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Austrian Exceptionalism

**Labour Market Institutions and
Wage Disparity**

Wolfgang Pollan

June 2004

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1. The importance of economic institutions

Theoretical and empirical research on labour market institutions

The persistence of high unemployment and low growth in most European countries has spurred a great deal of theoretical and empirical research into economic institutions. This literature has identified the institutions of the labour market, the wage setting system in particular, as an important determinant of economic performance.

Several studies have argued that unemployment depends to a considerable extent on the characteristics of the wage setting system. More recent research, most notably several papers from the OECD, has extended this line of analysis and investigated the impact of industrial relations regimes on employment levels, employment security, wage premia, innovation activity, and industry specialisation. In a second step, recent studies have investigated the effects of product market policies on labour market outcomes, acknowledging the interaction between the labour market and the product market, as postulated by economic theory.

Policy recommendations

The perception of a link between labour market performance and labour market institutions has prompted a host of proposals regarding the reform of these institutions. These reforms aim, *inter alia*, at increasing real wage flexibility with the goal of reducing equilibrium unemployment rates. Such reform proposals have been adopted by the OECD (Jobs Study and follow-up reports), the IMF and the EU. Both the EU and the OECD monitor individual country's efforts to implement the proposed reform steps.

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The uncertain status quo of Austria's labour market institutions

Austria's status quo is uncertain in this framework and hence reform proposals lack a solid foundation. The OECD (OECD, 1997B) acknowledges the benefits of Austria's consensus policies and the (seemingly) high degree of real wage flexibility, but then goes on to criticise the system of centralised wage bargaining, which stands in the way of a speedy restructuring of the economy, and recommends a move towards decentralisation, which would produce higher market oriented wage differentials. According to the 1999 policy assessment (OECD, 1999, *van Poeck – Borghijs, 2001*), Austria has not made progress in decentralizing wage determination, in widening the wage distribution, and in better linking wages to skill level, experience and productivity. The 2001 OECD report on Austria notes just minor improvements in this area (OECD, 2001B).

These recommendations stand in stark contrast with the line of reasoning supported by some labour economists (*Calmfors – Driffill, 1988*): according to this view both highly centralised bargaining and highly decentralised bargaining results in superior labour market performance. Centralised wage-setters are well aware of the negative externalities associated with high wage increases, while in a decentralised setting the high degree of competition provides for market discipline. An intermediate position results in the least wage restraint and leads to inferior economic performance.

Many studies of corporatism and of wage bargaining systems – this includes the OECD (1994, 1997A, as well as later OECD studies) – assign Austria the highest rank in a grouping of wage setting systems along the centralisation/co-ordination dimension. This characterisation is, however, contradicted by Austria's high wage disparity: as *Freeman (1998)* argues, it is one of the few established facts about the functioning of labour markets that highly centralised wage bargaining results in low wage disparity. These contradictory features of the Austrian labour market institutions have given rise to the term 'Austrian exceptionalism' in the literature (*Iversen, 1999*).

If Austria has indeed a highly centralised bargaining system, then, according to the Calmfors – Driffill view, a move into the intermediate position, as recommended by the OECD, would bring about a worsening economic performance. If, on the other hand, Austria's wage bargaining system is already decentralised, as indicated by the high degree of wage disparity, then further decentralisation is unlikely to improve economic performance¹, and perhaps other labour market reforms need to be implemented. If, however, the opposite is the case, a radical shift of wage bargaining to the plant level, as sometimes proposed, as well as other remedial action might be indicated.

¹ To be sure, this implicitly assumes – as does the OECD recommendation – that wage differentials are in line with economic efficiency criteria, but see OECD (2002).

The establishment of the *status quo* of Austria's industrial relations regime would help to indicate the direction of future reforms. Eliminating the confusion about how to characterise Austria's wage setting system would also be an important contribution to the study of the effects of the industrial relations system on the labour and product market. At present, results of such studies are likely to be tainted by the misspecification of the variables representing Austria.

Outline of the study

This study is organised as follows. The second section provides a critical review of the literature providing rankings of wage bargaining systems. Some of the studies which characterise Austria as having a highly centralised wage bargaining system seem to portray the Austrian Trade Union Federation (Österreichischer Gewerkschaftsbund, ÖGB) as a monolithic organisation which tightly controls its member unions and the various bargaining units. The Parity Commission and its Sub-Committee on Wages is identified as the main institution of centralised wage bargaining. Wage restraint is imposed on the rank and file by the peak organisation, which has considerable power over the wage bargaining units. This section critically examines the arguments pro and contra this view.

The third section reviews the theoretical framework that has been used in the literature providing a classification of industrial relations systems.

The negative external effects of excessively high wage settlements can also be taken into account by wage negotiators, if wage bargaining is informally well coordinated (Soskice, 1990). The OECD (1997A) claims that this is the case in Austria, but the empirical foundation for this claim remains unclear. Several recent rankings are built up from the number of union confederations and the number of member unions, the reasoning behind this approach being that it is easier to coordinate wage bargaining if the number of actors remains small (Wallerstein, 1999, Iversen, 1999, Calmfors et al., 2001). Whether this approach, which still contains some elements of arbitrariness, is useful for Austria with its many bargaining units, is examined in Section 4.

A variant of the wage co-ordination claim is the assertion that the wage bargaining system is characterised by pattern bargaining, and, moreover, that this system achieves the same degree of wage moderation as a centralised bargaining system. To shed light on this issue wage settlements since the mid-eighties are examined in Section 5. The finding that wage increases are very similar across industries does not by itself indicate the existence of pattern bargaining or wage leadership. Nonetheless, a comparison of increases of contractual wage rates (Tariflöhne) of major bargaining groups in the private sector may clarify the question of whether there has been a trend towards more or less disparity in wage bargaining. Where possible (manufacturing), an analysis of the development of wages actually paid provide further information on this issue. Section 6 contains a summary and conclusions.

2. A review of the literature

The deceptive nature of formal structures

The classifications offered in the literature on corporatism and wage bargaining institutions are in large part based on accounts of the formal bargaining structures as laid down in the legal rules governing industrial relations and in the statutes of the peak union organisations, or on the pronouncements of officials of labour and employers' organisations. That the definitions of such concepts as corporatism, centralisation, co-ordination, or organisational unity of labour are highly subjective is acknowledged by practically all writers (*Cameron, 1984, Heady, 1970, Iversen, 1999, Visser, 1990, Walsh, 1995*)².

Heady (1970) the first writer to provide a classification of national wage policies, bases his classification on such seemingly 'objective' measures such as union density, the number of confederations, the confederation resources and control over strike action. But he cautions that there are no hard data available to assess how frequently and how effectively the powers granted to the national confederations are actually used. These caveats seem to have been forgotten later on.

As a result of the high degree of arbitrariness the proper classification of some countries has been uncertain. Such problems have barely been recognised with regard to Austria, however: along with some of the Scandinavian countries, Austria has been categorised by most authors either as highly corporatist, or as having a very centralised bargaining system³.

Heady and later writers view Austria's wage setting system as a highly centralised one, where the main power resides in the ÖGB and the institutions of the Social Partnership (the Parity Commission and the Sub-Committees on Wages and Prices). *Heady (1970, p. 424)*, for example, assigns the union confederation a high degree of power in collective bargaining, noting that the ÖGB has the right to refuse to endorse agreements that have already been signed, but he points out that these powers are rarely invoked, because wage claims are effectively coordinated within the ÖGB.

Blyth (1979, p. 77) notes that '(I)n Austria the highly-organised and long-standing system of voluntary partnership between unions and employers . . . has produced a highly centralised, national system of pay settlements and price control', and concludes that wage bargaining takes place closer to the national (economy-wide) level than at the sectoral (or regional level). He assigns Austria the highest rank in the level of bargaining of 17 OECD countries.

Cameron (1984), on the basis of *Heady's* account, assigns the ÖGB the highest ranking with regard to confederation power in collective bargaining. In a related category, Austria, along

² For a methodological critique see *Mooslechner – Schürz (2001)*.

³ For an exception see *Scharpf (1987)* and *Iversen (1999)*.

with Sweden, Norway, and Finland, is also given the highest score for industry-wide bargaining with economy-wide formally negotiated agreements.

The Bruno – Sachs corporatism indicators (1985, Table 11.3) draw upon *Crouch* (1985), with the ranking of the indicators reduced to a 0-1 choice. Four indicators are employed: (1) union movement centralisation, (2) low shop-floor autonomy, (3) employer co-ordination, and (4) works councils. Austria is assigned a 1 in all four categories, so that Austria achieves a corporatism index of 4, along with West Germany, the Netherlands, Norway and Sweden. In the corporatism rank order computed by Bruno – Sachs, however, Austria is ranked first, followed by West Germany, the Netherlands, Norway and Sweden.

Flanagan et al. (1983, p. 82) are more sceptical of the Social Partners' ability to control inflation and the rise in unemployment. "In conclusion, there are many signs that the social partnership has worked well as a device for exchanging information between the government and the main labour-market interest organisations, reducing uncertainty in economic policy and thereby reducing fluctuations that might result from misinformation. It may also have been a factor that spared Austria the wage explosions of the late 1960s. The institution, however, appears to have functioned more effectively during the long period of growth with mild fluctuations than during the sharp economic shocks that began in 1974. Indeed, we cannot at this stage rule out the possibility that the formal social partnership structures have obscured real events." In a footnote they repeat the remark of an Austrian economist: "the cat has vanished and only the grin remains."

Of all the writers who propose a country classification only *Scharpf* (1987, p. 240) and, to some extent, *Iversen* (1999) recognise the importance of plant-level bargaining and of wage drift, which has been well documented for Austria. Of six points, *Scharpf* assigns 1 to the national, 4 to the industry and 1 to the plant level. By comparison, for Germany, all 6 points go to the industry level; the distribution for Great Britain is 1:1:4, for Sweden 3:1:2.

The Calmfors – Driffill ranking is built up from two classifications (with values ranging from 1 to 3): (1) the level of co-ordination within national union confederations and within national employers' organisations; (2) the number of existing central union confederations and the extent of their co-operation, and the number of existing central employer confederations and their co-operation, with 3 indicating one dominating union confederation and one dominating private-sector employers' organisation. Austria is given the top ranking according to both criteria, the only country to be so classified.

Several years later, *Visser* (1990, p. 160) describes economy-wide bargaining (compared to sectoral and company and plant-level bargaining) as the principal level of wage bargaining in Austria, and assigns Austria the highest rank in both horizontal and vertical integration of the national union movement. Horizontal integration refers to the degree of unity in national union systems, while vertical integration concerns the degree to which peak organisations command authority within the union movement (*Visser*, 1990, p. 180).

The *OECD* (1994) and *OECD* (1997) repeat the views expressed by *Calmfors – Driffill* (1988) and by *Visser* (1990). *OECD* (1994) describes the sectoral level as the predominantly bargaining level, the sectoral and central levels are nonetheless identified as the institutionalised bargaining levels in Austria. This makes Austria the only country to be so classified: for all other OECD countries, the institutionalised bargaining level also comprises the company/plant level (for Germany, with a similar legal and institutional set-up, the company/plant and the sectoral level are listed as the appropriate levels). Based on this assessment, Austria is classified in *OECD* (1997) as having (together with several other countries) the highest degree of centralisation in 1980, 1990, 1994. In another classification of the wage bargaining system according to the degree of co-ordination in collective bargaining (covering both unions and employers), Austria is also given the highest ranking (along with two other countries), so that the combined index of centralisation and co-ordination assigns Austria's collective bargaining system the highest value of all countries.

The formal institutions of Social Partnership have been assigned great importance by various writers. *Calmfors – Driffill* (1988, p. 16), for example, in a widely cited paper argue in the following way: "In Austria wage agreements are formally made at the industry level, but all wage contracts have to be approved by the central confederation of labour . . .' And: 'No negotiations are allowed without the approval of the central Subcommittee on Wages and Prices which consists of union and employer representatives."

Rankings and indicators

The rankings which have been proposed by *Bruno – Sachs* (1985) and by *Calmfors – Driffill* (1988) as well as the *OECD* (1994, 1997A) rankings that build on these and other groupings have been used repeatedly in the recent literature. The papers by *Elmeskov et al.* (1998), *Nickell – Layard* (1999), *Blau – Kahn* (1999), *Blanchard – Wolfers* (2000), *OECD* (2001A), *Franzese* (2001), *Nickell et al.* (2002) and *Schettkat* (2003) are examples of empirical studies which link institutions to the performance of the labour market.

These rankings also form the empirical basis for studies which examine the interaction between the degree of centralisation of wage bargaining and the independence of central banks and their effects on unemployment and inflation (*Hall – Franzese*, 1998, *Cukierman – Lippi*, 1999, *Soskice – Iversen*, 2000).

The authors of these rankings do emphasize that these classifications are fraught with a high degree of arbitrariness and subjectivity; nonetheless, there seems to be a high demand for such rankings in the empirical literature, as the papers just cited show.

The importance of the Parity Commission and of its Sub-Committee on Wages is also emphasised in more recent contributions, at a time when the Parity Commission has long ceased to meet at regular intervals. *Iversen* (1999, pp. 151-153) stresses the importance of the Parity Commission in the wage setting process and the control of the ÖGB over individual unions. But he also notes the great wage disparity in Austria, which he calls a precondition for

Austria's good economic performance, and speaks of 'Austrian exceptionalism'. The contrast between the lack of wage solidarity and the seemingly strong control of the ÖGB over the individual unions is also noticed by *Pontusson* (2000, pp. 310-311) but remains unexplained. According to *Pontusson* (2000, p. 310), the opening of wage negotiations requires the approval of the Parity Commission of Prices and Wages, with union wage demands being presented by the ÖGB. "Thus the ÖGB serves as the "gatekeeper" for union wage demands." (*Pontusson* 2000, p. 310). In *Calmfors et al.* (2001, p. 77) the Parity Commission is listed as the forum for the institutional social dialogue in Austria.

An evaluation of so-called objective criteria

Several 'objective' criteria have been employed to classify peak union organisations. The size of union resource, the number of union confederations, the number of affiliated unions, the confederal power over strike action as well as the confederal role in collective bargaining were used by *Heady* (1970) *Cameron* (1984), *Calmfors – Driffill* (1988), *Visser* (1990) and others as so-called hard statistics to build an index to rank unions by their degree of centralisation. These classifications have been used by subsequent researchers without further examination and seem to form the basis for the view of Austria's bargaining system up to the present day.

The values given to these and related criteria for Austria will now be examined in turn.

The number of union confederations

In Austria, only the ÖGB is organised as a legal entity under public law; the member unions are not separate legal entities but, from the legal perspective, subdivisions of the ÖGB⁴. In most other countries, the member unions are organised as legal entities and the central union organisation derives its powers from the individual member unions. What can we infer from the differences in the legal form?

In Austria, there exists only one union confederation, the ÖGB, whose statutes were crafted immediately after the end of the war and were designed to overcome the fragmentation of the trade union movement in the inter-war period. At the end of April 1945, the ÖGB was founded in Vienna and the new organisation approved by the Soviet Military Command in Vienna⁵. As *Klenner* (1953, p. 1603) reports, the establishment of the ÖGB was not without problems. There was little common ground among the various union groups, and the political alignments (Social Democrats, Communists, and Christian Democrats) tried to secure as much influence as possible. Many of the agreements which were concluded then had to be revised in later years.

⁴ The legal status of the ÖGB was unclear for many years. It was only in 1953, eight years after the establishment of the ÖGB, that a decision by the Supreme Civil Court made clear that only the ÖGB and not the provincial units were constituted as legal entities (*Holzer*, 1997, p. 101).

⁵ Contacts with union organisations in the provinces were established later in the summer of 1945.

But even then, in a very precarious political and economic situation, when there was a strong incentive to represent a unified front vis-à-vis the Allied Forces, an exception to the principle of industrial unionism was allowed, to assure the unity of the ÖGB⁶. This exception reflects a distinction between blue- and white-collar workers that is basic to Austria's legal system of industrial relations and social security⁷. This solution, envisioned as provisional in 1945, has endured for more than 50 years despite repeated efforts to implement the principle of industrial unionism (Klenner, 1991, Klenner – Pellar, 1999). Thus, the Union of Salaried Employees (Gewerkschaft der Privatangestellten), for many years now the largest union in Austria, has remained quite separate from the industrial unions and may be considered itself a *union confederation* with several affiliated unions.

If international comparisons are to yield insight into the functioning of trade union movements they should compare trade unions for which the set of options is more or less identical. Thus, it makes no sense to compare the organisational form of a confederation that was founded in a time of crisis (Austria) with the organisational form of a confederation that was founded in tranquil times (Sweden or Great Britain). Nonetheless, some students of industrial relations infer weighty consequences from the fact that - according to legal rules - Austria has only one but other countries have several trade union confederations and that only the ÖGB is constituted as a legal entity.

This is a case of what in social psychology has been called the fundamental attribution error (sometimes referred to as the actor-observer bias): the tendency to over-emphasise dispositional, or personality-based, explanations for behaviour observed in other persons while under-emphasising the role and power of situational influences.

In other words, caution is called for in interpreting the fact that the ÖGB is the only trade union confederation and that only the ÖGB is a legal entity: these two organisational features may signify not so much the cohesion of the trade union movement and the power of the peak organisation over its member unions as the pressure to form a unified force in a time of crisis. As the quarrels between the various factions along party lines, between the various unions and between the provinces and the centre indicate, the centrifugal forces were strong and the organisational form given to the trade union movement in the post-war period just barely found acceptance, all the more reason to abstain from reading much significance into the specific organisational form and to inquire into the practice of decision making.

⁶ The strong resistance to the principle of industrial unions is exemplified by the motto which F. Hillegeist, the long-time president of the Union of Salaried Employees, claims to have used in negotiations in the early years after 1945: "The road to perfect industrial unionism leads only over my dead body" (Hillegeist, 1974, p. 130).

⁷ Thus, employees in the private sector are represented by two unions, the appropriate industrial union and the Union of Salaried Employees. This division between white-collar and blue-collar workers has its counterpart at the firm level. White-collar workers have their own representation in the form of works councils, separate from the works councils of blue-collar workers.

Extent of union resources (financial and staff)

In Austria, about 90 percent of the financial resources are controlled by the *affiliated unions* (staff and buildings operated by the individual unions), but are paid for by the *Confederation*, for the simple reason that only the Confederation, not the affiliated unions, is registered as a legal entity and thus can enter into civil law contracts (communication from K. Klein). An outside observer may therefore get the impression that the Confederation and not the affiliated unions control the financial resources. *Heady's* (1970) misinterpretation of a written response to his request for information on this point is therefore understandable. *Heady* (1970, Table 5) classifies the Confederation's power over financial resources for Austria as 'High'. The same mistake is committed by *Visser* (1990).

What is true for financial resources applies also to staff resources: only the Confederation is a legal entity; from this it follows that many functions (such as accounting, asset and real estate management etc.) must take place at the headquarters of the ÖGB. Moreover, the ÖGB is involved in the management of the economic and social sphere (excluding collective bargaining) in a way not seen in other countries; this involvement also expands the resources tied to the headquarters of the ÖGB.

The right to call strikes and control over the strike fund

The role of the Union Confederation is very limited in this matter. According to the Bylaws of the Austrian Trade Union Confederation (*Österreichischer Gewerkschaftsbund*, 1949, 1999: §7) strikes can only be called by the Executive Board of the *member union*. The member union is, however, obliged to inform the Executive Board of the Confederation (consisting of about 60 members) of intended strike actions (*Klenner – Pellar*, 1999, p. 552). If a strike takes place, strike money is paid out to the striking employees. The ÖGB controls the strike fund only in the sense of administering it.

Collective bargaining

The fact that only the ÖGB is registered as a legal entity under public law has led some observers to conclude that the power to engage with business in collective bargaining rests with the leaders of the ÖGB, and not with the individual unions⁸. As with the right to call a strike, this assertion is simply wrong at the formal level. The statutes and the bylaws of the ÖGB are very clear on this point (*Österreichischer Gewerkschaftsbund*, 1949, 1999): It is the task of the individual unions to negotiate with entrepreneurs about wages and to conclude collective agreements.

⁸ For example, *Visser* (1990, p. 162) claims the ÖGB has the power to conduct negotiations at the industrial level or at least vets wage demands by individual unions.

In practice, subdivisions engage in collective bargaining as well; hence the large number of collective agreements. The agreements are signed by the top officials of the individual union and the union officials at the lower level.

The impact of the Parity Commission and its Sub-Committee on Wages on the wage bargaining process

This section takes a close look at the Parity Commission (PC) and its Sub-Committee on Wages (SC), whose regular meetings have been interpreted as direct involvement of peak organisations in wage bargaining. The Parity Commission was founded in 1957 as an ad-hoc instrument for reducing wage and price inflation but has been in operation ever since. The Sub-Committee on Wages was set up in 1962. For details of the decision-making process see the appendix .

As *Lachs (1976)* points out, it was not the job of the PC and the SC to influence the terms of the agreements, in particular not the extent of wage increases, though the Commission may try to moderate wage inflation by extending the duration of wage contracts. For the ÖGB, the procedures followed by the PC and its Sub-Committee served to coordinate wage bargaining among the various bargaining units; the irregular pattern of wage bargaining through most of the fifties, sixties and seventies as well as the rise in wage dispersion do not, however, indicate that this goal was attained.

Lachs' claim that the SC has not influenced the substantive issues of collective bargaining has been confirmed by representatives of the Federal Economic Chamber and the ÖGB in recent interviews. Indeed, the activity of the SC over the last ten or fifteen years was characterised as quite removed from the actual bargaining arena: neither the yearly wage round of the Metal Workers' Union and of other important employee groups nor the refusal of some regional sections in the small-scale industry sector and in tourism in the mid- and late nineties to even start wage negotiations commanded any particular attention in the SC; the reasons given for this inattention to wage bargaining by so-called 'wage leaders' on the one hand and to the lapse of wage negotiations in sectors at the opposite end of the spectrum are that collective bargaining is entirely within the remit of the collective partners themselves.

Both, union leaders and officials from the Economic Chamber emphasise that each bargaining unit is on its own and must rely on its own strength in securing or moderating wage increases. As far as the employers' side is concerned, the employers' associations at the level of the provinces do sometimes delegate the job of negotiating collective agreements to the federal level, but may and sometimes do reject the agreement, preferring to conclude their own agreement.

The other side of the bargaining units' autonomy in collective bargaining is that they cannot expect any help from other bargaining units, the union to which they belong or the confederation. Strong bargaining units or unions scoff at the idea of help from the ÖGB and

would interpret an offer of help from a higher level as an insult and infringement on their autonomy, as one union official put it.

An examination of the minutes of the PC and of the SC shows that most of the bargaining requests were approved. Of those not approved immediately, most concerned bargaining requests from the food and beverage industry (with its many small employee groups) and other small groups of employees whose overall impact on wage inflation is minimal. Only on rare occasions did the PC and the SC deny an initial bargaining request by a employee group that can be considered large and powerful. From 1966 to 2000 the bargaining request of the metal workers, which by some observers are considered wage leaders, was deferred just once (to the next meeting and then promptly approved).

In sum, it is doubtful whether the PC and the SC ever exerted much influence over wage bargaining. Moreover, whatever power the PC and the SC might have had in the early years seems to have eroded over time. The minutes of the meetings of the Sub-Committee indicate a clear downward trend in the number of items on the agenda that are not approved when first put forward⁹.

That the decisions of the PC and the SC have developed into a routine with little if any impact on the wage bargaining process is also suggested by the frequency of the PC's meetings. While the PC met at regular intervals in the sixties and seventies the number of meetings per year fell off sharply in the eighties and nineties, and bargaining requests were often approved by circulating the items per mail.

Officials from the unions and the employers dismiss the meetings of the PC and the SC as irrelevant for wage bargaining. If there is a function left for the PC and the SC at present then it is that of a recorder's office, that serves as an information gathering device for the ÖGB and the Economic Chambers and as a forum for the informal exchange of ideas.

3. Conceptual issues

The union bureaucracy approach

Golden (1993) distinguishes between two theories of the political processes of trade unions and the corresponding indicators. The first focuses on union bureaucracy, the second takes a public goods approach to union behaviour. The first strand of research depicts unions as 'undemocratic, bureaucratic insular oligarchies, whose decision making reflects the interests of the leaders rather than the led . . .' (*Golden*, 1993, p. 440). Thus, the degree of formal centralisation of authority within organised labour is the central structural attribute that

⁹ The highest rejection rate is found in the second half of the sixties and in the recession years of the seventies. But even then most of the items not approved immediately were deferred to a later meeting.

determines union behaviour and its impact on the economy. Wage restraint, commonly seen as the key to price stability and low unemployment, is imposed on the rank and file by the peak organisation. Centralisation relates to the extent to which the top union organisation is able to control wage bargaining, sanction strike action, and control union resources.

But, as *Golden* (1993) argues, within union movements in democratic societies, as member unions may secede or merge if it suits their interests, the coercive powers handed over to the peak organisation ultimately rests on voluntary co-operation of the constituent parts. Institutional arrangements stipulating centralisation among unions are ultimately rarely enforceable (*Golden*, 1993, p. 440).

As the previous section shows, most of the students of Austria's wage bargaining institutions have, to varying degrees, used the framework of the union bureaucracy model and have adduced arguments to establish that the union confederation in Austria exercises great power over the affiliated unions and their members. An egregious example of this approach is *Visser's* (1990) ranking with regard to the vertical integration of unions.

Some of these arguments which rely on the organisational form of the trade union movement can be dismissed simply by reference to the statutes of the ÖGB. The same applies to the Parity Commission and its Sub-Committee on Wages. The powers ascribed to them are just not there, as a reading of the minutes of the Parity Commission and its Sub-Committee on Wages shows. Other arguments are mistaken inferences from organisational characteristics, such as that only the ÖGB is a legal entity.

Moreover, as *Casey – Gold* (2001, p. 103) argue, social partnership is a dynamic process. In several countries, the institutions of corporatism or consensual policies are rooted in economic and political crisis or vulnerability (*Maier*, 1984, *Katzenstein*, 1985, p. 30). In Austria the Social Partnership can be traced to rather special historical antecedents (civil war in the interwar period, annexation in 1938, WW II, and occupation after 1945). But as (*Maier*, 1984, p. 50) put it succinctly, "Founding conditions are different from maintenance conditions".

There is a tendency for encompassing interest groups to devolve into narrow special interest organisations (*Olson*, 1995). The constituent parts in an encompassing organisation have incentives that are contrary to those of the peak organisation; they will try to redistribute income towards their members, even if there are dead-weight losses. This logic drives branches of encompassing organisations to break ranks, break away completely or to create voting blocks within an encompassing organisation. In the long run, these blocks will also exert their influence in the choice of leaders and of policies of the peak organisations (*Olson*, 1995, p. 25).

The focus on the ÖGB's control over the affiliated unions in the literature just reviewed has pushed aside the question of which groups control the ÖGB and who the top officials of the ÖGB are. As *Lachs* (1976, p. 13) cautions, control of the ÖGB over member unions is less than it seems, because most positions at the top echelons of the ÖGB are filled by the top elected

officials of the member unions. In the ÖGB, most of the power is wielded by the five largest unions, the Union of Salaried Employees, the two public sector unions (Government Service Union and the Local Government Service Union), the Metal Workers' Union, and the Construction Workers' Union. The factual dominance of these five groups is manifest in the representation of these groups in the 9-member policy-making board of the ÖGB in 2002¹⁰.

Eventually, encompassing interest organisations will be supplanted by a coalition of narrow special-interest groups, which, naturally, will attempt to disguise the pursuit of their narrow goals by couching them in terms of societal interests.

This line of reasoning raises the question whether the wage setting system has changed as the Austrian economy passed from the immediate post-war period characterised by military occupation and reconstruction into the era of independence and affluence. The history of the price-wage agreements during the first six years after 1945, taken by themselves, does not suggest that this was the case: Wage bargaining seems to have been just as uncoordinated and irregular in the forties and fifties as in the sixties. An in-depth consideration of this issue is, however, beyond the scope of this study.

The public-goods approach to union behaviour

A more promising framework of empirical research is produced by an alternative theory of the political processes of trade unions. This theory is implicit in studies that stress the collective action problem facing the union movement. Wage restraint rests on the ability of various bargaining units to co-operate on wage bargaining. The co-ordination of wage bargaining is more likely the smaller the number of actors in the wage-setting process and the degree of competition among them (*Golden*, 1993, p. 440). Under this perspective, the number of bargaining units may serve as a good indicator of co-ordination of wage bargaining.

Concentration measures

Within this framework *Iversen* (1999) and *Wallerstein* (1999) set out to construct measures of concentration in the form of Herfindahl indices. This approach is also implicit in earlier work. *Calmfors – Driffill* (1988) use the number of existing central union confederations and the extent of their cooperation and the number of existing central employer confederations and their cooperation as one of the two indicators to build their ranking. *Visser's* (1990) indicator of horizontal integration is also based on this approach, but is marred by a serious misinterpretation of the characteristics of Austria's trade union movement, as indicated above.

¹⁰ The other members with voting rights are the president of the ÖGB, one vice-president representing women, and the two secretary generals of the ÖGB.

The notion of co-ordination among wage bargaining units is also central to Soskice's (1990) influential paper in which he criticised the literature, *Calmfors – Driffill* (1988) in particular, for the focus on the formal structures of labour market institutions. Soskice classifies countries as coordinated if they have highly centralised collective-bargaining institutions or if wage bargaining is informally well coordinated. Even if unions are not highly centralised, co-ordination may be achieved when employers are centralised. This is the case, Soskice argues, in Japan and Switzerland. But there may be other cases of co-ordination. As the *OECD* (1997, p. 70) argues, "Analysis of co-ordination (. . .) focuses on the degree of consensus between the collective bargaining partners. Bargaining may well be coordinated even when it is decentralised, as in the case of pattern bargaining or covert co-ordination. Co-ordination and centralisation may then be thought of as two different routes to achieving the same aims."

But not all cases are as clear-cut as the bargaining system in Japan, where the so-called Spring Offensive produces wage increases that are identical. Each country's collective-bargaining system has to be judged on its own merits.

To put the notion of co-ordination on a more secure footing, an index of concentration has been proposed. Two measures of the degree of concentration of union membership have been offered (*Wallerstein 1999*): One index measures concentration between confederations, i.e., the extent to which union members belong to a single confederation rather than being divided among several confederations. The second index measures the extent to which the membership of a union confederation is concentrated within a small number of affiliated unions.

These two measures are problematic on two counts. First, the theoretical concept, which is operationalised in the index measuring concentration within a single union confederation, refers to bargaining units and not to the number of affiliated unions. The number (and size) of bargaining units may or may not correspond to the number (and size) of affiliated unions. In Austria, this correspondence is very weak. About 400 collective agreements were negotiated in 2000 by the 14 unions affiliated with the ÖGB. Thus, simply counting the number of affiliated unions and their share in the confederation membership will overestimate the extent of union concentration with respect to wage bargaining.

Second, the validity of the index measuring concentration between confederations, while seemingly 'hard' in the sense of being easily computable, depends itself on the degree of hierarchical control exercised by the peak organisation over the individual unions. If this control is weak or non-existent, it is nearly irrelevant whether one union is organised as an independent legal entity, i.e., as a separate *union confederation* or as a union *affiliated* to a union confederation. Thus, just counting the number of union confederations may give a misleading picture, as it relies again on the notion that the organisational framework is the same in each country.

For Austria, it has already been argued that the Union of Salaried Employees can be regarded as a separate *union confederation*, in which each *branch union* negotiates its own collective agreement. In the year 2000, 140 collective agreements were concluded. The great number of collective agreements and the large differentials in salary rates negotiated by this union (Table 1) indicates that that this union confederation is not a monolithic organisation, where power rests with the top union confederation officials.

A similar argument can be made with regard to the public sector unions, the Government Service Union, the Local Government Service Union, the Railroad Workers' Union and the Postal Workers' Union, which bargained as a unit with the public sector until the late nineties¹¹. The public sector unions may also be considered a separate entity. Thus, *de facto*, there are three *union confederations*: the Union of Salaried Employees, the public sector unions, and the industrial unions. In fact, the yearly reports of the ÖGB (Tätigkeitsbericht) lists the ÖGB membership in this very grouping, which corresponds to the fundamental division of employees in Austria. One could also go one step further and divide the industrial unions into two groups, the Metal Workers' Union, and the Construction Workers' Union, with the smaller industrial unions attached to the two large blue-collar workers' unions¹².

Iversen's index of centralisation

Iversen (1999, pp. 50-56) combines the two measures of concentration into what he calls an index of centralisation: this index is intended to take proper account of both the number and relative size of bargaining units at each level and of the bargaining authority vested in each level. There are three levels: peak-level bargaining, sector-/industry-level bargaining, and firm-/plant level bargaining.

This method is, however, not free of subjectivity as it requires a judgement of (relative) hierarchical authority at each level of bargaining. This is done by attaching weights to each level reflecting the bargaining rights accorded each level, weights which are drawn from other sources. For Austria, for the period 1973-1995, the weights assigned to the three levels of bargaining are: peak-level bargaining 0.1, sector-/industry-level bargaining 0.7, firm-/plant level bargaining 0.2¹³.

Again, though the theoretical concept refers to the number and relative size of *bargaining units*, the *unions affiliated* to the ÖGB are the units considered in the second level of bargaining. Thus, the index will have an upward bias, indicating more concentration than when the number of bargaining units is entered into the calculation.

¹¹ With the (partial) privatisation of the railroads, the postal and telecom services, the Railroad Workers' Union and the Postal Workers' Union now operate in the private sector and negotiate their own collective agreement.

¹² This grouping corresponds to the distribution of power in the highest decision making body of the ÖGB.

¹³ The distribution of these weights puts Austria in the group of 'intermediately centralised' countries (Iversen, 1999, Table 3A1).

The concentration index is defined as follows:

$$\text{Concentration index} = \sqrt{C}$$

$$\text{where } C = \sum_{ij} w_j p_{ij}^2,$$

and the p_{ij} 's are the membership shares at level j , and the w_j 's are the weights assigned to level j .

In a ranking of 15 OECD countries, Austria, with a value of the index equal to 0.424, belongs to the top five countries during the years 1973-1993. For the period 1973-1983, the top four countries are Norway, Sweden, Denmark, and Finland, with Austria occupying the fifth place. For the period 1984-1993, Austria has the same value as Finland and again belongs to the top five.

The calculation of this index depends strongly on the proposition that there is only one union confederation. If the union membership is divided between three union confederations, representing blue-collar workers, white-collar workers and civil servants, the value of the index drops to 0.32¹⁴. This would put Austria in the 8th position for the first period, in the 7th position for the second period among the 15 countries considered by Iversen.

The Visser index

Drastically different results are presented by *Calmfors et al.* (2001, pp.72-75); these calculations follow the procedure used by Iversen, but are based on results given in Visser (1990) and Visser (2000). The distribution of bargaining authority for Austria differs greatly from that used by Iversen: The weights given to each bargaining level are 0.8 for the first level and 0.2 for the second level for the period 1973-1977, and 0.6 and 0.4 for the periods 1983-1987 and 1993-1997. Thus, the greatest weight is given to the national (confederation) level, much less to the industry level and none to the local (firm) level. This ranking, which is also reproduced in *Calmfors* (2001, pp.338-339), shows Austria with the highest measure of centralisation/co-ordination, ahead of Sweden and Finland in the first and second period, and the second highest value for the third period, behind Ireland.

4. Pattern bargaining and wage leadership

While Austria's wage bargaining system is not highly centralised it may rank high on the co-ordination dimension. A variant of the claim that it is highly co-ordinated is the assertion that it

¹⁴ For this calculation, at the second level of bargaining, the confederation of white-collar workers is divided into four equally large groups, while the civil service confederation comprises the four public sector unions, and the blue-collar confederation comprises the blue-collar unions and not the actual bargaining units, so there is still a strong upward bias present.

is characterised by pattern bargaining (*Traxler et al.*, 2001, p. 145, *Eironline Austria*, 2003). Pattern bargaining can be described as the co-ordination of collective bargaining performed by bargaining units below the peak level, with a certain bargaining unit setting the going rate for the rest of the economy.

Pattern bargaining, it is claimed, may achieve much the same outcome, namely wage moderation, as a centralised procedure (*Wallerstein*, 1999, p. 657)¹⁵:

A particular union, the German metalworkers for example, may act as the wage leader. If the wage agreement signed in the leading industry is quickly adopted in other industries, and the wage negotiators in the leading industry understand that the terms of their agreement will rapidly spread throughout the economy, the outcome may be a wage schedule that is not very different from what would result from the direct negotiation of a centralised agreement covering the private sector as a whole.

There two issues here. One refers to the question of wage moderation, with the macroeconomic goal of full employment and price stability; the second issue refers to the question of whether or not other bargaining units are able to achieve the same wage gains as the so-called wage leaders, or, if the wage leader practises wage restraint, whether they are willing to follow this lead. This question will be addressed later in this study, but an in-depth empirical evaluation of whether or not wage moderation has been practiced in Austria over the last fifty years is the beyond the scope of this study.

Distinguishing between pattern bargaining and other models of wage determination

History is full of examples of the collapse of agreements that aim to slow down the growth of wage increases (*Katz*, 1993, *Freeman – Gibbons*, 1995, *Eichengreen – Iversen*, 1999, *Calmfors et al.*, 2001). Given this tendency of centralised wage restraint agreements to break down, the question arises as to why a 'wage leader' would pursue a moderate wage policy. It is weak unions and bargaining units that push for a centralised wage setting system (*Swenson*, 1989). Stronger unions want to set their own agenda, with a view to distancing themselves from the settlements of other bargaining units.

Establishing the claim that pattern bargaining or wage leadership characterises a country's wage setting system faces severe theoretical and empirical difficulties. In every system where employers and labour representatives from unions or works councils bargain over wage increases, settlements of some visible bargaining units, either at the enterprise or the sector level, will serve as a reference for wage claims for other groups. This kind of imitative behaviour follows from the proposition that many market situations are characterised by limited information and transaction costs (*Meyer*, 1995, *Teague*, 2000).

¹⁵ A similar claim is made by *Traxler et al.* (2001, pp. 145-148).

But imitative behaviour will also prevail in a decentralised system, when there are social norms of fairness (Akerlof – Yellen, 1988). Employers will take account of wage development in other firms; not doing so would offend the workforce's concern for fairness and would have a negative impact on morale and would reduce productivity. Thus, imitation effects do not depend on the existence of any particular set-up and cannot differentiate one particular system of wage setting from another.

In an economic system which follows the neo-classical model the similarity in wage movements does not even require explicit imitative behaviour: competition of firms for labour assures that, in response to macroeconomic shocks, wage changes are similar in all sectors. Only firm-specific shocks yield marked differences in wage changes: during a transition period, expanding firms offer higher wage rates, shrinking firms offer lower wage rates.

While the finding of a strong co-movement in wages across industries can not by itself be interpreted one way or the other without gathering more evidence, the finding of strong (and persistent) divergence in the movement of wages across sectors would rule out the claim of pattern bargaining¹⁶.

Despite these difficulties, rankings on co-ordination have been produced; Austria's position in these groupings has not been based on empirical studies of the wage setting system, but simply asserted: the OECD (1997A) classifies Austria among the countries with the highest degree of co-ordination among the OECD countries, and the classification of pattern bargaining proposed by Traxler *et al.* (2001, Table III.7) puts Austria from 1983 onwards in the same group as Japan and Germany and the United States of the early seventies.

The evidence from wage statistics

The theoretical literature on the economic effects of bargaining institutions has yielded two main conclusions: a high degree of centralisation or co-ordination fosters, first, full employment and price stability and, second, produces wage compression. While the empirical literature on the macroeconomic effects of a high degree of centralisation/co-ordination in wage bargaining remains inconclusive, the second implication is strongly supported by empirical findings: there is a clear negative correlation across OECD countries between centralisation/co-ordination in wage bargaining and the extent of wage disparity (Rowthorn, 1992, OECD, 1997A, Freeman, 1998, Blau – Kahn, 1999). Austria seems to be the exception to this empirical regularity.

The Austrian labour movement claims to be committed to a solidaristic wage policy. Besides being expressed in statements of union goals (Kienzl, 1973, p. 234), this principle is also implicit in the ÖGB's official wage policy which stresses the orientation of wage increases toward

¹⁶ This finding, of course, would still be open to the interpretation that the wage pattern is the result of shifts in demand and supply, though such shifts would have to be strong and persistent.

economy-wide growth: all groups of workers should participate in the economy-wide productivity advances by receiving the same wage increases. The development of the extent of wage dispersion measures the degree to which this goal has been achieved and thus may be a good indicator of the power of the peak union organisation over the affiliated unions and the various wage bargaining units¹⁷. This is the question of centralisation.

Alternatively, if the issue is the effect of pattern bargaining and wage leadership on wages (the co-ordination dimension), such an indicator sheds light on the question to what extent the 'wage followers' were willing or able to follow the 'wage leader'.

For Austria, wage leadership is ascribed to the metal workers (Gewerkschaft Metall-Textil), which for some years now jointly with the Union of Salaried Employees (Gewerkschaft der Privatangestellten, Sektion Industrie und Gewerbe) has opened the fall wage round. In a similar way, the wage settlements achieved by the employees in the trade sector and by the public sector unions may have a certain signalling effect on related bargaining groups. In the spring wage round, this role could be ascribed to the chemical workers (Gewerkschaft der Chemiewerker) and construction workers (Gewerkschaft Bau-Holz).

The following section takes a close look at the outcome of the Austrian wage bargaining system, by examining the extent and development of wage inequality in Austria, both at the level of collectively bargained wages and at the level of earnings.

The status quo: Large differentials in contractual wage rates

Table 1 presents data for the *lowest* and the *highest* contractual wage rates for workers by industry in manufacturing, for wage rates for workers in the manufacturing metal and engineering industries¹⁸ as well as for workers in the distribution sector and in electric utilities.

For a comparison of contractual wage rates across industries, the wage rates of *unskilled workers at the entry level* were selected; at this level, wage rates refer to workers of the same qualification, while at a higher skill level the comparability of wage rates in various occupations may be limited. These rates also provide information on the minimum wage prevailing in a specific sector covered by a collective agreement.

At the level of contractual wages for unskilled workers the principle of a solidaristic wage policy should be most clearly evident; nonetheless, wage differentials are rather high. In manufacturing, the rate for unskilled blue-collar workers in large breweries is almost twice as high as the corresponding rate in the clothing industry.

¹⁷ See *Freeman* (1988), who uses the extent of wage disparity along with the rate of unionisation as indicators of labour market structure.

¹⁸ Blue-collar workers in the metal and engineering industries of manufacturing constitute about half of blue-collar workers in manufacturing and are covered by one collective agreement and have the same contractual wage rates; the same applies to white-collar workers.

A Note on Terminology

Contractual wage and salary rates arrived at in collective bargaining will be referred to as 'contractual wage rates'; only when the distinction between blue-collar and white-collar workers is important, will the text distinguish between contractual wage rates and contractual salary rates.

The terms in German are Tariflöhne und Tarifgehälter or Kollektivvertragslöhne und Kollektivvertragsgehälter.

Wage and salary rates actually paid are referred to as effective wages (salaries). The term in German is Effektivlöhne und Effektivgehälter.

Table 1: Contractual wage rates of unskilled blue-collar and white-collar workers in selected industries at the end of 2000

	Blue-collar workers hourly wage rates	White-collar workers monthly salary rates
	In €	
Manufacturing		
Industry with the lowest rates	4.87 ¹	851 ¹
Industry with the highest rates	9.38 ²	1,381 ³
Metal and engineering industries	6.89	1,212
Trade		
General wholesale and retail trade	5.85	974
Supermarkets	6.57	1,097
Electric utilities	7.46	1,298

Source: Ausgewählte Kollektivvertragslöhne, Statistics Austria (2002). – ¹ Clothing industry. – ² Large breweries. – ³ Tobacco industry.

For manufacturing, the first and the second row show those branches with the lowest and highest rates for unskilled workers, e. g., the lowest hourly rates for unskilled workers were paid in the clothing industry, while the highest rates were paid in large breweries.

Collective agreements for blue-collar workers are negotiated by several unions, so some variation can be expected, but as far as white-collar workers are concerned, there is just one union, the Union of Salaried Employees, that negotiates collective agreements for almost all white-collar workers in the private sector. Nonetheless, contractual salary rates vary greatly, from € 1,381 in the tobacco industry to € 851 in the clothing industry.

For most workers, contractual wage rates are only minimum rates. In general, wage premiums paid above contractual wages as well as fringe benefits increase wage inequality. This can be documented for *manufacturing*. Table 2 compares average hourly contractual wage rates and total hourly labour costs¹⁹ for two low-wage, two high-wage industries and one

¹⁹ Total labour costs include pay for time worked, pay for time not worked (vacation, public holidays, etc.), other cash payments (such as seasonal bonuses and pay in kind), employer social security expenditure (statutory,

branch from the metal and engineering industries (non-electric machinery industry) for the year 1999 for blue-collar workers. For example, the ratio between the average contractual wage rate in the leather industry and in the iron and steel industry is 1.6; if, however, labour costs are compared the ratio rises to 2.6.

Table 2: Average contractual wage rates and total labour costs for selected manufacturing industries in 1999

	Blue-collar workers	
	Contractual wage rate ¹	Total labour costs ²
	In ATS	
Leather industry	70.5	144.5
Clothing industry ³	69.4	176.1
Nonelectric machinery industry	111.4	290.3
Pulp and paper industry	120.9	356.4
Iron and steel industry	112.0	381.2

Source: Statistics Austria, Austrian Economic Chamber. – ¹ Austrian Economic Chamber, Lohnstatistik der Industrie. Average of April and September 1999. – ² Austrian Economic Chamber, Die Arbeitskosten in der Industrie Österreichs 1999. – ³ Contractual wage rates for Austria excluding Vorarlberg.

A similar picture emerges from statistics on pay for white-collar workers in manufacturing. Again the pulp and paper industry and the iron and steel industry are among the industries paying the highest salaries, and the clothing and leather industries among those paying the lowest salaries, though the inequalities are not as pronounced as for wage earners (*Pollan, 2000*).

The emergence of wage differentials

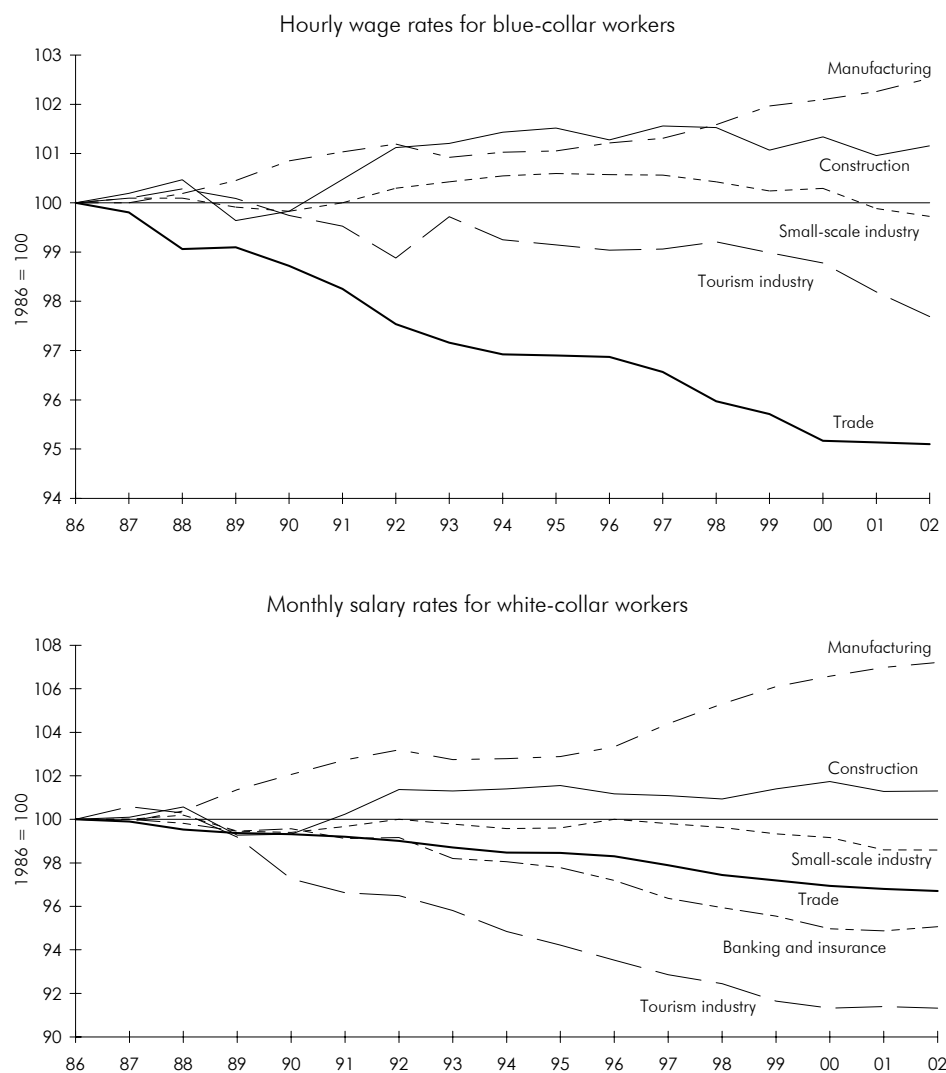
This section examines the development of wage disparity both at the level established by collective bargaining and at the level of actually paid wages and salaries (effective wages and salaries).

Rising wage disparity in contractual wages and salaries in the whole economy . . .

Table 3 presents data for contractual wage and salary rates for the whole economy by major sectors for the period 1986 to 2002. The differences in wage increases may seem small for each period, but a difference of 0.2 or 0.3 percentage point per year, accumulated over 10 or 15 years, yields substantial wage differentials. This is illustrated for the major economic sectors, both for blue-collar and white-collar workers, in Figure 1, which depicts the development of relative wages and salaries (defined as contractual wage and salary rates of each individual sector divided by the aggregate of the private sector).

collectively agreed and non obligatory) and similar items. For a detailed analysis of total labour costs in the manufacturing sector by branches see *Pollan (1997)*.

Figure 1: The development of relative contractual wage and salary rates
Average of the private sector = 100



Source: Tariflohnindex, Statistics Austria.

Wage and salary differentials have risen for the whole period under consideration, but it appears that the dispersion has grown more strongly since the mid 1990s. To examine this hypothesis the coefficient of variation regarding the yearly rate of increase of wages (salaries) was computed for 4 subperiods.

Table 3: The development of contractual wage rates

	1986-1995	1995-2002
	Average percentage change per year	
Manufacturing		
Blue-collar workers	4.9	2.8
White-collar workers	4.8	3.0
Construction sector		
Blue-collar workers	4.9	2.6
White-collar workers	4.7	2.4
Small-scale industry excluding construction		
Blue-collar workers	5.1	2.0
White-collar workers	4.4	2.3
Trade		
Blue-collar workers	4.4	2.3
White-collar workers	4.3	2.2
Tourism industry		
Blue-collar workers	4.6	2.4
White-collar workers	3.8	2.0
Banking and insurance	4.2	2.1
Public sector		
Transport sector	3.7	1.5
	4.0	2.3

Source: Statistics Austria.

Table 4: Variation of yearly increases in contractual wage rates in the private sector

	Coefficient of variation of yearly rates of change			
	Average value for the period indicated			
	1987-1990	1991-1995	1996-2000	2001-2002
Blue-collar workers ¹	0.10	0.07	0.16	0.12
White-collar workers ²	0.14	0.11	0.26	0.09

Source: WIFO calculations, Statistics Austria. – ¹ Manufacturing, small-scale industry, construction, trade, transport, tourism industry. – ² Sectors listed in note 1 plus the banking and insurance industry.

Two groups of employees, workers in agriculture and forestry among the blue-collar workers and salaried employees in the sector 'professional and technical services' (Freie Berufe) among the white-collar workers show a particularly uneven development of wages: periods of low wage (salary) increases are followed by exceptionally high increases²⁰. To abstract from these irregularities, the coefficients of variation are computed excluding these two employee groups.

²⁰ This effect may partly be due to the fact that some employee groups are not able to secure wage (salary) increases every year; the high rates occur when wage increases are bunched together in one particular year.

Two features are noteworthy. First, the coefficient of variation for white-collar workers is considerably larger than that for blue-collar workers. Second, the disparity in yearly wage or salary increases during the period from 1996 to 2000 is markedly larger than in the periods ending in 1990 and in 1995. This may be related to Austria's accession to the EU, which intensified competition in many areas.

One could argue that the rising disparity between the economic sectors reflects the fact that these sectors are covered by different unions. This is true for blue-collar workers but does not apply to white-collar workers; most of them are covered by the Union of Salaried Employees (Gewerkschaft der Privatangestellten).

. . . and in the manufacturing sector

An analysis of the manufacturing and related sectors yields much the same picture. Over the period 1986-2002 there is great variation in yearly growth rates. While the contractual rates of blue-collar workers in the metal and engineering industries (and the mining and iron and steel industries) rose by 4.2 percent per year, the contractual rates for the clothing industry fell behind with a yearly increase of only 3.4 percent (Table 5).

Table 5: The development of contractual wage rates in the manufacturing and related sectors by industry

	Blue-collar workers		
	1986-1994	1994-2002	1986-2002
	Average percentage change per year		
Construction	5.1	2.7	3.9
Mining and iron and steel	5.2	3.2	4.2
Petroleum	5.1	3.0	4.0
Stone, brick, quarrying	5.0	2.6	3.8
Glass	4.9	2.5	3.7
Chemicals	5.0	3.1	4.0
Pulp and paper	4.5	3.0	3.7
Paper products	4.9	2.9	3.9
Sawn wood	4.8	2.6	3.7
Wood products	4.9	2.6	3.7
Food and beverage	4.5	2.5	3.5
Leather	5.3	2.4	3.8
Leather products	5.4	2.3	3.8
Clothing	4.9	2.0	3.4
Textiles	4.5	2.5	3.5
Metal products	5.2	3.2	4.2
Gas and district heating	4.0	2.2	3.1
Electricity	5.1	3.2	4.2
Minimum	4.0	2.0	3.1
Maximum	5.4	3.2	4.2

Source: Statistics Austria.

Table 6: The development of contractual salary rates in the manufacturing and related sectors by industry

	White-collar workers		
	1986-1994	1994-2002	1986-2002
	Average percentage change per year		
Construction	4.8	2.6	3.7
Mining and iron and steel	5.2	3.5	4.3
Petroleum	5.0	3.0	4.0
Stone, brick, quarrying	5.0	3.0	4.0
Glass	5.2	2.8	4.0
Chemicals	5.3	3.3	4.3
Pulp and paper	5.0	3.0	4.0
Paper products	4.9	2.9	3.9
Sawn wood	4.6	2.4	3.5
Wood products	4.6	2.8	3.7
Food and beverage	4.4	2.7	3.5
Footwear	4.0	2.4	3.2
Clothing	3.8	2.0	2.9
Textiles	4.0	2.7	3.3
Textiles and clothing Vorarlberg	4.0	2.7	3.3
Metal products	5.2	3.4	4.3
Electricity	5.1	2.8	4.0
Gas and district heating	3.8	1.9	2.8
Audivisual and film industry	5.9	2.7	4.3
Minimum	3.8	1.9	2.8
Maximum	5.9	3.5	4.3

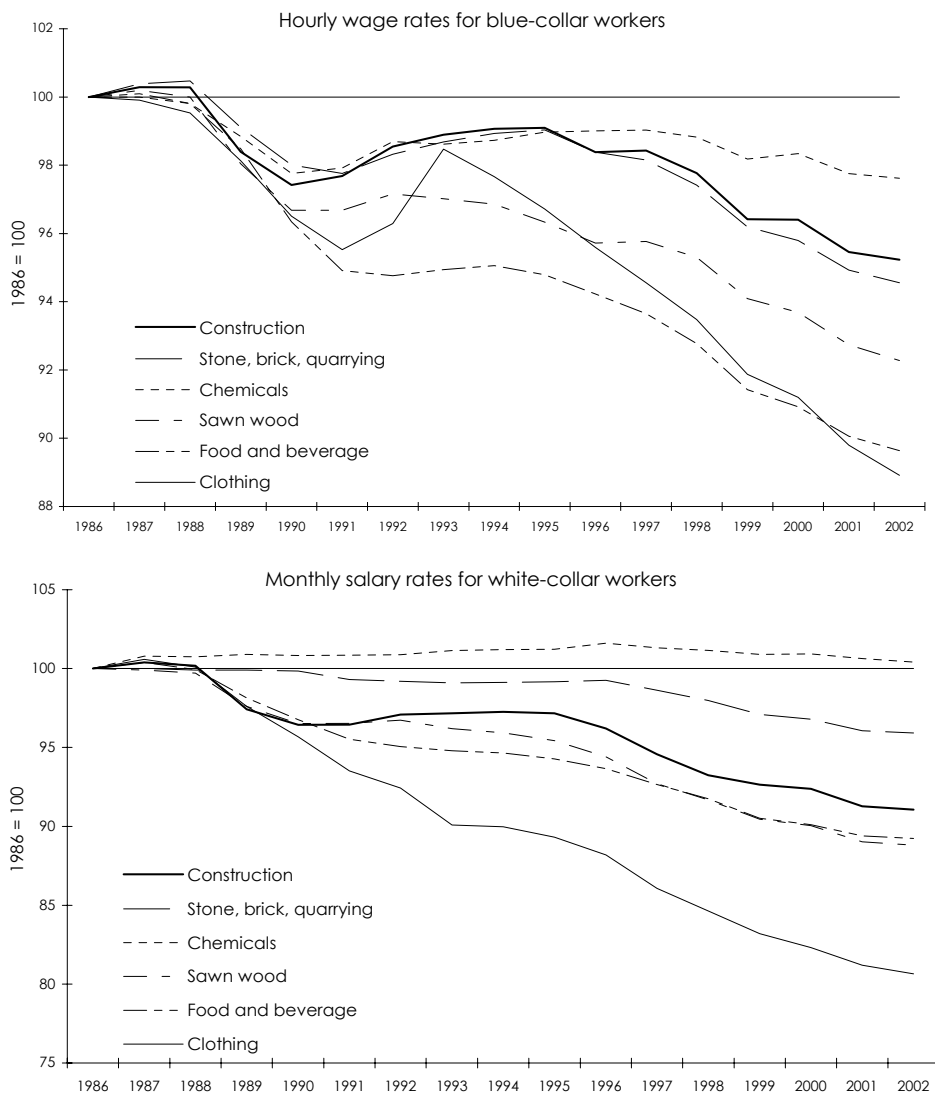
Source: Statistics Austria.

For some selected industries, these developments are depicted in Figure 2 with the metal and engineering industries serving as standard.

As is the case for the major economic sectors, an analysis of the variation in the yearly wage increases in manufacturing and related branches yields an uneven development. For the periods 1987-1990 and 1991-1995 the coefficient of variation regarding wage increases for blue-collar workers is around 0.15, but rises to 0.24 in the five-year period after Austria's accession to the European Union (1996-2000), and then falls back to 0.15 in the two-year period from 2001-2002.

The picture is similar for white-collar workers in manufacturing: the variation in yearly wage increases (as measured by the coefficient of variation) is stable at 0.19 and 0.18 in the first two periods, but then jumps to 0.25 in the period 1996-2000; the last two years see a drop below pre-accession values (0.13).

Figure 2: The development of contractual wage rates in selected industries in manufacturing
Metal and engineering industries = 100



Source: Tariflohnindex, Statistics Austria.

From the Tables 5 and 6 and Figure 2 it is clear that the divergence in wage *increases* was not a temporary phenomenon, but gave rise to higher and higher wage disparities. In other words, over the period considered, any shortfall in wage increases in some years was not offset by higher wage increases in later years. Moreover, the high variation in yearly wage increases, both for blue-collar and white-collar workers, in the years after 1995 indicate that during these years the deviations from a common standard were most pronounced.

Table 7: Variation of yearly increases in contractual wage rates in the manufacturing and related sectors by industry

	Coefficient of variation of yearly rates of change			
	Average value for the period indicated			
	1987-1990	1991-1995	1996-2000	2001-02
Blue-collar workers	0.16	0.15	0.24	0.15
White-collar workers	0.19	0.18	0.25	0.13

Source: WIFO calculations, Statistics Austria.

The development of wage disparity in manufacturing

Wages and salaries arrived at in collective bargaining are minimum rates, and many employees are remunerated at considerably higher rates (effective wages and salaries), as a result of bargaining between works councils (and individuals) and employers²¹.

This section traces the development of the dispersion in labour costs and in effective wages in the manufacturing sector. Two statistics are employed: the coefficient of variation and the relation between the average of wages (salaries) in the three industries with the highest wages (salaries) and that of the industries with the lowest wages (salaries); the second statistic is referred to as 'relative span'. While the coefficient of variation takes into account all elements of the distribution, the relative span focuses on the margins of the distribution.

Total labour costs

The coefficient of variation and the relative span were computed for the manufacturing sector in two versions; because of its high wage and salary level, the petroleum industry tends to strongly influence the statistical measures for manufacturing. Version A includes the petroleum industry, version B excludes the petroleum industry.

The coefficient of variation for *blue-collar* workers in version A shows a more or less steady increase, but the coefficient of variation in version B exhibits a strong increase from 1960 to 1963, but remains more or less unchanged from then on. As the relative span shows, the increase in dispersion takes place at the margins, while the middle-wage groups are drawn together over time. This holds true regardless of whether the petroleum industry is included or excluded.

The impact of the petroleum industry on the dispersion of total labour costs of *white-collar* workers is less significant. On three out of four measures, dispersion remains more or less unchanged until the year 1981, which signifies the end of full employment; substantially higher dispersion rates are recorded for the years 1990 and 1999.

²¹ For details on the development of the wage gap (the difference between contractual and effective wages) see *Pollan* (2000).

Table 8: Variation of labour costs in the manufacturing sector

	1960	1963	1972	1981	1990	1999
Blue-collar workers						
Total labour costs per hour worked						
Coefficient of variation						
Version A ¹	0.15	0.19	0.21	0.25	0.30	0.33
Version B ¹	0.15	0.27	0.26	0.26	0.27	0.25
Relative span ²						
Version A	1.61	1.78	1.89	2.26	2.60	2.76
Version B	1.60	1.64	1.70	1.97	2.21	2.23
White-collar workers						
Total labour costs per month						
Coefficient of variation						
Version A	0.14	0.15	0.14	0.17	0.22	0.27
Version B	0.15	0.14	0.13	0.14	0.17	0.20
Relative span						
Version A	1.55	1.59	1.57	1.75	1.98	2.33
Version B	1.55	1.56	1.50	1.57	1.71	1.94

Source: WIFO calculations, Austrian Economic Chamber, *Arbeitskosten in der Industrie Österreichs*, various issues. –
¹ Version A includes the petroleum industry; Version B excludes the petroleum industry. – ² Ratio between labour costs in the three branches with the highest and the three branches with the lowest labour costs.

Pay for time worked

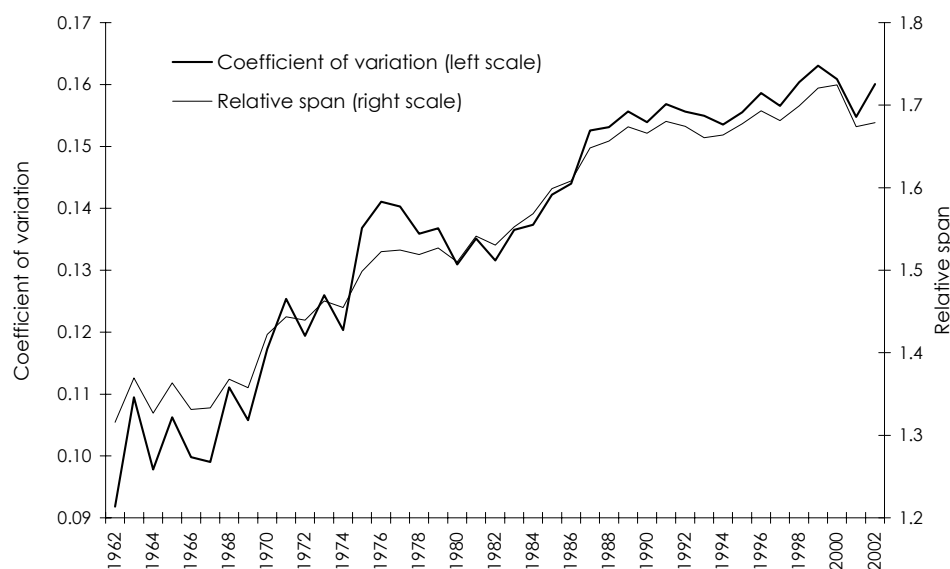
Total labour costs are an inclusive concept; they include social security contributions and non-mandatory social benefits (such as pension benefits and separation payments), which may not directly reflect the costs of currently employed personnel. The following subsection looks at the development of the variation in pay for time worked (Effektivlöhne) in 18 branches of the manufacturing sector²².

Figure 3 shows a rise in both measures of variation during the 1960s until the middle 1970s, then a decline in the variation coefficient and an unchanged relative span. In the early 1980s, however, both measures rise steeply; then follows a stable phase and another rise in the late 1990s. This development conforms to the pattern typical for industrialised countries: A rise in unemployment and an increase in the supply of labour tend to raise wage disparity²³.

²² The following industries are included in this calculation: Mining; iron and steel; stone, brick and quarrying; glass; chemical; pulp and paper; paper products; wood products; food and beverages; leather; leather products; clothing; textiles, and the six industries of the metal and engineering sector: foundries; nonferrous basic metals; nonelectric machinery; transport equipment; metal products; electric equipment. Note that the petroleum industry is not included in the calculation of the dispersion measures. Source: Lohnstatistik der Industrie, Austrian Economic Chamber, various issues.

²³ For Austria see Pollan (1980, 2000).

Figure 3: Variation of hourly earnings in the manufacturing sector



Summary of wage statistics

This section of the study dealing with the outcomes of the wage setting system in Austria establishes two features: the extent of disparity at the level of collectively bargained wage and salary rates (Tariflöhne and Tarifgehälter) is high; this can be established for the whole economy and, with more detail, for the manufacturing sector.

An examination of the development of these wage and salary rates, which are minimum rates, shows a rise in the disparity at this level of remuneration for the whole economy and for the manufacturing sector in particular. There are indications that the wage disparity rose particularly strongly during the years after Austria's accession to the European Union.

The finding that the dispersion in collectively bargained wage and salary rates has risen over time is open to a number of explanations as sketched above; at one extreme is a pure market interpretation: wage bargaining is just a veil behind which market forces drive actual developments. In other words, wage increases, though formally negotiated by the unions or subunits of unions with employer organisations, are simply the result of demand and supply shifts.

If, however, labour market institutions do wield power, as postulated by the centralisation/co-ordination hypothesis, then the finding of a high and rising wage disparity contradicts one implication of a high degree of centralisation/co-ordination: a high degree of centralisation/co-ordination leads to a more or less equal income distribution.

A variant of the centralisation/co-ordination hypothesis, the claim of pattern bargaining/wage leadership also has this very implication. The observation that wage disparity has been

high and has kept rising, not just in the short term but also in the long term, is incompatible with the claim of the proponents of pattern bargaining/wage leadership. Of course, it may have been the case, and indeed likely, that bargaining units have tried to emulate the wage settlements of more successful wage bargainers. But proponents of pattern bargaining/wage leadership claim more, namely that bargaining units succeeded in achieving their goal. This is simply not the case²⁴.

Wage inequality is high in Austria at the level of the *Tariflöhne* and *Tarifgehälter*, i.e., at the level where the impact of collective bargaining must be expected to be strong. But wage disparity is even higher at the level of wages and salaries effectively paid. This can be established for the manufacturing sector, where reliable statistics on earnings are available.

For the whole economy, the statistical basis is much more tenuous. One of the statistical sources for calculating wage dispersion, the *Mikrozensus*, has been shown to be seriously inadequate. At the two-digit NACE classification the variance in gross earnings is underestimated by a factor of at least two (*Pollan – Leoni, 2003*). This is an area in need of further study.

While the development of wage differentials (at the level of earnings) for the whole economy is fraught with serious data problems, wage differentials can be traced for the manufacturing sector from the sixties to the beginning of the new century. Depending on the data concepts and the definition of dispersion used, inequality has risen over most time periods since the early sixties.

5. Concluding remarks

The extent of centralisation and co-ordination of wage bargaining in Austria has been seriously overstated. Wage bargaining does not take place at the national but at the industry and plant level. More than 400 collective agreements are negotiated each year. Each bargaining unit, whether on the workers' or employers' side, must rely on its own resources in securing or moderating wage increases. This is the source of the high degree of wage disparity at the level of collectively bargained rates (*Tariflöhne and Tarifgehälter*).

Wage rates negotiated in collective agreements are, however, only minimum rates which constitute a floor for the wages actually paid. Many employees are remunerated substantially above the minimum rates. This practice contributes to a widening of wage differentials.

In most of the literature, the Austrian Trade Union Confederation is portrayed as a monolithic organisation which tightly controls its member unions. Wage restraint and wage equality

²⁴ Another claim of the pattern bargaining/wage leadership hypothesis is that the wage leader will pursue a moderate wage policy. An evaluation of this claim is beyond the scope of this paper.

(solidarity) is forced on the rank and file by the peak organisation. This view is based on a misinterpretation of the organisational form of the trade unions. Some arguments that have been made in the literature can be dismissed simply by reference to the statutes of the ÖGB. Collective bargaining is the prerogative of the individual unions; in practice, subdivisions engage in collective bargaining as well. The individual unions also have the right to call strikes. Other arguments in favour of what *Golden* (1993) calls the union bureaucracy model are incorrect inferences from the fact that only the ÖGB is a legal entity.

Furthermore, the claim that the Parity Commission and its Sub-Committee on Wages, seen as the embodiment of the formal institutions of centralised wage setting, tightly controls wage bargaining is simply contradicted by the minutes of the Parity Commission.

Many of the contributions to the literature on corporatism and wage centralisation have dealt with what has been called the preconditions of wage restraint (*Maier*, 1984, *Crouch*, 1985). Studies along these lines seek to establish the features of a wage bargaining system that will produce wage moderation, which in turn will lead to low inflation and low unemployment.

As indicators of preconditions of wage restraint, mainly indicators of wage bargaining centralisation, have proved to be elusive, some studies have focussed on outcomes of wage bargaining and claimed that even if wage bargaining is not centralised, covert co-ordination as in wage leadership or pattern bargaining will lead to much the same results as a bargaining system, where a quasi-omnipotent peak organisation determines wage settlements.

Within the institutional framework, which sees non-economic forces as the main determinants of wage settlements, the centralisation/co-ordination hypothesis says that labour market institutions function in such a way that wage changes are more or less equal across all bargaining units, with the implication that wage disparity is small. A variant of the centralisation/co-ordination hypothesis, the hypothesis of pattern bargaining/wage leadership even explicitly focuses on the similarity in wage settlements. Another claim of this hypothesis is that the wage leader will pursue a moderate wage policy, a claim that is much more difficult to evaluate than the claim of small wage dispersion.

For Austria, there are no empirical studies investigating the claim that the wage setting process is characterised by wage leadership or pattern bargaining. This study tries to fill this gap and takes a close look at the outcome of the Austrian wage bargaining system, by investigating the extent and development of wage inequality in Austria, both at the level of collectively bargained wages and at the level of earnings.

The examination of the outcome of the wage setting process reveals a high and rising wage disparity. There are large wage differentials both at the level of collectively bargained rates as well as at the level of effective wages and salaries.

Wage inequality is high in Austria at the level of the contractual wage rates, i.e., at the level where the impact of collective bargaining must be expected to be strong. But wage disparity is even higher at the level of wages and salaries effectively paid. This can be established for the manufacturing sector, where reliable statistics on earnings are available. For the whole economy, the statistical basis is much more tenuous.

While the development of wage differentials (at the level of earnings) for the whole economy is fraught with serious data problems, wage differentials can be traced for the manufacturing sector from the sixties to the beginning of the new century. Depending on the data concepts and the definition of dispersion used, inequality has risen over most time periods since the early sixties.

In sum, the observation that wage disparity has been high and has kept rising, not just in the short term but also in the long term, is incompatible with the claim of the proponents of pattern bargaining/wage leadership.

Of course, it may have been the case, and indeed likely, that bargaining units representing labour have tried to emulate the wage settlements of more successful wage bargainers²⁵. But proponents of pattern bargaining/wage leadership claim more, namely that bargaining units succeeded in achieving their goal. This is simply not the case²⁶. In the literature, there seems to be confusion between the intentions and perhaps the rhetoric of union leaders on the one hand and the outcomes of the wage setting system, on the other.

In several reports, the *OECD* (1997B, 1999, 2001B) suggested that Austria move towards decentralisation in wage setting; the finding of large and rising wage differentials would seem to indicate that the *OECD*'s recommendation has already been carried out. But the path to more labour market flexibility and lower unemployment need not be the same as the path to wider wage disparity: Implicit and sometimes explicit in labour market reform proposals calling for increased wage differentials is the assumption that under a regime of high wage disparity wages are better linked to skill level, experience and ultimately to productivity. This assumption does not seem to be fulfilled in Austria; the main evidence comes from the wide wage inequality for workers of the same skill category.

Large wage differentials of this kind do not indicate market-based wages and throw some light on the question of whether or not wage restraint was practised by high-wage industries. The existence of large wage disparities suggests that high-wage industries have ample room

²⁵ Negotiator on the employers' side may also be guided by wage settlements achieved by important branches, but only if the wage leaders practice wage restraint.

²⁶ To be sure, the signal sent by wage settlements of important bargaining units may influence the size of wage claims and subsequently of wage increases obtained by other groups. A separation of similarities in wage movements into an imitation effect (wage leadership) and effects due to common macroeconomic influences is difficult. But this identification problem is less severe when the wage increases of some groups are smaller than those of other groups, year after year, and not just over the course of a business cycle.

for attracting labour: Wage rates that may be sufficient for attracting or holding, say, unskilled workers in the textile industry should also be sufficient for attracting labour to high-wage industries (where, moreover, the prospects of an upward-bound career path are considerably better than in low-wage industries).

In a widely cited paper, *Calmfors – Driffill* (1988) claim that both highly centralised and high decentralised wage bargaining results in superior labour market performance. Centralised wage-setters are well aware of the macroeconomic costs associated with high wage increases, while in a decentralised setting the high degree of competition provides for market discipline. If one accepts these arguments then Austria finds itself in the intermediate position, a position that is synonymous with poor economic performance. Thus, in the Austrian setting, a reduction in wage disparity, either by way of more centralised bargaining with emphasis on wage moderation and solidarity or by way of decentralisation by moving to productivity-based wages, is likely to achieve two goals: higher efficiency and more wage equality.

The term 'Austrian exceptionalism' indicates that Austria's labour market institutions are an exception to the rule that a high degree of centralisation or co-ordination in wage bargaining produces low wage disparity. The first part of the study showed that the characterisation of the Austrian wage setting system as highly centralised or coordinated is incorrect. The Austrian wage setting system is neither centralised nor coordinated. There is no puzzle. But the erroneous classification of Austria's system of industrial relations in the literature is likely to seriously bias those studies which rely on rankings that incorrectly classify Austria.

6. Appendix

The Parity Commission and its Sub-Committee on Wages

Composition and scope of the Parity Commission

The Parity Commission was founded in 1957 as an ad-hoc instrument for reducing wage and price inflation but has been in operation ever since. The Commission is made up of the top officials of the four Social Partners and four members of the Federal Government concerned with economic affairs, who do, however, not participate in the vote. The Commission is chaired by the Federal Chancellor. Over the years, the number of meetings held by the PC fell off sharply. From October 1966 to the end of 1981 the PC met regularly about 10 to 11 times a year. Starting in 1982, fewer meetings were held, 8 in 1982, and about 5 per year during the period from 1983 to the end of 1985. Then the number of meetings fell to between three and four, with just one meeting in 1991 and in 1992. As the meetings of the PC became more and more spaced apart, the number of items settled by simply circulating them among the members of the PC rose. The procedure followed by the PC is similar to that of the SC as set out below.

In 1962, the Sub-Committee on Wages was set up. Its members are two representatives each of the Federal Economic Chamber and of the Austrian Trade Union Confederation, and one member each of the Conference of Presidents of Chambers of Agriculture and of the Austrian Congress of Chambers of Workers (*International Labour Office, 1986, Klenner – Pellar, 1999*).

Bargaining requests from bargaining units in the private sector of the economy come within the purview of the PC and the Sub-Committee, but not the bargaining requests of the four unions operating in the public sector, which up to 1997 included the railroads and the postal service (including the telecommunications sector). At a formal level, pay schedules in the public sector are set by the Parliament, though negotiations do take place in practice. It was only after the railroads and the postal (and telecommunications) service were formally separated from the government sector, that wage bargaining by these groups came within the remit of the SC. Thus, for most of the time the PC was in existence, an important part of the economy, which accounted for more than 20 percent of total dependent employment in the nineties, has not been subject to review by the PC.

This section is based on a detailed examination of the minutes of the PC and of the SC from September 1966 to the end of 2000 and on talks with about a dozen officials from the Trade Union Federation, member trade unions, the Federal Chamber of Labour, the Federal Economic Chamber and the Industrialists' Association.

The first meeting of the SC included in the empirical investigation is the 86th meeting on September 9, 1966, the last the 787th meeting on December 13, 2000. Thus, during this period, 702 meetings took place.

The Sub-Committee meets about 20 times per year. The meetings take place about every two weeks, with longer breaks in the summer and during the Christmas period. Each meeting is reported to last about ½ hour. Per meeting there are about 6 to 8 items on the agenda on average, plus a somewhat smaller number of items off the agenda. Each item refers to a request by a trade union to begin collective bargaining for an individual bargaining group or for group of bargaining units that bargain together²⁷.

The decisions of the Sub-Committee on Wages

The bargaining unit which wants to negotiate terms of an collective agreement files its request through the union to the Trade Union Federation (ÖGB), which sends it on to the Federal Economic Chamber, which forwards it on to the counterpart of the union bargaining unit on the employers' side for a response. On the basis of this response, the representatives of

²⁷ One important case is the bargaining group consisting of the metal workers in manufacturing and in the small-scale industry. The wage bargaining request is presented in the name both of blue-collar metal workers in manufacturing and in the small-scale industry, even though both groups sign separate collective agreements (in the small-scale industry collective agreements are sometimes concluded at the regional level).

the Economic Chamber make their decisions in the PC and the SC. The decisions of the PC and of the Sub-Committee must be unanimous.

The request on the part of the bargaining unit for permission to start collective bargaining as a rule refers to wage negotiations, but may also refer to changes in framework agreements.

The Sub-Committee decides

- a) to allow collective bargaining to begin,
- b) to state that no agreement has been reached or to defer a decision to a later meeting,
- c) to refer an item to the PC.

Ad a): The SC gives permission to start collective bargaining in two stages. In the first, the SC permits the bargaining parties to 'get in touch with each other' (Fühlungnahme) and requests a report on the activity of the bargaining parties. In the second stage, the SC grants permission to start negotiations; again a report is requested.

As *Lachs* (1976, p. 43) points out, granting the permission to 'get in touch with each other' has in practice meant that the parties started actual negotiations; once a wage settlement had been reached, the peak organisations could not, even if they wanted to, refuse to allow the collective partners to enter into negotiations. In fact, through most of the period investigated, collective agreements went into force before the collective partners obtained permission to negotiate (stage two)²⁸. Thus, the SC's decision to permit the collective parties to start negotiations has degenerated into a pure formality; it merely signifies that the SC takes note of the results of the bargaining process. The decision to allow negotiations to start and the act of taking note of the results of the negotiations are collapsed in time: the same paragraph in the minutes which records the SC's decision to allow bargaining to begin also takes cognisance of the *results* of exactly the same negotiations²⁹.

In recent years, a further simplification (which had already frequently been practised in the sixties) has come to be employed: permission to start negotiations is granted by just sending the labour unions' request around by mail.

Ad b): The Sub-Committee states (at the insistence of the employers' side) that it has not reached an agreement on whether or not to allow negotiations to begin. A milder form of this negative decision is the decision to defer a decision to a later (often the next) meeting.

The pronouncements of the SC do not in general prevent the parties from beginning and concluding negotiations. Even if the collective parties obey the rules and do not 'get in touch with each other' or begin to negotiate, postponement of a decision by the Sub-Committee does not imply a change in the bargaining. The Metalworkers' Union, for example, sends its

²⁸ Occasionally wage settlements even went into effect before the request even reached the SC.

²⁹ The same applies to the procedures of the PC.

request to the SC about three to four months ahead of the date when negotiations are normally scheduled to begin. Thus, there is ample time to begin and finish negotiations according to the regular schedule even if the SC's decision to allow negotiations is delayed a couple of weeks.

Just as the bargaining parties do begin negotiations before obtaining the permission to do so, permission to start phase one or phase two of wage bargaining does not mean that negotiations actually begin. In Austrian labour law, there is no rule obliging employers to enter into wage negotiations. In the nineties, in a break with the past, a number of employers' organisations, mostly at the regional level, refused to enter into negotiations with the unions after the usual annual intervals.

Ad c): The requests by some labour groups are referred to the PC, because of 'their fundamental importance'. The requests of bargaining units in the food and beverage industry are processed in this way, because of the potential impact of wage increases on prices. The second group includes employee groups that are numerically significant. Others are referred to the PC because no agreement could be reached in the Sub-Committee.

At the end of 1992 a reform of the Social Partnership provided for the following changes: the Sub-Committee of Wages is to decide on all wage requests; only when no agreement can be reached, will the item be referred to the PC; the wording of the decisions of the Sub-Committee is to be changed: the distinction between the 'permission to get in touch' and the 'permission to start negotiations' is dropped.

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