

## THE AUSTRIAN WAY: SOZIALPARTNERSCHAFT AS MEANS TO CURB THE FALLING RATE OF PROFIT

JULIA M. PUASCHUNDER\*

The New School, Department of Economics, Schwartz Center for Economic Policy Analysis  
Columbia University, Graduate School of Arts and Sciences

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**Abstract:** *Economic crises are inherent in all market systems. Economic historians vividly outline overaccumulation and overheating leading to a squeeze of profits as underlying to great booms, recessions and depressions by the historical examples of Italy, France, Germany and Japan. Overaccumulation is based on the capital account being run down due to a demand for labor, which leads to rising wages and capital flight and ultimately to unprofitable economies. Tightening labor markets during long boom phases lead eventually to class conflict, which is the starting point of the profit squeeze and eventually busts, recessions and depressions. This paper aims at adding to the existing literature the case of describing the Austrian Sozialpartnerschaft. This stakeholder engagement means practiced in Austria is shown to avert social imbalances leading to economically inefficient worker uprising, protests and strikes. The unique Austrian model of the voluntary Sozialpartnerschaft is captured to implicitly curb the falling rate of profit phenomenon. Rather than partially illegal and counterproductive, risky strike movements, the Sozialpartnerschaft forms an institutionalized relationship between the government, political parties and certain interest groups in the field of labor, social, and economic policy. While the influence of the Sozialpartnerschaft may be decreasing in the eye of the European Union integration and in times of globalization, other countries with fairly less developed stakeholder engagement approaches may learn from the positive example of the Austrian way to gracefully social partner in reaching common economic, industrial and societal endeavors together.*

**Keywords:** *booms, busts, falling rate of profit, long depression, long downturn, overaccumulation, overheating, Sozialpartnerschaft, strikes, Wirtschaftswunder, worker uprising*

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## Introduction

Robert Brenner's (2002) *The Boom and the Bubble: The US in the World Economy* explains long-term booms and long downturns around the world in historical examples. May it be the 1998-1999 international economy crisis in East Asia or stock markets crashing in bankrupt Russia or Brazil falling into depression and Japan being in recession. Crises are inherent in all economic systems. Especially the US economy, which is according to the CIA World Factbook<sup>1</sup> the "most powerful economy in the world" with the US dollar being the world currency, suffering from falling profits leads to falling equity prices, which threaten the world economy to fall into recession or even slide into a long-term depression.

Brenner's (2002) and other historical economists' work feature a historical analysis of great booms, recessions and depressions. By the historical examples of Italy, France, Germany and Japan, economic correlates and remedies of long booms and long downturns are depicted. Underlying phenomena of long boom and long downturn cycles are overaccumulation and overheating leading to a squeeze of profits. The falling rate of profit is one of the major underlying features of business cycles, long-term booms and downturns (Brenner, 2002, 2006). Almost all conventional monetary, fiscal and social intervention strategies as counter-cyclical means to avert booms and busts are described. For instance, lowering the interest rate counters the credit crunch and raises the wealth of households and corporations by enabling them to borrow more and ultimately consume and invest more, which raises productivity and profitability (Brenner, 2006).

This paper aims at adding to the existing literature the case of describing the Austrian *Sozialpartnerschaft* – a stakeholder engagement means practiced in Austria – to avert social imbalances leading to economically inefficient worker uprising, protests and strikes. In this feature, the unique Austrian model of the voluntary *Sozialpartnerschaft* implicitly curbs the falling rate of profit phenomenon, which is prevailing around the world.

This paper is organized as follows: First an introduction to long booms and long downturns is given including an explanation of the falling rate of profit being a driver of economic cycles. Historical examples of strike waves in the US and Europe throughout the post-World War II era are provided alongside with a description of means to respond to worker uprising. The economic consequences of worker empowerment in the falling rate of profit and profit squeeze in the wake of overheating and overaccumulation are discussed. The Austrian model of *Sozialpartnerschaft* is explained as implicit means to curb the falling rate of profit tendency. The insights are discussed alongside granting an international and future perspective of *Sozialpartnerschaft* as innovative means to avert negative consequences of economic fluctuations.

## Long booms and long downturns

Economic booms and downturns are inherent in all major economies around the world, as historical examples underline. Booms open way to bubbles, which blow up booms again. The bubble-driven overheating of booms is succeeded by an equal and opposite reaction downwards. Fall in share prices force corporations to cut back sharply in spending and borrowing, which results in drop-offs of output and investment growth. This triggers a chain reaction by corporate cutbacks in plant, equipment and labor force leading to declining corporate and consumer confidence and demand, rising unemployment

<sup>1</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/us.html>

and increasing corporate and consumer debt defaults and bankruptcies, and ultimately to cyclical downturns.

Between 1973-93 there was a persistent stagnation and a long downturn. Beginning in the early 1970s, most of the advanced capitalist economies expanded rapidly marked by unprecedented rates of investment, output, productivity, wage growth, along with low unemployment and only mild recession. Between the early 1970s and mid-1990s, the growth of investment then fell sharply, exposing less dynamism, reducing productivity and slowing wage growth along with depression-level unemployment and subsequent recession and financial crises.

The leap from long boom to long downturn occurred due to the lack of advanced capitalist economies to achieve and sustain high profit rates, which resulted in a lack to generate large surplus or maintenance of investments and thereby curbing productivity, real wage growth and ultimately further profits.

The foundation of the post-war boom is found in the repression of worker uprising, which forces real wages down enabling manufacturers to net large surpluses with respect to capital stock. The high profit rates opened way to high rates of capital accumulation that drove the boom by powering the rapid growth of productivity, employment and real wages. The rapid acceleration of investment and consumer demand ensued a virtuous upward spiral, such as in the case of the US economy taking off during the wartime years. The US economy was able to secure unprecedented high profit rates, which led to a powerful expansion. Though a dynamic labor movement forced the US economy in the post-war era to sustain high levels of investment growth. Capital accumulation sunk, wages were driven up and the newly European booming competition drove US investment abroad.

Later developing economies – such as Germany and Japan – continued to achieve unparalleled rates of capital accumulation for an extended period. They had the capacity to cope with rising cost pressures to bolster high profitability and international competitiveness by the virtue of their belatedness and huge pools of underemployed workers in their backward rural and small business sectors that kept wage growth relatively low compared to productivity growth. These countries profited from a relative little sunk fixed capital, so they could exploit catch-up by adopting cheap but advanced US technology while succeeding in innovating by learning-by-doing and economies of scale, which secured laying down quantities of capital stock.

In addition, institutional forms and governmental policies promoted growth and international competitiveness. Free trade and international mobility of capital spread the late-comer's wealth around the globe. Expanding manufacturing exports thus depended in first place on unprecedentedly high rates of growth of world trade during the post-war boom. Because the US economic success was linked to the success of its rivals and allies, there was a high degree of international cooperation marked by high levels of US aid for allies but also competitors by tolerating rivals' state interventionism, trade protection and undervalued exchange rates and shackling of finance. There was a fruitful symbiosis between leaders and followers, early and later developers.

From 1965-1973 there was an onset of over-capacity and crisis of profitability stemming from the 1950s, when currency became convertible and trade barriers were lowered. The subsequent growth of commerce triggered export and supply to larger parts of the world market than ever before. Goods become duplicated in existing markets leading to redundancy and over-capacity and ultimately to over-production. But inflexible production costs of plants and equipment (fixed capital) rendered production methods too costly coupled with high wage levels that could not be squeezed downward, US manufacturers faced rising prices for labor and capital. A declining aggregate rate of profit in the international manufacturing sector manifested system-wide over-capacity and over-production. In addition, the Vietnam War brought skyrocketing US balance of payments deficits. As the amount of

dollars held abroad rose enormously, relative to the demand for US products and assets, huge downward pressure was exerted on the US currency and the world monetary systems was propelled into crisis.

Between 1971-1973, the Bretton Woods system of fixed exchange rates was jettisoned and the US dollar sharply devalued. Japanese and German manufacturers were burdened with sharply rising relative production costs and also suffered a decline in profit rates. World manufacturing process were unable to grow in line with wages and the cost of plant and equipment, resulting in the fall of manufacturing profit rates, which was – across the advanced capitalist economies – responsible for propelling the world economy from long boom to long downturn between 1965 to 1973.

The decline in profitability was heavily concentrated in the manufacturing sector and vulnerable to international competition. What prevented manufacturers from maintaining profit rates between 1965 and 1973 was an inability to mark up prices over costs at much more than half the rate of their non-manufacturing counterparts. The private economy as a whole saw its profit rate decline as a consequence of the fall in the rate of profit in the manufacturing sector.

The 1990s era is significant for globalization and the US hegemony as economic growth around the world became dependent upon US stimulus. The exploding imports that drove the world economy brought US trade and current account deficits to record levels, leading to historically unparalleled growth of US liabilities to overseas owners and thus to historically unprecedented vulnerabilities of the US economy to flight of capital and collapse of the dollar. The economic expansion of the 1990s was accompanied by inflation in the wake of one of the greatest financial bubbles in US history. Equity prices exploded and lost touch with underlying corporate profits and fundamentals. Subsequent was that household, corporate and financial sector debts all ballooned to historically unprecedented levels. Debt growth made growth of consumption and investment possible, which drove prices even higher. The unsustainable bubble thus fueled itself. The Federal Reserve's rescue operation led to an ascent of asset values and an ongoing US investment and consumption boom. But when stock markets plummeted in the face of collapsing profits in 2000-1, the international economy entered once again into crisis as an extension from the international economic downturn of 1997-8. Underlying to all of these historical economic fluctuations is the falling rate of profit of entrepreneurs.

*Profit squeeze due to falling rate of profit underlying business cycles*

*Overaccumulation:* Armstrong, Glyn & Harrison's (1991) '*Capitalism since 1945*' covers two related phenomena inherent in causing downturns: **Overaccumulation** and **Overheating** as well as the underlying mechanisms for economic booms and downturns, are profit squeezes. In the international arena there are tendencies of divergent paths within similar economies to **overaccumulation** and **overheating**.

**Overaccumulation** is based on the capital account being run down due to a demand for labor, which leads to rising wages and capital flight and ultimately to unprofitable economies. Overaccumulation, which that underlies classic capitalist crises, sets in when the economic engine of growth is overheating (Armstrong et al., 1991, p. 169).

Capitalism appears to generate a higher rate of accumulation than can be sustained and thus the rate of accumulation has eventually to fall. Towards the end of the postwar boom, an imbalance between accumulation and the labor supply led to increasingly severe labor shortage (Armstrong et al., 1991). This excess demand for labor generated a faster scrapping of old equipment. Real wages were pulled up and older machines rendered unprofitable, allowing a faster transfer of workers to the new machines (Armstrong et al., 1991). Profitability and accumulation declined to a sustainable rate.

The falling rate of profit tendency is prominent in heterodox economics literature, foremost Karl Marx's, who attributes

$$r = s/(c + v) \rightarrow r = \frac{s/v}{(c+v)}, \quad (2.1.1)$$

in which  $r$  is the rate of profit,  $s$  =surplus value over total capital outlay  $c$ =constant capital and  $v$ =variable capital. The equation gives the rate of return in terms of surplus value on what the capitalist has to expend on production. Divided by  $v$  the equation forms

$$r = \frac{s/v}{(c/v+1)}, \quad (2.1.2)$$

which gives the rate of exploitation in the numerator and the organic composition of capital ( $occ$ ) in the denominator. Any increase in the rate of exploitation increases  $r$ , any increase in  $occ$  lowers  $r$ . The drive to increase a single capitalist's profit rate and fear of being swallowed by other capitals in the eye of real competition<sup>2</sup> causes firms to introduce labor saving technology that increases productivity, which *ceteris paribus*, decreases unit labor costs since

$$ulc = \frac{w}{y}, \quad (2.1.3)$$

whereby  $ulc$  represents unit labor costs,  $w$  describes the wage rate and  $y$  is productivity that can be increased by relative surplus value increases. The tendency in capitalism is to increase the  $occ$  through competitive innovations in labor saving technology to decrease  $ulc$ . But this is the prisoners dilemma that causes temporary  $r$  increase for one innovative firm. But an average drop in  $r$  once all other competing capitalists adopt that innovation. Surplus value comes from living labor only, not dead labor (machines, etc), so to increase productivity, more machines and production material are used (increased technical composition of capital, e.g., more dead labor vs living labor in production) and this drives down the profit rate. Yet capitalists fight back with counter tendencies to increase  $r$ , e.g., by more intense exploitation of labor, reduction of wages below the value of labor power, foreign trade getting cheaper inputs, war and plunder getting means of production for free, etc. This is the tendency of the profit rate to fall, which is inherent in all capitalist societies and the driver behind implicit economic fluctuations of booms and busts. It is a tendency because it is not a linear automatic process, and can be countered, but this drives crisis through fall in profitability in capitalism, which is the main driver of capitalist behavior.

In the 1960s, the effect of overaccumulation was a period of fast growth, with rapidly rising wages and prices and an enthusiasm for get-rich-quick schemes (Armstrong et al., 1991). This eventually led to a deterioration in profitability as confidence was undermined, investment collapsed and a crash occurred. An undercutting of generalized accounts occurred.

Behind overaccumulation is a rising working class in the wake of capitalist upswings, for instance such as in the late 1960s, when the economy faced the problem of full employment in the wake of an enormous growth of waged jobs. Full employment underlies economic booms that accelerate inflation and are marked by an eventual decline in profitability. The maintenance of full employment causes social and political changes, which give a new impetus to the opposition of business leaders. As unemployment is an integral part of normal capitalist systems, discipline in factories and political stability erodes in full employment economies.

To give a historical example, in the period between 1950 and 1970, total employment rose by 30% in line with population growth. There was a growth in services and underemployment in the countryside. State employment rose from 1974 and there was an increase in union membership. The

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<sup>2</sup> Shaikh, A. (2016). *Capitalism: Competition, conflict, crises*. Oxford: Oxford University Press.

switch to waged work of previously independent producers also increased white- and blue-collar union membership (Armstrong et al., 1991).

*Class struggle inherent in capitalism:* The intensification of class struggle lead to direct pressure on profitability for capitalists. International competitiveness and overproduction also resulted in costs in some regions of the world. The speed of upswing in the 1972-3 boom, measured in vacancies, generated bottlenecks and labor market mismatches – such as visible in the declining agricultural labor force and increasing female participation in non-agricultural labor. In a vacancy flourishing economy, the strong bargaining position in tight labor markets reduced the time spent at work. Part-time work was also accelerated by more married women entering the labor force. In the US, there was deflation since the end of the 1950s and intensification of working conditions. Employees were to crack down on workers, class struggles arose in relation to profitability. Workers unleashed class struggle in the face of world markets putting pressure on their working conditions. During the Reagan area, there was a profit squeeze caused by class struggles. Problems of the weakening of profit rates were attributed to world market competition, government spending and worker uprising. Strikes stem out of frustration over moderation of growth of real wages, reduction in labor's share and increase in the share of profits, erosion of differentials, and increased work load. Tightening labor markets during long boom phases led eventually to class conflict, which became the starting point of the profit squeeze and eventually busts, recessions and depressions (Armstrong et al., 1991).

In the first two postwar years, the pattern of recovery varied from country to country. The United States and United Kingdom reconverted industry to peacetime uses rapidly. France and Italy raised production steadily towards prewar levels. Germany and Japan made little progress. Roaring inflation and starvation wages resulted in wages becoming a major issue in Japan. By the end of 1946, membership of unions had rocketed to nearly 5 million, well over a third of the work force. Struggles over union recognition, wages and work conditions developed into battles for workers' control and planning. Massive numbers of workers resisted redundancies fiercely. A quarter of a million workers engaged in 'production control.' In sum, the situation in 1946 and 1947 in Japan did not provide a stable and healthy basis for capitalist reconstruction.

High inflation, rampant speculation, high government and balance of payments deficits, were symptoms of instability in Japan and throughout Europe, foremost in Italy and France. Low production and profits represented further problems. Workers around the world showed an extraordinary capacity for struggle. They had established strong shop floor organizations. In a number of industries, individual enterprise unions had welded themselves together into effective industry confederations. Moreover, the ruling class was unused to dealing with labor unrest.

In the US, the 1945-6 strike waves had shown up weaknesses in domestic social discipline (Soskice, 1978). Great strike waves of early 1946 were contained by a wage increase of 15 percent or more. Strike waves were also predominant in the US in response to the overheating in the wake of the Vietnam War and all the major European countries throughout the 1968-1970 period in the post-World War II era (Soskice, 1978). Unions institutionalized workers' rights and decent working conditions around the industrialized world in a partially illegal way (Soskice, 1978).

The government sought to offset the effects on employers by easing price controls (Armstrong et al., 1991). Much of the industrial conflict of the early 1970s was induced by government counter-inflationary policies implemented to reverse an inflationary spiral, which started in the late 1960s. While the situation varied throughout countries, the worker uprising led to an improvement of working conditions and eventually lowered the rate of profit. For instance, in Germany and Japan, labor movement for workers intervened directly, gaining a real measure of power in government or the factories (Armstrong et al., 1991). In the overheated and inflationary US, food-shortage and price-

rising Germany and Italy a tight labor market contributed to worker uprising confidence (Soskice, 1978). Germany was a success story in political stability due to low Communist participation in parliamentary representation, strong work ethics, and low class divides (Armstrong et al., 1991). In France - where right-wing trade union leadership fueled worker uprising - and Italy, working-class parties were in coalition governments (Armstrong et al., 1991). Discontent accordingly centered on opposition to attempts to make workers redouble their efforts while black markets flourished (Armstrong et al., 1991). French protests occurred from 1947 on fueled by a strong communist parliamentary representation. In the United Kingdom, wage acceleration accompanied the strikes (Soskice, 1978). Italy faced strong pressure on workers' living standards in an inflationary environment, rising unemployment, consumption cuts and rampant speculation coupled with a lack of effective governmental planning leading to a widespread working-class opposition (Armstrong et al., 1991). In the United Kingdom, workers concentrated on trying to prevent backsliding of the Labour party (Armstrong et al., 1991). Implicit counter-tendencies to strikes were found in the Truman Doctrine and Marshall Plan of the US, which were intended to help re-establish social discipline in Europe and Japan (Armstrong et al., 1991). In the US businesses pressed Congress to outlaw strikes resulting in the Taft-Hartley Act of June 1947.<sup>3</sup> In Japan, where the ruling class was unused to dealing with labor unrest, the government dismissed workers in the fierce battle between unions and the state to push efficiency. Strikes were prohibited as they would provoke action of the most drastic nature against individual and organized labor interests (Armstrong et al., 1991). In France working hours were raised alongside arrests and imprisonment as a penalty for interfering with the right to work (Armstrong et al., 1991). In Italy, workers were expelled in a dominant employers' offensive against worker uprising, which secured a productivity boost in the post-World War II era (Armstrong et al., 1991). Unemployment naturally curbed union power in Germany, which also was close to the idea of worker co-determination in industrial decisions (Armstrong et al., 1991).

Strike waves also swept across Europe between 1968 and 1970 (Armstrong et al., 1991). In May 1968 France was on strike started by students and extending to air traffic control, post offices, factories, journalists, artists, automotive and many other worker and peasant industries. In 1969 Germany and the Netherlands had strikes followed by Italy and the United Kingdom (Armstrong et al., 1991). The United States and Canada experienced industrial unrest in the early seventies, when wages started to rise. Strikes also qualitatively grew, now including also white-collar jobs and the public sector. As a unified development to negotiate industrial relations and alleviate class divides, the strike waves squeezed profits by pushed-up wages and boosted inflation while firms faced international competition and tariff reduction pressures (Armstrong et al., 1991). In Italy semi-skilled workers became highly organized in wage negotiations in the beginning of the seventies. Shop floor bargaining became standard in large plants and effective national negotiations the norm.

The reaction to strikes varied around the world: In the literature management is said to regain control over work practices and wage bargaining on the shop floor, controls over work practices by workers and shop stewards. For instance, Germany initiated a concerted action program that involved long-term contracts and ceilings on increases. The French government answered the strikes through

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<sup>3</sup> Which outlawed the closed shop and permitted states to pass laws banning union shops; made illegal secondary strikes or boycotts to force management to recognize a non-certified union; required a 60-day cooling-off period before a contract was ended; allowed employers to sue unions for breach of contract or for illegal strikes or boycotts; prohibited strikes by federal employees; allowed the President to seek an injunction to postpone for 80 days any strike deemed to affect national health and safety, pending conciliation, and to require a ballot before the strike could proceed; required union officers to swear they were neither members of the Communist Party nor supporters of any organization advocating unconstitutional means of overthrowing the government; forbade union contributions to candidates in federal election.

cooperation with the unions resulting in an increase in the minimum wage, working hour cuts and marginal extension of trade union rights all consolidated in the 1963 Stabilization Plan. Policies included deflation, control of public sector wages and leaving the distribution of the overall working conditions to be negotiated between unions and management in so-called 'contract programmes,' which provided pricing policies and certain guarantees on employment, exports, investments and wages (Armstrong et al., 1991). The Italian government set the pace for certain sectors to change negotiations and deflated sharply (Armstrong et al., 1991). The British Labor government introduced a statutory incomes policy and a six-months freeze was followed by a six months' severe restraint. In addition, incomes policies aimed to pursue workers to accept lower money wage increases. Deflation was used to weaken bargaining positions. Employers also can launch working practices programs and plant-level bargaining machinery. In Germany and Italy, strikes were met with plant-level bargaining machinery and plant-rationalization during a major merger boom. In Italy it also involved a major intensification of work through reduction in labor-time on machine operations, supervision of work, increased assembly line speed, spread of incentive payment systems, increases in heavy and onerous workloads. In the United Kingdom, it took the form of productivity deals aimed at eroding shop floor control over working practices (Armstrong et al., 1991). National claims were higher wages, reduced differentials, greater workplace control and more shop floor participation in bargaining.

*Profit squeeze:* Karl Marx's attributes  $r = s/(c + v) \rightarrow r = \frac{s/v}{(c+v)}$ , in which  $r$  is the rate of profit,  $s$  =surplus value over total capital outlay,  $c$ =constant capital and  $v$ =variable capital. The equation gives the rate of return in terms of surplus value on what the capitalist has to expend on production. Divided by  $v$  the equation forms  $\rightarrow r = \frac{s/v}{(c/v+1)}$ , which gives the rate of exploitation in the numerator and the organic composition of capital (occ) in the denominator. Any increase in the rate of exploitation increases  $r$ , any increase in occ lowers  $r$ . The drive to increase a single capitalist's profit rate and fear of being swallowed by other capitals in the eye of real competition causes firms to introduce labor saving technology that increases productivity, which ceteris paribus, decreases unit labor costs since  $ulc = \frac{w}{y}$ , whereby  $ulc$  represents unit labor costs,  $w$  describes the wage rate and  $y$  is productivity that can be increased by relative surplus value increases (Shaikh, 2016). The tendency in capitalism is to increase the occ through competitive innovations in labor saving technology to decrease  $ulc$  but this is the prisoners dilemma that causes temporary  $r$  increase for one innovative firm, but an average drop in  $r$  once all other competing capitalists adopt that innovation. Surplus value comes from living labor only, not dead labor (machines, etc), so to increase productivity, more machines and production material are used (increased technical composition of capital, e.g., more dead labor vs living labor in production) and this drives down the profit rate. Yet capitalists fight back with counter tendencies to increase  $r$  (more intense exploitation of labor, reduction of wages below the value of labor power, foreign trade getting cheaper inputs, war and plunder getting means of production for free, etc). This is the tendency of the profit rate to fall, which is inherent in all capitalist societies and the driver behind implicit economic fluctuations of booms and busts.

A sign of overaccumulation is squeeze of profit, which occurs if an increasing imbalance between accumulation and supplies of additional labor requires faster scrapping of old plant to speed up the transfer of workers to new means of production. With little additional labor available, employers compete fiercely for labor to operate newly installed machinery. A faster increase in money wages results. An increase in product wages makes old machinery unprofitable and permits labor to be transferred to new. This faster scrapping, and the faster growth of product wages which causes it, are signs that the rate of accumulation is excessive in relation to the available labor supply. If share of profits in business output fall, industries experience squeezes yet with varying intensity.



Productivity growth declines due to rising costs of raw materials; mechanization; the employers' possibilities to increase the intensity of labor that is naturally limited by the working day hours and the speed of work; as well as tight labor markets and increased union strength. Productivity growth decline arises if mechanization yields less productivity gains. This occurred in the lagged technological race between Europe, Japan versus the leader US in the post-war period. Productivity growth declined as the frontier set by the US was approached. Productivity growth also depends on better methods of organization that could tail off. Productivity is also affected by the extent to which employers can maintain and increase intensity of labor, hence there are natural limits of the working day and the speed of work. In addition, tight labor markets and increased union strength make it more difficult for employers to increase work intensity and carry out schemes of reorganization, which contributes to slower growth in labor productivity.

Further international competition holds down profit margins due to more trade and investment flows. Increased levels of international competition erode profit margins. The tendency toward equalization of productivity levels decreases the extent of monopoly power exercised by domestic producers. Such shifts drastically worsen the profitability of countries suffering reduced competitiveness. However, this effect is sector dependent. All these factors contributed to hold down inflation, so that the money wages generated by the high demand for labor were translated into product wage increases and the necessary scrapping rates achieved.

The rate of profit depends on the output-capital ratio as well as the share of profits. A faster rate of scrapping reduces the measured output-capital ratio. During profit share decline, the output-capital ratio occurs. The reduced growth rate of labor productivity contributed to the economic fall. Relative prices of capital goods stop declining.

In the early 1970s, high demand may have pushed up investment goods prices fast. Rapid increase in material prices pushed up investment goods prices faster than output prices. Decreasing capacity utilization led to an additional fall in the US output-capital ratio after 1966. Declining profit shares and falling output-capital ratios combined push down the rate of profit. Decreasing productivity gains from (1) mechanization, (2) difficulties in obtaining more productive work organization and increased work intensity, but also (3) rising material prices pressuring costs and (4) international competition raising prices as well as (5) fast increase in investment goods prices all led to a decline in profit. (6) An intense demand for labor depressed the profit rate directly by dragging up product wages in the wake of overaccumulation and decreased capacity utilization. (7) Uneven patterns of accumulation between sectors, commodities and countries also depressed profitability on the international scale.

Governments can offset declining profitability by cutting taxes on profits or increasing generous tax allowances given for investment. During the 1970s, generous US tax concessions for new investment wiped out the effect of corporate tax and rendered a high post-tax rate of profit. Also, in the UK the impact of declining profitability was cushioned by tax concessions. Yet this meant a shift of the burden of taxation towards workers, reducing the extent to which their take home pay benefited from their stronger bargaining position.

Overall, workers gain from overaccumulation. Full employment and guaranteed jobs enable shorter working hours, reduced work intensity and improved working conditions. Growth of product wages improve living standards. In the early 1970s, the working class thus substantially gained in take-home pay and public services, as well as high employment, working hours cuts and improved work conditions. Over time though, first capital was bearing the costs of overaccumulation, then wage shares rose and slowly tax burdens resulted in slowed growth and consumer prices rising.

Inflation rising increases wages and tends to reduce profitability. This happens when employers are unable to raise prices to offset excessive wage increases because of growing international

competition and fixed exchange rates. Governments can respond by devaluing the currency to offset the cost disadvantage of the wage increase. Aggregate profits also fall if credit is not extended fast enough to allow the same volume of commodities at higher price level. So governments face strong pressure to offset the adverse effects of wage explosions on profitability by facilitating a rapid expansion of credit, which offsets inflation. Access to credit enables capitalists to maintain the rate of accumulation by increasing the proportion of funds borrowed. Investments stoke up demand for commodities, permitting sales to be maintained at higher prices. Governments allowing banks to respond to demands from capitalists for credit at rates of interest which failed to keep up with inflation helps to maintain the return on shareholders' investment but fuels inflation. While this aids to maintain the return on shareholders' investment – even though investments earned less overall – capitalists try to sustain the profitability of shareholders' funds. Yet inflation erodes the purchasing power of accumulated savings and workers will eventually be obliged to save more of their income if they are to rebuild the value of past savings. So the extra credit funneled through the banks is ultimately provided by workers.

In the early 1970s, the costs of imported raw materials also accelerated rapidly. With workers attempting to increase their real incomes by militant wage bargaining and capitalists trying to maintain accumulation through extended borrowing, these high material costs could not be absorbed without struggle. Employers passed the burden on to workers via high prices. Workers responded with higher wage demands. Governments permitted credit expansion required to finance high price levels. Price differentials to maintain the rate of profit were shunted back and forth between capitalists and workers. Inflation flourished. Relative decline of US capital was reflected in large balance of payments deficits as US goods became less and less competitive and war expenditures in Vietnam climbed. Trade deficits combined with capital outflows provided advanced countries with additional dollar reserves. US inflation relaxed constraints on price rises and devaluation was used abroad. Countries that did not re-valuate tended to have balance of payment surpluses, which stoked up inflationary pressure. Easy credit was granted from banking systems that were flooded with foreign cash. All these overaccumulation tendency are tightly connected to overheating.

### *Overheating*

***Overheating*** occurs in the wake of strike waves and subsequent wage explosions, such as in Europe between 1968 and 1970 in France, Germany, Netherlands, Italy and the United Kingdom, when workers backed their claims with strike action. Historically, Europe's sustained boom from the mid 1950s to early 1960s was accompanied by tight labor markets, accelerated prices and wages that led to balance of payment difficulties. Capitalists were forced to concede wage rises. At the same time, firms were unable to pass the production cost increases onto consumers in light of international competition and tariff reductions.

There are several historical examples for overheating: While the Italian labor movement suffered defeats in the late 1940s and trade unions remained ineffective throughout the 1950s, the Italian economic miracle during the 1950s and 1960s triggered a wage explosion from 1968-70. As a counter-movement, the government deflated sharply in 1964 and unemployment began to rise steeply, reaching 5.4% in 1965, which severely weakened the unions. Weakness at plant level was reflected in sharply negative wage drift in 1964 and 1965. Employers took the opportunity to launch an assault on working practices. Nevertheless, semi-skilled labor become organized from the 1970s on. Shop floor bargaining become standard in large plants and effective national negotiations became the norm. Real wages rose more rapidly than productivity and hence that profitability and competitiveness

improved. The accumulation of capital was accompanied by an accumulation of employee grievances, which led to social pressure and societal unrest. Student activists and dissident trade unions initially played an important role, formulating and popularizing demands. National claims were centered around pay and conditions featuring the demand for higher wages, reduced differentials, greater workplace control and more shop floor participation in bargaining. Spot, rolling, confetti strikes and go slows became common, workers would chase blacklegs and occasionally kidnap managers. By 1969, migrant inflows were allowed by governments to weaken unions.

In France strikes began at universities and high schools but soon spread to air traffic controllers, automotive sector, post office workers, journalists and artists' workers and peasants that formed joint committees to organize for a democratization of industries. The demand for an increase in minimum wage, working hour cuts and the extension of trade union rights bled into a struggle that was not economic but political. As prices were rising and considerable real wages increased, a sharp fall in profitability and a loss of competitiveness in globalized markets occurred.

The 1963 Stabilization Plan was aimed at restoring profits and competitiveness. Deflation was pursued to hit productivity growth but did not rise profitability immediately. Control of public sector wages were installed. Yet the overall distribution of increase was to be negotiated between unions and management resulting in contract program agreements negotiated with major companies. These covered pricing policies and the principle that companies were allowed to raise prices sufficiently to rebuild profit margin, providing they gave certain guarantees on employment, exports, investment and wages. In addition, there was an encouragement of major merger drive to promote rationalization in an attempt to modernize an industrially backward France. Problems remained as the changes on the labor market had come with greater rapidity than anticipated, too much reliance had been placed on the automatic adjustments and the mobility of market mechanism. A result of the boom and wage explosion were student revolts, which soon fueled French working class clashes and state employee strikes that resulted in political instability.

*Historical examples:* French strike waves occurred in light of highest levels of unemployment and excess capacity since 1960, yet brought no long-term changes. Students' revolts accumulated grievances of workers as a result of Charles de Gaulle's modernization strategy. Unionization was high in the public sector but union activity was restricted to dealing with individual grievances. A low level of unionization stemmed from the fact that all companies with more than 50 employees were legally required to have enterprise committees elected annually by the work force as consultative authority with responsibility over health and safety concerns. Major strikes remained to begin from the bottom up and were largely without the control of unions. Communists joined in on these activities.

A shift occurred from 1970-1 on with a recession in the US and Japan, in which unemployment rose, inflation peaked and wage exploded in Europe. Policy-makers failed in light of the relative stable prices in the face of rising unemployment, which coined the term stagflation. Doubts about Keynesian fine-tuning rose. The US economy was stagnant with fairly stable prices and US export prices dominated world manufacturing.

The Bretton Woods system broke apart when business investments overseas doubled between 1965-1970. Simultaneously, foreign central banks' dollar holding fell. Due to the flight of the dollar, the central banks around the world acquired capital. Reserve backing for the dollar deteriorated more in 1970 than during the previous decade. In 1970 a worsening of the US current account coincided with further reductions of the interest rate. Money flowed out of the US into all OECD countries, that were struck with fear that credit would expand and inflation rises yet benefited from stimulated growth of offshore markets as these funds were often borrowed by speculators who then reinvested them in strong currencies in the expectation of revaluations. This spiral was triggered by central banks that

were providing funds to speculators who stood to make a profit from them if the currency was revalued. Currency floating occurred, President Nixon suspended the convertibility of the dollar into gold and the OECD countries signed the Smithsonian Agreement which established a new system of fixed exchange rates. The US could thereby devalue the dollar in relation to other currencies and increase US competitiveness. The Smithsonian Agreement thus became renowned as significant monetary agreement in the history of the modern world to restore US competitiveness, demonstrated by the rise in US imports of manufactured goods. In 1973 major central banks renounced the commitment to maintain their exchange rates within a band of +/-2.25% with respect to the dollar.

The US-authority led dollar devaluation against other currencies subsequently improved the US trade balance in the 1970s. From there on the US needed a current account surplus to finance its capital exports. In addition, there was a persistent undervaluation of export partners' currency, the German mark and the Japanese yen, which were favorable for US competitors' export. The US thus tried to break by devaluation of the dollar to improve US exports and competitiveness resulting in a current account surplus in 1974. The dollar's international role leveraged the dollar into the reserve currency of the world.

Between 1972-1973, there was a period of very rapid growth throughout the capitalist system with a high degree of synchronization. This mini-boom occurred in all major capitalist countries very rapidly with a great impact on prices and offset by expansionary policy. Firms reacted to the expansion of demand by raising prices and expanding output in order to raise profit margins. Coupled with a commodities boom and an inflation, this pushed prices even further. But the mini-boom should be the last upswing before the onset of slump, stagnation and mass unemployment. The unmet high inflationary expectations created disillusionment with Keynesianism fine tuning. A historical differing example how to deal with post World War II worker uprising in the wake of overaccumulation and overheating is the case of the Austrian *Sozialpartnerschaft*.

## **Sozialpartnerschaft**

Since the post-World War II era, the Austrian *Wirtschaftswunder* (economic miracle) is attributed to the *Sozialpartnerschaft* in Austria breeding economic growth alongside social stability. Austria traces much of its contemporary economic success featuring a well-developed market economy, skilled labor force, high standards of living and close ties to EU economies such as Germany's but also its unique *Sozialpartnerschaft* model. The Austrian economy features a large vital service sector, sound industrial strength and a small, yet highly developed agricultural sector. Economic growth has been relatively moderate ever since, approaching 0.9% GDP real growth rate and 0.8% industrial production growth rate as well as 0.8% inflation rate in 2015. The relative low economic fluctuations are attributed to relatively stable rates of profit thanks to solved class struggles in the wake of peaceful worker rights movements through the socio-economic model of *Sozialpartnerschaft*.

The concept of *Sozialpartnerschaft* embraces 'market and socio-political power' of many stakeholders in the industry (Brenner, 2006b). In the *Sozialpartnerschaft* model, the citizenry, that undermines the profit rate in many other countries, gains access to board meetings, from which they were barred from entry previous to World War II. The unions then organized massive workplace meetings to discuss national employer and employee claims together in a harmonious setting. Rather than illegal risky strike movements, the Austrian model of *Sozialpartnerschaft* (social partnership) describes the institutionalized relationship between the government, political parties and certain

interest groups in the field of labor, social, and economic policy.<sup>4</sup> While it is widely recognized as a key element in Austrian politics since the end of World War II, social partnership is neither anchored in the Austrian constitution nor laid down in any specific legal act.

The Austrian *Sozialpartnerschaft* thereby features a vital system of cooperation between employers and employees under the auspice of the government. Austrian *Sozialpartners'* consent decision-making and coordinated action in economic endeavors breeds societal harmony alongside economic prosperity through stability. *Sozialpartnerschaft* thereby enables economic and socio-political cooperation of diverse stakeholders from employer and employee as well as government and governance bodies. The general insider-outsider divide of social clashes is alleviated within the *Sozialpartnerschaft* model implicitly avoiding the profit squeeze.

The Austrian *Sozialpartnerschaft* model embraces on the employer side the *Wirtschaftskammer Österreich* (WKÖ) and the *Landeswirtschaftskammer Österreich* (LKÖ) while representing on the employee side the *Bundesarbeitskammer* (BAK) and the *Österreichische Gewerkschaftsbund* (ÖGB). The first three are public chambers, the last one is an association. All stakeholders involved are tariff partners and lobby organizations with services for their members embedded in the political decision making of the country. Austria benefits from the strong cooperation of the economic partnerships in close exchange with the government.

*Sozialpartnerschaft* is a voluntary agreement that historically grew informally through the collaboration between different stakeholders without legal compulsion. All stakeholders involved focus on concerted action regarding longer-term economic and socio-political goals. Consent is enabled through dialog and negotiations targeted at reaching whole-rounded and long-term compromise grounded on constant information sharing and vital exchange.

Major pillars of the *Sozialpartnerschaft* are the

- (1) democratic legitimation through regular anonymous votes as well as clear structures regarding membership, executive order and financialization of interest group formation;
- (2) self-rule autonomy as the government delegates rights to chambers to organize themselves regarding economic and professional development under the auspice and in close collaboration with the government;
- (3) freedom to join and cooperate in an informal, historically-grown cooperation of the stakeholders leading to a strong sense of community and responsibility.

In all these features, the Austrian model of the *Sozialpartnerschaft* breeds social harmony and a competitive advantage through stability and trust among the economic and societal stakeholders of Austria working towards the common endeavor of a vital economy and harmonious community.

The rather informal declaration of Austrian *Sozialpartnerschaft* praises the model as the central driver of leveraging Austria to one of the most stable and secure countries in the world throughout the past 70 years. *Sozialpartnerschaft* embraces different layers of the economy ranging from local to regional up to governmental, governance and international focus, which allows a whole-rounded solution finding to complex problems. The major goal remains the social harmony and improved economic productivity for all parts of society. Central goals are full employment and sustainable business development enabled through education and training-on-the-job, full and youth employment, job security and labor protection, collective bargaining on the local, regional, national and EU levels, constant working condition improvement, labor participation and societal embeddedness, work-life-

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<sup>4</sup> Steiner, J. (2016). The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

balance, fair pension reform, as well as innovation and infrastructure potential acceleration, international competitiveness in the age of globalization alongside sustainable product.

*Sozialpartnerschaft* aids to lower societal risks of fragmentation and helps accomplishing economic goals and prosperity endeavors. Accomplishing goals together breeds hope and optimism in society grounded in feelings of self-control and fairness among different partners. Self-determination, solidarity and common goals orientation is the expertise of Sozialpartners. *Sozialpartnerschaft* works with constant evaluations of economic and social conditions, self-checks, and mediation in case of deviations from expected norms, strategic planning and operative meetings at the local, regional, national, European and international levels as well as discussion groups of all layers of society and economy.

One distinct feature of *Sozialpartnerschaft* is that the Sozialpartners are free in their formation of alliances and liaisons of partners to improve employer-employee relations. Although other European countries, such as Sweden or Norway show elements of a similar system, the Austrian model can be seen as unique, as it incorporates federations with monopolistic characteristics and exceptional political clout, which are yet independent formations.<sup>5</sup> Another unique characteristic of the Austrian model is its institutional foundation: Social partnership in Austria is based on a “mixture” of compulsory and voluntary membership organizations: For instance, membership in the *Kammern*, i.e. the *Wirtschaftskammer* (the Federal Economic Chamber, representing all businesses) and the *Arbeiterkammer* (the Chamber of Labor, representing workers and employees), is obligatory.<sup>6</sup> While the roughly 500,000 businesses pay membership dues according to their size, membership dues for the 3.5 million Austrian employees are automatically deducted from the monthly paycheck and amount to 0.5% of their gross income.<sup>7</sup> The other social partners are organized in voluntary associations and unions as it is common in the rest of the world: The most influential ones are the Labor Union Association (*Österreichischer Gewerkschaftsbund – ÖGB*) on one side and the Association of Industrialists (*Industriellenvereinigung – IV*) on the other.<sup>8</sup> These umbrella federations of the social partners wield great influence in political opinion- and decision-making, thus their cooperation has often been criticized as a 'secondary government.' The political omnipotence often attributed to the social partners has, in fact, never existed as such.

The cooperation and coordination of interests among the federations and with the government have covered income policies and certain aspects of economic and social policies – e.g. industrial safety regulations, agrarian market legislation, labor market policies and principles of equal treatment.<sup>9</sup> In these areas, the social partners have substantially contributed to Austria’s economic, social and political stability – evident in economic growth, the rise of employment, the expansion of the welfare state and also in the often quoted Austrian *Wirtschaftswunder* (economic miracle) featuring societal harmony and economic stability in the aftermath of World War II.

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<sup>5</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>6</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>7</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>8</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>9</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

Traditionally, the institutional partners share a close relationship with one or the other of the long-standing governing parties, the Social Democratic Party (SPÖ) or the Austrian People's Party (ÖVP).<sup>10</sup> In addition, these interest groups are incorporated, both formally and informally, into the political opinion-forming process of the relevant ministries, as well as through their participation in a number of committees, advisory boards and commissions to support the implementation of the negotiation outcomes.<sup>11</sup> Even at the parliamentary level, involvement of experts from the federations and chambers is a normal practice.<sup>12</sup> Prominent members of federations often also become associated members of the government represented as well as in chambers and federations.<sup>13</sup>

### *Historic foundations*

The roots of the *Sozialpartnerschaft* lie in Austria's First Republic of 1918-1934, as the *Kammern* were already somewhat involved in the political process.<sup>14</sup> It was not until after World War II however, that the Austrian model was shaped in part by the experiences after the *Anschluss*, when both socialist and conservative politicians faced persecution from the Nazi regime and found themselves reunited in resistance.<sup>15</sup> Both sides developed a willingness to overcome the divisions of the inter-war period of the First Republic including even a short civil war in 1934.<sup>16</sup>

This willingness was manifested in a close cooperation mainly between the Labor Union Association (ÖGB), the *Kammern*, and the political parties during the wage-price adjustments of the late 1940s and 1950s.<sup>17</sup> This process already indicated the model of Austrian social partnership: A multidimensional system of cooperation between the government, political parties and interest groups, who all share a common interest in economic growth.<sup>18</sup>

Strikes around 1950 in the Austrian Second Republic led to today's social partnership model. The second half of the 1950s, after the Austrian State treaty was signed, marked the beginning of a number of initiatives to broaden the scope of social partnership.<sup>19</sup> In 1957, the social partners founded the *Paritätische Kommission für Lohn und Preisfragen* (Parity Commission for Wages and Prices), a commission based on equal representation of employer and employee federations and representatives

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<sup>10</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>11</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>12</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>13</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>14</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>15</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>16</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>17</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>18</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>19</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

of the government, debating questions of wages, prices and general economic and social policies.<sup>20</sup> This institution has been widely recognized – particularly in the comments of foreign observers – as a central institution of the Austrian social partnership.<sup>21</sup> While it was originally planned as a temporary organization, the commission met regularly until the late 1980s and still formally exists in Austria today.<sup>22</sup> This institution led to a strengthening of the interconnection between the state (i.e. government and public administration) and the dominant interest groups (Labor Union Association, *Kammern*, etc.).<sup>23</sup> The system was reinforced both in a formal way, through new institutional levels within the *Paritätische Kommission*, and informally through repeated successful negotiations.

The political stability and the continuity of the newly formed social partnership in the 1960s led to a uniquely strong social partnership system in Austria, which has not been fundamentally challenged since.<sup>24</sup> From the 1980s, however, economic, social and political transitions have become apparent in the Austrian political spectrum, which also affected the social partnership. In light of reduced economic growth, rising budgetary deficits, increasing competition and unemployment, and an expanding rivalry between the political parties, it has become more difficult for the federations to align the different interests of their members to a common denominator.<sup>25</sup>

## Discussion

Overall the paper strived to portray the Austrian model of *Sozialpartnerschaft* as means to curb the falling rate of profit tendency as for cutting worker uprising and economically inefficient strike movements (Sherman, 1967). Austria featuring a fairly regulated social economy, the government and EU governance has reasserted formative power and influence. In important budgetary, economic and sociopolitical questions, the national government decides both the procedure and the core contents. The EU membership entails a loss of terrain for the federations mainly in terms of agricultural, competition and monetary policies, which are decided at the EU governance level.

The influence of social partnership has been argued to have significantly decreased due to the domestic political changes in Austria. The system of consensus democracy of the two main parties of the 1950s-1990s has been transformed by the rise of other political groups, such as the FPÖ (Freedom Party of Austria), or the Green Party, two parliamentary fractions which recently dominated the presidential election. These new parties have undermined the political relevance of the high level of interconnectivity between the formerly dominant political parties SPÖ and ÖVP and the social partners.<sup>26</sup>

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<sup>20</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>21</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>22</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>23</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>24</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>25</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>26</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>



While the Austrian social partnership model had reached its high point in the 1960s and 1970s during the post-World War II economic miracle, the past decade has shown that the social partners can still wield significant influence in times of economic crises, adapting to changes in the social, political, and economic context. Today, *Sozialpartnerschaft* membership numbers of the federations are still significant. Although the voluntary Labor Union Association counted an all-time low of 1.2 million members in 2014, down from 1.7 million Austrians at highs in the mid-1980s, it still represents roughly one third of Austrian employees.<sup>27</sup> Thus, the privileged position of the national federations remains unchanged and a balance of interests can still be achieved in the political decision-making process.<sup>28</sup>

Owing to its stability, the social partnership in Austria has led to the highest level of collective bargained wage agreements in the EU: Almost 100 percent of employees in Austria are employed under a wage agreement, reached by cooperation between the federations involved in social partnership.<sup>29</sup> Comparison to other countries, such as Germany (62 percent) or the U.S. (14 percent) illustrates the unique significance and vitality of the social partnership model in Austria.<sup>30</sup>

Similar models to *Sozialpartnerschaft* exist throughout Europe: For instance, the German *konzentrierte Aktionsprogramme* and the German *Betriebsräte*, which primarily bundle employees' concerns as mandatory representatives of larger corporations that cannot be sanctioned or dismissed, and *Vertrauensleute* ('trusted persons') for unofficial strike actions. Yet questionable remains whether the Austrian market success dependent on creativity and innovation can be fully converted to other examples and cases over time and throughout the world. As an innovative approach to alleviate tensions of contemporary student movements to unionize, the US could consider adopting features of the *Sozialpartnerschaft*.<sup>31</sup> Problematic in this endeavor appears that the *Sozialpartnerschaft* is not enacted by one single party or stakeholder but requires voluntary interest to form the union among several stakeholders concurrently.

Potential downsides are a limited possibility of explosion of wages. The reduced turnout in elections to the chambers and the general calling into question of compulsory membership are additional symptoms of change, which may echo an erosion of the importance of the *Sozialpartnerschaft* in times of globalization. In addition, it is not only becoming increasingly difficult, but also less frequent, to strike a balance between the social partner's interests.

Nevertheless, these insights gained from the Austrian way help structure economic growth and alleviate the downfalls of market fluctuations. While the influence of the *Sozialpartnerschaft* may be decreasing in the eye of the European Union integration and in times of globalization, other countries with fairly less developed stakeholder engagement approaches may learn from the positive example of the Austrian way to socially-gracefully and economically-beneficially social-partner in reaching economic, industrial and societal common endeavors.

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<sup>27</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>28</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>29</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>30</sup> Steiner, J. (2016) The Austrian way, retrieved online from <http://www.austrianinformation.org/winter-2015-16/the-austrian-way>

<sup>31</sup> [http://www.nytimes.com/2016/12/19/nyregion/columbia-challenges-vote-by-graduate-students-to-unionize.html?mwrsm=Facebook&\\_r=0](http://www.nytimes.com/2016/12/19/nyregion/columbia-challenges-vote-by-graduate-students-to-unionize.html?mwrsm=Facebook&_r=0)

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