4.2	3.8	4.3	4.2	4.4	4.5
Belgium		7.9	8.0	7.0	7.0	7.0	6.7	7.5	6.8	7.8	7.9	7.9	8.0	8.5	8.5	8.3	7.8	7.1	7.0	7.5	7.0	7.1	7.4	7.4
Canada		6.2	6.1	6.0	6.0	6.0	6.1	6.1	6.4	7.8	8.4	8.5	8.4	8.2	8.0	8.0	7.7	7.7	7.5	7.3	7.5	7.4	7.3	7.3
Chile		6.9	6.6	7.3	7.9	7.7	8.0	7.4	8.1	10.9	11.0	10.7	10.8	9.2	8.2	7.6	7.7	7.4	6.9	7.1	7.1	6.7	6.3	6.2
Czech Republic		5.8	5.4	5.1	4.9	4.5	4.3	4.3	4.5	5.6	6.5	7.3	7.4	7.7	7.3	7.1	7.0	6.9	6.9	6.6	6.5	6.8	6.8	7.0
Denmark		4.0	3.7	3.9	3.5	3.3	3.2	3.4	3.8	5.0	6.1	6.2	6.9	7.3	7.7	7.3	7.6	7.6	7.5	7.4	7.7	7.6	8.0	7.4
Estonia		5.0	4.9	4.4	4.3	3.8	4.0	6.6	7.9	10.8	13.0	15.5	16.1	18.5	18.4	16.3	14.1	13.7	12.9	11.5	11.8	10.9	9.9	10.1
Finland		7.2	6.8	6.8	6.6	6.3	6.4	6.3	6.5	7.2	8.4	8.5	8.9	8.8	8.4	8.3	8.1	8.1	7.8	7.7	7.5	7.6	7.6	8.0
France		8.4	8.1	8.0	7.5	7.2	7.2	7.4	7.8	8.6	9.2	9.2	9.6	9.4	9.3	9.3	9.3	9.2	9.0	9.2	9.4	9.6	9.8	9.9
Germany		9.2	8.8	8.7	8.5	7.9	8.0	7.4	7.4	7.7	7.9	8.1	7.7	7.7	7.2	6.9	6.9	6.4	6.1	5.9	5.7	5.6	5.6	5.5
Greece		8.6	8.4	8.2	7.9	7.8	7.5	7.5	7.8	8.8	9.1	9.7	10.2	11.1	12.1	12.9	14.0	15.2	16.6	18.4	20.4	21.8	23.9	25.6
Hungary		7.1	7.1	7.3	7.9	7.7	7.8	7.8	8.1	9.2	9.7	10.5	10.7	11.2	11.3	11.0	11.1	11.0	11.0	10.9	10.9	11.3	11.0	10.6
Ireland		4.5	4.5	4.5	4.7	4.8	5.1	6.4	7.8	10.5	11.7	12.3	12.7	13.2	13.5	13.6	14.4	14.5	14.5	14.8	14.7	15.1	14.8	14.6
Israel		7.7	7.6	7.2	6.7	6.2	6.0	6.0	6.4	7.5	7.9	7.7	7.2	6.9	6.5	6.6	6.5	6.0	5.5	5.6	5.4	6.8	7.0	6.8
Italy		6.0	5.9	6.1	6.3	6.6	6.9	6.7	6.8	7.3	7.5	8.0	8.2	8.4	8.5	8.3	8.3	7.9	8.0	8.5	9.2	10.1	10.7	10.8
Japan		4.0	3.7	3.7	3.9	3.9	3.9	4.0	4.1	4.6	5.1	5.4	5.2	5.1	5.1	5.0	5.0	4.8	4.7	4.4	4.5	4.5	4.4	4.2
Luxembourg		4.6	3.9	4.0	3.8	4.3	5.1	5.5	5.3	5.8	5.1	4.4	5.2	4.9	4.1	3.9	4.5	5.2	5.3	4.4	4.7	5.9	4.0	5.7
Mexico		3.8	3.6	3.7	3.7	3.8	3.7	3.9	4.4	5.0	5.4	5.8	5.5	5.3	5.4	5.2	5.5	5.3	5.4	5.2	5.1	5.0	5.0	4.9
Netherlands		3.5	3.2	3.1	2.9	2.8	2.8	2.7	2.7	2.9	3.2	3.6	3.9	4.4	4.5	4.5	4.4	4.3	4.3	4.5	4.7	4.9	5.2	5.4
New Zealand		3.9	3.7	3.6	3.5	3.9	4.0	4.2	4.5	5.1	6.0	6.5	6.9	6.1	6.9	6.4	6.7	6.5	6.6	6.6	6.4	6.7	6.8	7.3
Norway		2.7	2.5	2.4	2.4	2.4	2.5	2.5	2.8	2.9	3.0	3.2	3.2	3.5	3.5	3.5	3.6	3.1	3.2	3.2	3.3	3.0	3.0	3.1
Portugal		8.2	8.1	7.9	7.8	7.4	7.5	7.8	7.8	8.6	9.3	10.0	10.1	10.3	10.8	11.1	11.1	12.0	12.4	12.6	13.8	14.5	15.3	15.8
Slovak Republic		11.3	11.3	11.4	10.6	10.2	10.1	9.1	8.8	10.0	11.4	12.8	14.1	14.6	14.5	14.4	14.1	13.4	13.3	13.4	14.0	13.7	13.8	13.8
Slovenia		5.3	4.8	4.6	4.6	4.7	4.4	4.3	4.2	4.9	5.8	6.4	6.3	6.7	7.3	7.2	7.6	8.0	8.0	8.1	8.6	8.1	8.5	9.4
Spain		8.2	8.0	8.2	8.7	9.3	10.5	11.7	14.0	16.7	17.9	18.4	19.0	19.4	20.1	20.3	20.5	20.6	20.9	22.1	22.9	23.7	24.7	25.5
Turkey		8.6	8.9	8.9	9.2	9.1	8.9	9.6	11.3	12.4	13.3	12.8	11.8	11.3	10.8	10.6	9.8	9.1	9.3	8.6	8.2	8.2	8.0	8.1
United Kingdom		5.5	5.3	5.3	5.0	5.1	5.3	5.8	6.2	7.1	7.7	7.8	7.7	8.0	7.8	7.6	7.7	7.7	7.9	8.2	8.3	8.2	7.9	7.7
United States		4.5	4.5	4.7	4.8	5.0	5.3	6.0	6.9	8.3	9.3	9.6	9.9	9.8	9.6	9.5	9.5	9.0	9.0	9.0	8.7	8.3	8.2	8.0
European Union (27)		7.4	7.1	7.1	6.9	6.8	6.9	7.0	7.3	8.3	8.9	9.2	9.3	9.6	9.6	9.5	9.5	9.4	9.4	9.6	9.9	10.1	10.3	10.4
OECD - Total		5.7	5.6	5.6	5.6	5.6	5.7	6.0	6.5	7.5	8.2	8.4	8.4	8.4	8.3	8.2	8.2	7.9	7.9	7.9	7.9	7.9	7.9	7.9

OECD (2012), OECD.Stat. (database).

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Legend:



a) The start of the crisis and the crisis end defined based on the level of GDP.

OECD (2012), "Quarterly National Accounts", OECD National Accounts Statistics

a) Trough of unemployment trajectory is the lowest level after the start of the crisis.

b) Peak is the unemployment rate after which it declines for the succeeding two periods.

## **Abstract**

This paper examines what was undertaken in Austria during the financial and economic crisis of 2008-09 to cushion its adverse effects on the labour market. I aimed to determine the most prominent rationales for its comparative stability and resilience.

Commitment to improve the education system and innovative activities by the Austrian government and firms resulted in the development of a skilled and specialized workforce. It is a primary reason for the calculated and thoughtful decision of employers to refrain from dismissals. This decision was made economically feasible by instruments such as the subsidized schemes of short time work and a variety of training and skilling programs that were agreed upon and arranged through social dialogue on all levels.

The decision to increase wages preserved consumption level and stimulated recovery. The high level of wages is justified by the qualifications of Austrian workers and ensures competitiveness of firms and the country.

Pre-existing conditions and institutions and a number of goal-directed decisions of Austrian employers and the government allowed the Austrian labour market to not only perform comparatively well during the crisis, but also led to sustainable positive developments afterwards. Austria was recently ranked at the top of a cross-country comparison of the unemployment rate.

## **Zusammenfassung**

Diese Arbeit untersucht, was während der Finanz- und Wirtschaftskrise 2008/09 unternommen wurde, um die negativen Auswirkungen auf dem Arbeitsmarkt zu verringern. Mein Ziel war die Beschreibung der auffälligsten Gründe für die Stabilität und Elastizität von dem österreichischen Arbeitsmarkt gegenüber anderen Ländern.

Die ständigen Bemühungen der österreichischen Regierung und der Unternehmen, um das Ausbildungssystem zu verbessern und die Innovationstätigkeiten zu fördern, erzielten qualifizierte und spezialisierte Arbeitskräfte. Der Grund für die Beibehaltung der Arbeitnehmer, ist deren Fachkenntnisse und spezialisierte Fähigkeiten. Die ökonomische Durchsetzbarkeit von solchen Entscheidungen wird, durch subventionierte Maßnahmen wie Kurzarbeit oder verschiedene Weiterbildungsangebote, die von der Sozialpartnerschaft in allen Ebenen abgesprochen und vereinbart wurden, durchgesetzt.

Durch Lohnerhöhung hat man die Aufrechterhaltung des Konsums bezweckt. Obwohl die Löhne hoch waren, ist das durch die guten Qualifikationen der österreichischen Fachkräfte begründet und durch diese wurde sowohl die Wettbewerbsfähigkeit der Unternehmen als auch vom österreichischen Staat geschaffen.

Durch die vorhandenen Konditionen und Einrichtungen des Arbeitsmarktes und die hohe Anzahl von zielgerichteten Entscheidungen von österreichischen Arbeitgebern und der Regierung, war der Arbeitsmarkt in Österreich, verglichen mit anderen Ländern, weniger betroffen. Diese Maßnahmen, die in der Finanz- und Wirtschaftskrise getroffen wurden, führten zu positiven Entwicklungen auf dem Arbeitsmarkt, die auch im Nachhinein eine niedrige und hervorragende Arbeitslosenrate bewirkt haben.

# Curriculum Vitae

ADANALIĆ LEJLA

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## EDUCATION:

March 2011 – Ongoing	<b>University of Vienna, Faculty of Business, Economics and Statistics</b> <b>Master of Science, International Business Administration</b>
Oct. 2006 - March 2010	University of Sarajevo, Faculty of Economics Bakalaureat/Bachelor of Management, Financial Management,
2002 – 2006	Middle school: "Third Gymnasium", Sarajevo

## WORKING EXPERIENCE:

2012 (July – August)	Beenius d.o.o Ljubljana, Slovenia Business Development, Marketing, 8 Weeks Internship
2009 (May – June)	BH Telecom d.d. Sarajevo, Telecom Engineering Accounting, 4 Weeks Internship