POST-KEYNESIAN ECONOMIC POLICY IN AUSTRIA AND SWEDEN

THE EMPLOYMENT RECORD IN A CHANGING INTERNATIONAL ENVIRONMENT

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Full employment was given priority in economic and social policy in Austria and Sweden for decades. Both countries were relatively successful in this respect; in Austria, full employment could be maintained until the beginning of the eighties: the current unemployment rate (4½ percent of the total labour force in 1997) is still the second lowest in the European Union. The employment rate (employed persons in relation to the population aged between 15 and 64) is about 70 percent, which is ten percentage points above the EU average. Youth unemployment is the lowest in Europe (6 percent). Long-term unemployment is no higher than 25 percent. This rather bright picture of the Austrian labour market is overshadowed, however, by continually rising unemployment in the nineties. Furthermore, there is considerable hidden unemployment (especially concerning people aged over 55, who often are in early retirement schemes). The female employment rate is rather low and precarious employment is increasing. In Austria, there is little tradition of active labour market policy.

Sweden was able to maintain full employment until 1990. In the deep recession between 1991 and 1993, when real GDP shrank by 5 percent, open unemployment increased dramatically and the government has not been able to lower this rate ever since (10¼ percent in 1997). Sweden has always shown one of the highest labour market participation rates of the European economies – in 1990, the total labour force amounted to 81 percent of the working age population. In the recession this level decreased to 70 percent. However, women still have as high a participation rate as men. The high participation rate is not only based on extended female public sector employment. In fact, high employment rates in the public sector (more than one quarter of total employment) has been the basis for the highest private sector employment of the 15 to 64 year old population of all European countries. The comprehensive welfare state (e.g. full coverage with nurseries and kindergartens) has allowed high participation rates especially for women, also in the private sector. In the eighties, up to 56 percent of the working age population were employed in the private sector (26 percent in the public sector), whereas the EU average was 50 percent (11 percent respectively).

This relatively favourable outcome concerning labour market data in both countries is the result of a distinct policy strategy over the last few decades, giving priority to full employment. This policy strategy could be characterised as following the Post-Keynesian tradition (*Arestis,* 1986, *Tichy,* 1984) – referred to as 'Austro-Keynesianism' and the 'Rehn-Meidner Model', respectively. In both countries, there has been a basic theoretical assumption resulting from empirical experience: the existing capitalist economies based on private ownership and free markets are essentially unstable. The instability of a free market economy is mainly determined by the instability of private investment, which is attributable to volatile business expectations. As employment and unemployment are mainly the result of macroeconomic developments (and social trends), labour markets are directly influenced by macroeconomic instabilities. Therefore, a deep scepticism existed towards a theoretical position which sees full employment as the automatic outcome of well-functioning, unregulated factor and goods markets. This understanding led to the development of specific institutional and political frameworks for public policy intervention in favour of stabilising expectations and confidence of investors and consumers.

The institutional and political environment of the two economies show a lot of similarities. The social democratic parties have been hegemonial for a long time. In Sweden, the Socialdemocratisca Arbetarepartiet (SAP) has been in power since 1932 (with two short breaks between 1976 and 1982 and between 1991 and 1994, when bourgeois governments were in office). In Austria, the Sozialdemokratische Partei (SPÖ) has been member of each government since 1945 (with one exception: 1966-1970) and has held the office of Chancellor ever since 1970. In both countries, comprehensive welfare states – which guarantee social security for the whole labour force – were established after the Second World War. Public expenditure in relation to GDP is above the OECD average. The core groups of interest representation (trade unions and employers' organisations) have high organisation rates and a rather centralised form of organisational structure. The corporatist regime allows wage policy to be a macroeconomic policy variable, although incomes policy with state intervention in the wage negotiations was established neither in Sweden nor in Austria. Both countries are small, open economies with high export shares (Sweden 40 percent of GDP, Austria 41 percent), where the competitiveness of the export industry on world markets is an important determinant of macroeconomic development.

The main purpose of the 'Austro-Keynesian Model' and the 'Rehn-Meidner Model' was to combine full employment with price stability. Austrian economic policy of the seventies and the eighties was a pragmatic concept of 'muddling through' the instabilities of the world economy – it was only declared to be 'a model' ex post (*Seidel,* 1982). It combined Keynesian elements – especially referring to fundamental Keynesian notions such as uncertainty and volatility of expectations – with Austrian specifica: corporatist institutions and stable currency policy. The Swedish model – named after the two leading labour union economists, Gösta Rehn and Rudolf Meidner – was initially (ex ante) designed for an overheated economy in the fifties and sixties (*Meidner - Rehn,* 1953). It was therefore not 'Keynesian' with respect to its focusing on specific problems. The Rehn-Meidner model contains a restrictive general economic policy and expansionary selective instruments. Solidarity wage policy with formidable goals concerning income distribution, as well as active labour market policy, have played an important role in this concept. Despite the shared full-employment/price-stability purpose, the strategies of macroeconomic policy in Austria and Sweden have been quite different.

The core elements of Austro-Keynesianism – which *Tichy* (1984) called an '. . . unconventional assignment of instruments to goals' – have been: a demand-oriented fiscal policy to stabilise the business cycle and boost growth and employment; a currency policy stabilising the exchange rate of the Austrian schilling to the German mark to fight inflation, stabilise expectations and implement transformation pressure on the economy; and a macroeconomically-oriented wage policy by the social partners to survey the wage-price spiral and secure the competitiveness of the economy. While the isolated expansionary and anticyclically-oriented fiscal policy of Austro-Keynesianism has been handled more cautiously since the eighties due to international economic developments, the strong-currency policy and the macroeconomically-oriented incomes policy have been maintained.

In Sweden, on the other hand, solidarity wage policy has been the most important tool not only of redistribution, but also of structural adjustment. Fiscal and monetary policy have not been able to fully realise – in accordance with the Rehn-Meidner model – their restrictive stance since the seventies. They have mainly been determined by fluctuations in the business cycle or in the balance of payments development.

Several 'post-Keynesian' elements can be discerned in the macroeconomic strategies of both Sweden and Austria: firstly, a strategic role of investment for the macroeconomic development. In Austria, encouraging private investment has always been seen as an important role of economic policy. Several instruments have been employed to stabilise the expectations of investors. In Sweden, the wage earner funds debate could be interpreted as an – albeit failed – attempt to advance Keynesian 'socialisation of investment'. Secondly, the attempt to stabilise aggregate demand by fiscal policy. This has been an explicit purpose of Austrian economic policy. The Rehn-Meidner model favoured restrictive fiscal policy, but the size of the public sector in both countries has led to high elasticity of the budget to economic growth. Thirdly, the importance of incomes policy. Although incomes policy has neither in Sweden nor in Austria been implemented in a traditional post-Keynesian tripartite way, wage policy has fulfilled important tasks at a macroeconomic level. Fourthly, the attempts of both countries to handle the balance of payments restrictions, even if implemented with extremely different instruments.

2. Austro-Keynesianism – Macro-Economic Policy in Favour of Full Employment

2.1 Expansionary Fiscal Policy Stabilising Aggregate Demand

In Austria, demand management has been seen as having two important tasks in stabilising the business cycle: it has been used to mitigate cyclical fluctuations of the economy from a short-term perspective, on the one hand, and as a long-term instrument of stabilising business expectations and fostering investment and growth, on the other.

From a short-term cyclical perspective, the most important stabilising factors stem from the built-in flexibility of Austria's federal budget and the comprehensive welfare state. Relatively high tax and high contribution rates to the social security system, as well as extensive social security outlays – total receipts of the public sector amounted to 51 percent in 1997, total expenditure to 53 percent – work as automatic stabilisers, which ensure significant anti-cyclical effects. In addition in the recessions of 1975, 1978 and 1981 there was also discretionary fiscal action concerning infrastructure investment, as well as other public outlays such as subsidies to nationalised and other industries, combined with labour hoarding in the nationalised industries.

Encouraging private investment has – in a Keynesian tradition (*Smithin,* 1996, p. 57) – always been seen as a crucial task of economic policy in Austria. One important instrument has been demand management, as a steady rise in effective demand is able to stabilise investors' expectations, leading to higher levels of investment. Furthermore, an extensive system of tax incentives and subsidies, such as accelerated depreciation, tax credits, low-interest loans and export guarantees, has been instrumentalised for strengthening private investment and exports. The Austrian investment ratio stands at 24 percent of GDP and is remarkably higher than the EU average (18 percent) or the Swedish ratio (15 percent).

The attempts of economic policy to stabilise expectations and therefore economic development led, in contrast to other European countries (including Germany) and the U.S., to a rather low variability of output, private consumption and investment (*Tichy,* 1986, *Hahn - Walterskirchen,* 1992). Compared to Germany, or especially Sweden, recessions were less deep in Austria. Better performance in recessions is the most important characteristic of Austrian macroeconomic development; it results in lower employment losses and unemployment increases. An important part of current, relatively low unemployment in Austria can therefore be traced back to the successful prevention of unemployment hikes in the era of international economic turmoil – especially in the seventies. In spite of the active and expansionary fiscal policy in the seventies, the deficit of the Austrian public sector has been lower than the EU average. While Austrian public expenditure has been spent on stabilising business cycles and on enhancing economic growth, other countries have had to pay for rising unemployment.

After the political shift to conservative governments in the U.S., the U.K. and Germany, however, the implementation of monetaristic and supply-side oriented economic policy in Europe led to a steady lack of effective demand, as well as to rising unemployment rates all over the industrialised countries. This had also consequences for Austria as the openness of the economy allowed no uncoupling from the international trends. Fiscal policy passed over to a restrictive stance in 1983, although unemployment was rising in that period. Due to the importance of the automatic stabilisers, however, fiscal policy still played its part in softening recessions, as for instance in 1993. In 1996 and 1997 the

Maastricht criteria for the entering into European Monetary Union made necessary an extensive consolidation package, with negative effects on aggregate demand and employment.

2.2 Strong-Currency Policy Stabilising Expectations

The Austrian Schilling has been pegged to the German Mark since the mid-seventies. That means that Austria has never used the exchange rate instrument for short run employment purposes. This fact seems – at least in its isolated form – not to be 'very Keynesian'. Hard-currency policy was, however – taking into account the conditions of a small open economy – rather adopted as a tool for stabilising business expectations and reaching price stability. It therefore could be characterised as reducing uncertainty.

Hard-currency policy in Austria, suggested by the trade unions, was supported by the social partners, both industry and labour. Stable exchange rates have stabilised the expectations of the exporters and have, in the long run, led to closer trade relations with the main trading partner – the share of exports to Germany of the total exports of goods amounts to about one third. Effective exchange rate appreciation has led to losses in the competitiveness of the export industry in the short run. In the long run, this strategy has promoted the restructuring process of the economy and, as a consequence, increases in labour productivity in the highly exposed manufacturing sector have been exceptionally high compared to the main OECD trading partners. Although the fixed exchange rate has led to lower nominal wage increases – due to the necessity of maintaining the competitiveness of the export industry – real wage increases were not supposed to be affected.

The Austrian exchange rate policy has stabilised the expectations of the exporters and investors and has therefore been another instrument of giving economic policy a long-term perspective. It has also stabilised the expectations of capital markets, a fact which became more and more important when capital market integration was intensifying in the eighties and nineties. With a credible exchange rate link, Austria never faced harmful speculations against the Schilling and therefore enjoyed low long-term nominal interest rates, in comparison to other European countries, e.g. Sweden. However, the decision to keep the Schilling-DM rate fixed has – under the conditions of liberalised capital markets – dissolved the room of manoeuvre for autonomous monetary policy: Austrian monetary policy has been more or less entirely determined by the Deutsche Bundesbank. This was particularly painful when the Bundesbank – especially between 1991 and 1995 – favoured high interest rates for fighting inflation without any regard for growth or effects on employment.

Trade unions have always supported strong-currency policy and promoted it by moderate nominal wage policy. That was especially apparent as long as they could rely on fiscal policy securing full employment, but also afterwards there has been no doubt about this particular orientation.

2.3 Macroeconomically-Oriented Incomes Policy in the System of Economic and Social Partnership

The third and most important cornerstone of Austro-Keynesianism is the corporatist model of incomes policy. Based on economic and social partnership, incomes policy has been the most essential factor in making strong-currency policy feasible and keeping unemployment low (*Walterskirchen,* 1997). The social partnership system is commonly seen to have brought prosperity and social stability to the country (*Guger,* 1992).

The scope of Austrian economic and social partnership is much wider than a post-Keynesian style institution of wage bargaining would suggest, however; it is a system of voluntary and informal, but firmly institutionalised cooperation between labour, business and the government which is involved in all important aspects of economic and social policy. The institutional core of the partnership is formed by the Council of Workers´ Chambers, the Federal Chamber of Commerce and the Presidential Conference of Chambers of Agriculture, each of them based on compulsory membership, as well as the Trade Union Federation, which has a voluntary membership – yet represents some 45 percent of Austrian employees. The core of the system is not the formal institutions, but rather the informal meetings which create a climate of consensus and which harmonise the expectations of those actively involved.

Incomes policy is not a short-term manoeuvre to cope with accelerating inflation, as in other countries; it has a long-term and macroeconomic perspective. There is no formal national wage round or official wage guideline. Wage negotiations take place at the branch level, but are informally coordinated. Wage increases are remarkably uniform, although they leave room for wage-drift at company level. This means that in industries with high productivity growth and strong unions the effective wage increases are higher than in branches with low productivity and weak unions. In fact, Austria has relatively high interindustrial wage differentials. The Austrian experience shows that large wage differentials – which are often seen as instrumental for labour market flexibility and productivity growth in the international discussion – have rather hampered the process of structural adjustment by keeping labour and capital too long in marginal production and impeding the process of reallocation (*Guger,* 1998).

Austrian wage policy has, in general, been macroeconomically-oriented for a long time. There is an implicit consensus between the social partners, as far as distributional stability between labour and capital is concerned, that wage growth is supposed to compensate for inflation and long-run productivity increases. But wage policy was also explicitly dedicated to counter-cyclical orientations (in the sixties), to current account considerations (in the seventies), to promoting the restructuring process in the nationalised industries (in the eighties), to compensating for exchange rate appreciation (in the eighties and nineties). Wage policy has always taken the development of the labour market into consideration. In the last two decades, real wage growth has therefore fallen significantly behind the increase in productivity.

2.4 Labour Supply Regulation and Public Employment

It is widely acknowledged that labour supply developments are of considerable importance for employment and unemployment patterns. A strong labour force reaction towards employment changes is one of the characteristics of the Austrian labour market. Labour supply policy has always played an important role in Austria. Early retirement policies were implemented in the form of an easing of conditions for receiving disability pensions and 'special allowances' for certain groups of the older unemployed. In particular, employers and trade unions have been making such arrangements in decaying firms. This policy was successful in lowering old age unemployment and in allowing for smooth labour force adaptation in crisis branches – e.g. the nationalised steel industry in the eighties. But early retirement also led to a low effective pension entry age (57 years on average) and was a rather costly way of reducing unemployment – higher pension contributions from employees and employers were necessary, subsidies from the public sector to the pension system had to be increased.

The entrance of foreign labour – especially from Southern and Eastern Europe – has always been restricted and has been seen as a discretionary tool of labour market policy. Foreign labour supply is strictly regulated – however, some eight percent of the workforce are foreigners, one of the highest rates in Europe. Trade unions are especially cautious as to the labour market effects of the enlargement of the European Union to the East.

In the last decade, rising public employment also eased the labour market situation. In the nineties, two thirds of the increase in employment took place in the public sector (*Walterskirchen,* 1997). This is especially due to the fact that the most dynamic service sectors – education health and other social services – are mainly dominated by the public sector. The share of public employment is about 21 percent.

3. The Rise and Decline of the Swedish Model

3.1 Solidarity Wage Policy – Equality and Transformation

The Swedish system of centralised wage bargaining was introduced in the mid-fifties and became more and more elaborate in the sixties. It was based on the extremely high degree of organisation of the labour market parties (the blue collar trade union Landsorganisationen – LO – and the entrepreneurs' organisation Svenska arbetsgivare föreningen – SAF) and the 'Saltsjöbaden Agreement' of 1938, which stated that labour market conflicts should be resolved through negotiated agreements and not by legislation. In contrast to the Austrian model of wage policy and Keynesian notions on incomes policy, in the Rehn-Meidner model wage policy has not been an instrument of anti-inflationary policy. They argued (*Meidner - Rehn,* 1953, *Erixon,* 1994) that inflation in an overheated economy calls for restrictive macroeconomic policy. Instrumentalising incomes policy would be ineffective, a threat to tariff autonomy and a source of conflict within the trade unions. Wage policy in Sweden has, however, primarily been seen as an instrument of income equalisation and structural transformation.

Solidarity wage policy in Sweden was designed to reduce wage differentials between different sectors and regions of the economy, and between men and women. The explicit slogan has been 'equal pay for equal work'. Wage differences should reflect skill and training but not the profitability of the firms. A detailed system of constantly lifting the lowest contractual wages has led to a very even distribution of wages. It has also exerted a strong squeeze on profits and productivity pressure on the least productive sectors. Many firms – e.g. the textile industry – were driven out of existence. On the other hand, centralised wage policy has favoured the high-productivity industries, making huge profits. Wage drift has been a continuous problem under centralised bargaining. It accounts for about half the total post-war wage increases in Sweden. The importance of central agreements is therefore somewhat overstated in economic literature.

During the fixed exchange rate period in the context of the Bretton-Woods system, wage policy was also implicitly oriented on competitiveness. The 'Scandinavian model of inflation' in its normative interpretation defined a 'room' for wage increases – the sum of labour productivity growth in the tradables sector and inflation on the world markets. Incomes policy has been ensuring that the improvement in Sweden's competitiveness was not eliminated by the strength of high wage claims after the devaluation of 1982.

1983 was a turning point for the wage negotiation system and the model as a whole. The employers organisations began to leave the corporatist institutions (e.g. in manpower administration, in safety and health matters and in government commissions of various kinds) and central wage negotiations. They proposed a decentralised system of sector and enterprise level negotiations allowing for increasing wage differentials between individuals. With the end of centralised wage negotiations and a corporatist system of economic and social policy, Sweden lost an important tool of policy making. The effects have been disastrous. In the boom period of the second half of the eighties, huge nominal wage increases in the dried-up labour markets, leap-frogging and a high wage drift contributed considerably to the acceleration of inflation rates. Between 1991 and 1993, the government intervened in the bargaining process and gave a mediation commission ('Rehnberg-commission') a mandate to bring down wage inflation. Since then the employers' organisation SAF has not taken part in central wage bargaining; collective wage bargaining on a national level has come to an end.

3.2 Active Labour Market Policy – Still 'Best Practice' in Europe

In the Rehn-Meidner model active labour market policy is in charge of organising the structural, educational and regional adaptability and mobility of the work force. Labour market policy in the Swedish context has three important tasks: firstly, a highly efficient labour market service intensifies and speeds up the placement process of the unemployed. Sweden shows a very decentralised, personal and budget-intensive organisation of the labour market service. Secondly, active qualification and education policy, which is seen as a structural measure, secures adaptability of the unemployed in accordance with labour demand developments. Thirdly, work-providing measures by means of wage subsidies or public works programmes have anticyclical tasks, on the one hand, and include handicapped people in the 'work line' of the Swedish model, on the other hand.

Evaluations of labour market policies (*Björklund,* 1993, *Calmfors,* 1994) have shown positive ratings for placement efforts concerning fast and flexible reactions to local labour market challenges. Labour market training has a favourable influence on the matching process, on effective labour supply, productivity, and the welfare of the unemployed. Recent empirical studies (*Ackum Agell,* 1995, *Ackum Agell et al.,* 1995) have raised some doubt about positive income and employment effects for labour market training participants.

Active labour market policy – constantly covering 2 to 3 percent of the workforce – has been the main determinant of the Swedish success in providing a flexible effective labour supply in a dynamic economic environment. But labour market training has also proved not to be an efficient instrument in combating cyclical unemployment in the nineties. Labour market policy measures were extended to 5 percent of the workforce, which resulted in a shift towards cheap, but less efficient demand-oriented measures. Huge public efforts in retraining and employing people have had positive effects in terms of prohibiting the emergence of long-term unemployment and providing an effective labour supply (with an anti-inflationary impact) in the upswing, however.

3.3 Fiscal Policy – a By-Product of Cyclical Instability?

Fiscal policy in the Rehn-Meidner model has been part of a restrictive economic policy, fulfilling mainly anti-inflationary tasks. The contractive orientation had led to considerable public surpluses and high tax rates during the 'golden age' of the Swedish model in the fifties and sixties. The expenditure side of the public budgets has been oriented mainly towards providing high quality and evenly distributed public services.

However, the development of fiscal policy in the last decades has been showing a very high cyclical dependency and often was too expansionary from a Rehn-Meidner perspective. High tax and expenditure rates result in a high sensitivity of public budgets to variations in the business cycle. During cyclical upswings and booms, the Swedish budget has shown considerable surpluses (about 6 percent of GDP in 1989, when the economy was considerably overheated), whereas in deep recessions public deficits have tended to explode. The financial balance of general government deteriorated in the period of economic crisis between 1976 and 1982 by 12 percent of GDP and in the recession 1991 to 1993 by 15 percent of GDP. Public budgets, on the one hand, stabilise the business cycle therefore in Sweden but, on the other hand, the alarming proportions of the budget deficits make discretionary measures for budget consolidation necessary.

Fiscal policy was quite expansionary in the second half of the seventies, when the conservative government was not able to cope with the problems of international economic turmoil. In the second half of the eighties, when the economy was overheated and inflation pressure occurred, due to political constraints fiscal policy again was not able to implement the necessary restrictive stance. Only the new social democratic government in 1994, shifted to restrictive fiscal policy, which even resulted in a small surplus in public budgets in 1998.

3.4 A Failed Attempt to Socialise Investment

The discussion about 'wage-earner funds' (löntagarfonder) started in the mid seventies. The solidarity wage policy of LO had then led to huge profits in the big firms, which favoured undesirable wealth concentration, wage drift and leap-frogging between the sector unions. A working group of LO, led by Rudolf Meidner, proposed the introduction of collective capital ownership. Part of the share capital of the firms – dependent on the amount of profits – should be transferred by obligatory new emissions from the owners to funds, which were dominated by the employees. After long discussions, wage-earner funds were implemented in 1984, but the construction of the model did not have very much in common with the original proposals. However, *Arestis* (1986) characterised the socialisation of investment by the introduction of wage-earner funds as being of '. . . paramount importance and . . . (constituting) . . . the backbone of post-Keynesian economic policies . . . (in Sweden)'. The funds then were financed by a profit tax and contributions by employees. They were part of the capital-based line of the pension system (ATP). The funds invested in the shares of Swedish firms, but had an upper threshold for investment (8 percent of the total shares). The wage-earner funds were liquidated in 1990 and the accumulated capital was shifted into the pension system.

3.5 Monetary Policy Without Direction

Exchange rate policy in Sweden was often instrumentalised to ease the macroeconomic pressure when the burden from wage increases was too high and the international competitiveness of export industries was endangered. The Swedish Krona has been devaluating ever since the end of the Bretton-woods system (mainly in the periods 1976-1982 and 1992-1995) and has lost more than 70 percent in nominal terms (and some 45 percent in real terms) versus the Austrian schilling.

In Sweden, the incoming social democratic government in 1982 depreciated the Krona by 16 percent, which was the starting point of macroeconomic consolidation. Real wage adaptability proved to be high in this period as the trade unions – politically closely linked to the government – allowed nominal wage moderation to result in downward real wage adjustment (until 1985). Expansionary monetary policy was successful until 1986. The export-led recovery of economic growth resulted in a return to full employment. However,

the devaluation proved to be far too great, especially in combination with a fiscal policy not sufficiently restrictive to meet the requirements of the Rehn-Meidner model. The overheating of the economy started in the export sector.

One further element of monetary policy contributed essentially to the overheating. A miscarried deregulation of the credit markets starting in 1985, led to the emergence of speculative bubbles in financial and real estate markets. The abandoning of credit ceilings was reinforced by the existing possibilities for tax deductions for interest expenditure. A negative real interest rate after taxes led to a fast expansion of private sector indebtedness, a boom on real estate and capital markets and a huge expansion in private demand, accompanied by rising inflation. Again, fiscal policy, due to political constraints, was not able to implement the necessary restrictive stance. A public surplus of 4 percent of GDP and the unstable political situation of a minority government did not allow a tighter budgetary policy. Monetary policy failed to increase interest rates and to initiate a sufficient appreciation of the currency. The burst of the speculative bubbles, connected with balance sheet adjustments of firms and households and the ever-deteriorating competitiveness of the export industry, ended up in the deepest recession since the early thirties.

The government tried to renew confidence in the Swedish Krona by linking it to the ECU in 1991. This policy failed, however, and a currency crisis in autumn 1992 resulted in Sweden abandoning the fixed exchange rate system. Within one year, the Swedish Krona depreciated by 25 percent and was at the mercy of the waves of international currency speculation, along with high long-term interest rates in real and nominal terms.

4. The Two Models and the Internationalisation of the Economy

Sweden and Austria have been characterised by common goals in economic policy – full employment being the most important one. Both countries have been favouring a cooperative model of policy-making. However, the assignment of policy instruments to goals has been quite different. In the environment of liberalised capital markets the Austrian strategy of fixing the exchange rate and instrumentalising wage policy for securing competitiveness seems to have been more successful than the Swedish approach of regular depreciations of the currency. The stable macroeconomic development of Austria is the most prominent outcome of this relatively successful policy orientation.

Until the early eighties the Swedish economy – characterised inter alia by a weak exchange rate, highly regulated financial markets and centralised wage negotiations – did quite well in securing full employment. But it adapted quite inefficiently in the 'new' environment. Liberalisation and deregulation of international financial markets have led to a dominance of financial markets interests versus real economy interests. The Swedish orientation on uncoordinated expansionary monetary policy did not only fail internally, but led to an extremely unstable external monetary environment for economic policy. This resulted in considerable cyclical instabilities, huge budget deficits and high unemployment. It coincides badly with a far reaching loss of economic policy credibility on international financial markets which became 'the rulers of the game'. In a world of financial market dominance over real economic interest and objectives, a policy regime like the Austrian one, which has been especially successful in stabilising the monetary environment, seems to be more appropriate. The policy specification of 'strong-currency policy' has short-term costs but appears to contribute to high macroeconomic stability in the long run.

But also for Austria, the smaller room for manoeuvre in anticyclical fiscal policy proved to be the most important restraint for employment policies in the last fifteen years. Anticyclical macroeconomic policy was important in Austria and Sweden for prohibiting the development of cyclical unemployment, which in other European countries led to the emergence of structural unemployment, due to persistence effects. Austria secured macroeconomic adjustment through the expectation-stabilising instrument of corporatism, centralised wage negotiations and stability-oriented fiscal policy. Sweden relied on monetary and exchange rate policy, when corporatism was weakened. National economic policy is increasingly restricted in its room for manoeuvre with regard to anticyclical policy, not only by the liberalisation of factor and goods markets but also by European regulations. The so-called 'stability pact' for fiscal policy of EMU member states will put considerable pressure on fiscal policy in the future.

Wage policy has always been of considerable importance in employment developments in Austria and Sweden. In both countries, the institutional background of wage policy is formed by corporatism. Corporatist regulatory systems in small European countries seem to have done quite well in stabilising the expectations of economic actors, orienting wage policy to macroeconomic objectives and prioritising the full employment goal. Especially in countries with strong trade unions, coordinated wage negotiations on a central level are able to reduce macroeconomic wage pressure and help to maintain full employment. The price-wage spiral following the steps towards decentralised wage negotiations in Sweden seem to have been part of the characteristics of the bubble economy. The stability of the Austrian institutional system allows nominal wage policy to be a macroeconomic instrument in favour of the full employment objective in the context of a strong currency and liberalised financial markets. However, there has been a significant change in the governance structure of the economy – national economic policy lost influence in favour of 'the markets' – and the increase in the relative mobility of capital vis-à-vis labour in the process of economic integration and globalisation has shifted power in favour of business.

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