Party politics as we knew it? Failure to dominate government, intraparty dynamics and welfare reforms in continental Europe
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10 How Austrian Welfare Parties Enabled Pension Reforms

In contrast to Germany and the Netherlands, chapter five found that power resource theory sheds quite some light on pension reform in Austria until 2000. This chapter explores why this was the case and why the power resources approach lost much of its relevance since 2000. To do so, section 10.1 analyzes the period when the social democrats (SPÖ) were the dominant party in office. This was from 1983 to 1999. Section 10.2 studies the coalition between the Christian democrats (ÖVP) and the populist right wing party (FPÖ). Section 10.3 concludes.

10.1 Pension Politics until 2000: The Gradual Weakening of Traditionalists

One cannot say much about Austrian pension reforms if one neglects the role and involvement of the social partners. As a rule, the social partners negotiated proposals for pension reform before they were submitted to parliament by the social minister (Tálos and Kittel 2001; Schludi 2005: Ch. 7). This corporatist framework also includes so-called chambers, statutory bodies with compulsory membership: the Federal Economic Chamber (WKÖ) unifying independent entrepreneurs, the Chamber of Labor (BAK) representing the interests of employees, and the Chamber of Agriculture representing farmers (Schludi 2005: Ch. 7; Tálos 2006). Despite their formal independence, the ÖGB and the BAK are traditionally linked to the SPÖ, while the WKÖ and farmers have close relations with the ÖVP (Fink 2006; Karlhofer 2006; Krammer and Hovorka 2006). Moreover, the Christian democratic employees’ organization (ÖAAB) obtained a minority position in the Chamber of Labor and the ÖGB, but dominated the Union of Civil Servants (GÖD). As such, the GÖD has strong ties to the ÖVP (Pelinka 2005; Karlhofer 2006). Finally, the League of Austrian Industrialists (VÖI) represents the 2,000 largest employers in the industrial sector (Schulze and Schludi 2007: 563). Until the mid-1990s, it was not all that influential within the system of Austrian corporatism. Afterwards, it has increased its influence substantially through lobbying ÖVP and FPÖ politicians (Karlhofer and Tálos 2006: 106-7).
The unusual close linkages between the social partners and both the SPÖ and the ÖVP has resulted in a considerable overlap between the leaders and functionaries of these organizations. For one, the social ministry has been occupied by a high-ranking trade unionist throughout the postwar period. This would remain the case until 2000. Moreover, table 10.1 shows that several corporatist functionaries obtained a seat in parliament. In 1987, for instance, over 40 percent of SPÖ deputies were trade unionists and union representatives would have considerable veto power throughout the 1990s. As a consequence, we shall see that the nature of Austrian pension reforms under social democratic-led governments from 1983 to 1999 was very incremental. This was also facilitated by a fiscal situation which did not necessitate severe cuts until the mid-1990s, and a dominant position for social democrats in a party system which did not require such a strong move to the center as in the Netherlands.

Table 10.1 Share of corporatist functionaries in the Austrian Nationalrat, 1978-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>SPÖ abs.</th>
<th>SPÖ percent</th>
<th>ÖVP abs.</th>
<th>ÖVP percent</th>
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<td></td>
<td>1978</td>
<td>42</td>
<td>45.3</td>
<td>13</td>
<td>16.3</td>
<td>1</td>
<td>10.0</td>
<td>56</td>
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<td></td>
<td>1987</td>
<td>33</td>
<td>41.3</td>
<td>13</td>
<td>16.9</td>
<td>-</td>
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<td>46</td>
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<tr>
<td></td>
<td>1991</td>
<td>30</td>
<td>37.5</td>
<td>7</td>
<td>11.7</td>
<td>1</td>
<td>3.0</td>
<td>38</td>
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<tr>
<td></td>
<td>1998</td>
<td>19</td>
<td>26.8</td>
<td>1</td>
<td>1.9</td>
<td>2</td>
<td>4.8</td>
<td>22</td>
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<td></td>
<td>2000</td>
<td>12</td>
<td>18.5</td>
<td>1</td>
<td>1.9</td>
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<td>1.9</td>
<td>14</td>
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<td></td>
<td><strong>Trade unions</strong></td>
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<td><strong>Employers’ associations</strong></td>
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<td>1978</td>
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<td>1987</td>
<td>1</td>
<td>1.3</td>
<td>15</td>
<td>19.5</td>
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<td>9</td>
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<td>6.1</td>
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<td></td>
<td>1998</td>
<td>1</td>
<td>1.4</td>
<td>6</td>
<td>11.5</td>
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<td>4.9</td>
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<td></td>
<td>2000</td>
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<td>1.5</td>
<td>5</td>
<td>9.6</td>
<td>4</td>
<td>7.7</td>
<td>10</td>
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*Source: Tálos and Kittel 2001: 73*
Compared to their German and Dutch sister parties, Austrian social democrats did not face severe contextual challenges until the second half of the 1990s, though fiscal austerity and de-industrialization became constant themes by the mid-1980s. Unemployment rates were quite low, at an average of 3.3 percent in 1980-89 and 4.0 percent in 1990-98. In its turn, economic growth hovered around 1.9 percent in 1980-89 and 1.4 percent in 1990-97. Furthermore, levels of industrial employment gradually declined from 40 percent in 1980 to 32 percent in 1995. Accordingly, we have seen in chapter five that were no major departures from social democratic core values during the period of rule by the SPÖ alone (1970-83). For instance, state-owned industry was a core pillar of the SPÖ’s traditional employment policy, home to the party’s most loyal electorate and Austria’s most unionized sector. Yet, strains on state-owned industry had gradually increased as of the late 1970s. Moreover, as pension cuts were off the table and some expansions were introduced, the government’s share in pension expenditure grew from 19.6 percent in 1980 to 29.1 percent in 1983 (Schulze and Schludi 2007: 572). In 1983, when the SPÖ lost its absolute majority, the party elite blamed austerity and strains on state-owned industry for this electoral result (Feigl-Heihs 2004: 168).

The SPÖ formed a government with the FPÖ and social minister Alfred Dallinger (SPÖ) established a commission to make proposals for pension reform (Schulze and Schludi 2007: 572). Until his tragic death in February 1989, Dallinger would simultaneously remain social minister, ÖGB vice-president and chairman of the largest union, the union for private sector employees (GPA). Above all, Dallinger was a traditionalist who defended the position of employees. This was exemplified by his demands to actively fight unemployment through labor hours reduction, an expansion of active labor market policies and an improvement in unemployment benefits (Tálos 1995).

Nonetheless, the government parties had agreed to implement a pension reform. This was due to the rapidly increasing government’s share in pension expenditure. Thus, the main goal was budgetary relief for the government (Schulze and Schludi 2007: 572). As such, the new finance minister, Franz Vranitzky, also played an important role. Vranitzky, a pragmatic politician with a banking background and no typical party career, was very much in favour of a retreat of
Austro-Keynesianism (Kitschelt 1994: 247; Feigl-Heihs 2004: 171). To quote Vranitzky, ‘Also in my own party, I and my social democratic supporters met little understanding when we pointed at the necessity to reduce government expenditure. Kreisky’s sentence that some billions of debts would cause him fewer sleepless nights than a few hundred unemployed was obviously so present in the heads of our fellow partisans that my opinion was considered unwise and politically damaging. Not just once did people tell me during discussions about public debts that I should take Bruno Kreisky (Chancellor in 1970-83: author’s information) as an example, since he had still implemented social democratic policies. Ferdinand Lacina (finance minister in 1986-95: author’s information) and Rudolf Streicher (economics minister in 1986-91: author’s information) often told me about similar experiences’ (Vranitzky 2004: 133).

In the spring of 1984, after negotiations with the social partners, the government presented a draft proposal for pension reform. The bill included an extension of the reference period from the last 5 to the last years of employment and the abolition of the basic minimum pension (Schulze and Schludi 2007: 575). However, people receiving a pension below a certain minimum would remain entitled to a pension supplement. Moreover, the less generous reference period was to be accompanied by a change from progressive to linear accumulation rates. Whereas accumulation rates originally favoured long work careers, each year of contribution was now to be credited equally, thus decreasing the incentive to continue working (Alber 1998: 15-6). Finally, the reform intended to implement new anti-accumulation rules for widow’s pensions.

Common interests across partisan stripes led SPÖ and FPÖ women to build an alliance with opposition ÖVP to oppose the abolition of the basic pension and the anti-accumulation rules for widows. Social minister Dallinger was able to silence criticisms from SPÖ women by refraining from cuts in widows’ pensions. For the rest, the reform was a foregone conclusion, since the measures were supported by the unions and the ÖVP-dominated second Bundesrat lacked any veto power (Schulze and Schludi 2007: 575-6).
1986 was a turning point in Austrian political history. The FPÖ had been a relatively small protest party in Austria’s two-and-a-half-party system that was dominated by the SPÖ and the ÖVP. By 1973, a new generation of social-liberals had become dominant within the FPÖ and loyalty supported the SPÖ once in government. This changed in 1986 when polls showed potential support at less than 2 percent and the right-wing populist Jörg Haider took over the party (Riedlsperger 1998: 29-32; Vranitzky 2004: 86-8). 1986 also was the year the pragmatic Franz Vranitzky had become Chancellor as the SPÖ seemed unfit to govern in the context of a deteriorating economy (Feigl-Heihs 2004: 170-1). Vranitzky called for an early election, in which the Haider-led FPÖ won nearly 10 percent of the vote (Riedlsperger 1998: 29; Vranitzky 2004: 136-59).

Vranitzky was very much in favour of a grand coalition and favoured policies that were compatible with this choice of partners, like privatizing state-owned industry (interview with Anton Pelinka; Feigl-Heihs 2004: 171). Possible resistance from trade unionists diminished due to bad polls before the 1986 elections and a good end result. It was obvious that the policy shift had accounted for much of this relative success (Kitschelt 1994: 245-7; Feigl-Heihs 2004: 175). Although Vranitzky became chancellor of the grand coalition, his predecessor Fred Sinowatz continued as party chairman and acted as a mediator between Vranitzky and sceptics within the party. In the meantime, Vranitzky won confidence within the SPÖ due to his popularity, electoral success, and his rejection of Haider’s FPÖ. By 1988, Vranitzky took over a more cohesive party and would be both chancellor and party chairman until 1997 (Feigl-Heihs 2004: 171).

From the start, Vranitzky preferred the economist Ferdinand Lacina (SPÖ) as finance minister who would be in office from 1986 until 1995. They seemed to understand one another well. To quote Vranitzky, ‘I often had divergent positions during my nearly monthly negotiations with the social democratic fraction of the ÖGB. The ally and author of many proposals, Ferdinand Lacina, stood even more in the front line than I… This would not be irrelevant when he decided to retreat from office several years later’ (Vranitzky 2004: 155-6).

As the trade unionist Dallinger (SPÖ) continued as social minister, we can now turn to the Christian democratic coalition partner. The ÖVP is an indirect party
with the Farmer’s League, the Business League (ÖWB) and the Workers’ and Employees’ League (ÖAAB) as its constituent units. These leagues operate very autonomously within the party. This is secured by their registration as independent organizations. Moreover, one has to become a member of either of the leagues to become a member of the ÖVP (Müller and Steininger 1994: 88; Müller 2006). The ÖVP probably is not only the most factionalized Western European party, but it has also been very federalized in the 1980s and the 1990s (Fallend 2005; Müller 2006). Unlike the relations between the leagues, there is no permanent conflict of interest between state party organizations and the national party organization (Müller and Steininger 1994: 89). Nonetheless, we shall see that when national pension politics moved in a more liberal direction after 2000, state politicians attempted to water down the reforms because of their fear of losing votes at the state level.

The power of the Farmers’ League and the Business League partly lies in dominating the Chamber of Agriculture and the Economic Chamber respectively. These positions provide them access to resources such as legitimacy, expertise and money. Instead, the ÖAAB is in a minority position vis-à-vis social democratic trade unionists in the ÖGB and the Chamber of Labor. Hence, the ÖAAB enjoys only very limited access to the resources of the ÖGB and the Chamber of Labor. Since Christian democratic unionists dominate the GÖD, civil servants are a key constituency of the ÖAAB (Müller and Steininger 1994: 89; Müller 2006: 351). Accordingly, cuts in social policy are risky in the sense that the ÖVP risks conflicts with its employees’ wing.

While none of the leagues controls the party, a specific league becomes the key one whenever the party leadership changes hands from one league to another (Laver and Schofield 1991: 218). As such, an overview of party leaders already provides us valuable insights in the changing dominant coalitions within the ÖVP. Between 1979 and 1989, the ÖAAB chairman had also been the party leader. Moreover, the ÖAAB became the biggest league in terms of membership in the mid-1960s, but membership rates have been declining since the early 1980s. In 1990, the ÖAAB constituted the biggest league with about 48 percent of the approximately 500,000 members. The Farmer’s League organized around 38 percent of the

23 In addition to the three core groups, women, youth and elderly are also organized within the party. However, these are relatively small organizations and most of their members are also members of one of the leagues.
members and the Business League 13 percent (Müller and Steininger 1994: 88). In short, despite the fact that the Business League and the Farmer’s League to a larger extent dominated corporatist institutions than the ÖAAB, Christian democratic employees had a strong position within the ÖVP once the party entered office in 1986.

The 1987 Pension Reform

The grand coalition of SPÖ and ÖVP came to office with the ambition to enact radical economic reforms, including a pension reform (Schulze and Schludi 2007: 576). In the late 1980s (more than ten years after Germany or the Netherlands), nationalized industry was in dire straits. The ÖGB was publicly blamed for it and was unable to prevent a thorough privatization of state-owned industries. The frustrated workers in threat of losing their jobs became a core constituency of the FPÖ rather than the SPÖ, despite the fact that the social partners successfully demanded state funding and early pensions (Hemerijck et al. 2000: 201-2; Kittel 2000: 113-5). Moreover, the social partners responded to the government agreement by negotiating pension reforms. By late September 1987, social minister Dallinger proposed to an increase in the age-assessment base for pension calculation from 10 to 15 years, the abolition of pension credits for higher education and a 50 percent reduction in survivor’s pensions if this pension was above ATS 6,878 and the person draw a second income.

In response to criticisms from the unions, the rules for higher education were limited to university students. In addition, minister Dallinger appeased women’s groups of all parties by increasing the maximum allowed survivor’s pension to ATS 14,000. Though one might consider this a successful pension reform, the eventual measures outlined in table 10.2 did not consolidate the pension system, nor can they be seen as a large shift in principles (Schulze and Schludi 2007: 576-7).
<table>
<thead>
<tr>
<th>Year</th>
<th>Pension reforms</th>
<th>Role of traditionalists in SPÖ</th>
<th>Role of traditionalists in ÖVP</th>
</tr>
</thead>
</table>
| 1984 | - Abolish basic minimum pension  
- Gradually extend calculation basis from 5 to 10 best years  
- Decrease in annual pension adjustment by introducing unemployment into pension adjustment | Very strong | Not relevant |
| 1987 | - Extend calculation basis from 10 to 15 years  
- Reduce pension credits for higher education  
- Tighten eligibility for widows’ pensions | Very strong | Quite strong |
| 1990 | - Extend benefits for older workers and workers in crisis regions  
- Expand voluntary pensions | Very strong | Quite strong |
| 1992 | Retirement age for women to be aligned with those of men (phased in from 2018 to 2034) | Very strong | Quite strong |
| 1993 | - Change from gross wages to net wages net as basis for annual pension adjustment  
- Increase calculation basis to best 15 years  
- Cuts in survivor pensions  
- Introduce early pension for reduced working ability  
- Introduce partial pension for workers accepting shorter working hours  
- Higher coefficient for those retiring later  
- Introduction of pension credits for child care | Very strong | Quite strong |
| 1995 | No notable retrenchments (despite proposals in the original savings package) | Very strong | Quite strong |
| 1996 | - Increase qualifying period for early retirement from 35 to 37.5 years (from 2001 on)  
- Introduce bonus-malus system for early pensions  
- Tighten eligibility criteria for disability pensions  
- Reduce pension entitlements for people claiming more than one pension and for those having additional income from employment  
- Years in higher education no longer automatically counted as insurance years  
- General freeze of pensions for 1 year (2 years for civil servants)  
- Lower civil servants pensions for those retiring before 60 | Quite strong | Moderate |
<table>
<thead>
<tr>
<th>Year</th>
<th>Measures</th>
</tr>
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</table>
| 1997 | - For early retirees, number of “best years” on which benefits are computed increased from 15 to 18 years up to a maximum loss of 7 percent (to be phased in from 2003 to 2020)  
- Introduce uniform accrual rate of 2 percent of the calculation base for each year of insurance (this effectively decreases the qualifying period for a full pension from 45 to 40 years)  
- For each year of early retirement the above mentioned percentage is reduced by 2 percent up to a maximum of 10 percent (from 2000 on)  
- Special support for older unemployed restricted to miners  
- Higher contributions for self-employed and farmers  
- Pension base for civil servants changed from last salary to 18 years for normal retirement (phased in from 2003 to 2020)  
- Pension base for civil servants changed from last salary to 15 years for early retirement (phased in from 2003 to 2020)  
- Annually adjust pensions for civil servants by applying a more generous adjustment factor of general pensions which rose from 1.75 percent to 2 percent  
- Civil servants due to retire after 2020 will pay reduced pension contributions (from 2000 on)  
- Extend coverage by including some forms of atypical employment into social insurance  
- Introduce new form of part-time pension, requiring a shorter contribution period  
- Relax criteria for taking up a part-time pension  
- Financial incentives for employers to offer jobs for older workers  
- Introduce educational leave  
- Increase pension credits for child rearing | Quite strong | Moderate |

*Source*: Own composition. Information on reforms derived from EIRO (1997); Ney (2004); Schludi (2005); Schulze and Schludi (2007).
Limited Expansion of Occupational Pensions in 1990

Alois Mock, the ÖVP chairman and ÖAAB chairman, was quite suddenly succeeded by the head of the farmer’s league in May 1989. The ÖVP was lagging behind the SPÖ in the polls and respondents mentioned the lack of visibility in government as the main reason (Vranitzky 2004: 204). In the meanwhile, Wolfgang Schüssel, the chairman of the ÖVP’s business league, had argued in favour of a retreat of the state since the 1980s (Schüssel 1983, 1985). Accordingly, the business league had put occupational pensions on the ÖVP agenda (Tálos 2004: 203). By 1989, the ÖAAB went along after a survey showed that a majority of workers in general and civil servants in particular favored an expansion of occupational pensions. A delegation of ÖVP politicians led by a representative of the business league started to negotiate with the SPÖ. Whereas SPÖ finance minister Lacina was convinced about the necessity to expand occupational pensions, scepticism within the SPÖ remained large as these arrangements might reduce the role of public pensions (Ofner 1990: 633-44).

In this sense, history repeated itself in three ways. First, one of Lacina’s predecessors and fellow SPÖ partisans had stood at the base of Austria’s first and rather marginal legislation on occupational pensions (ibid: 634). Second, both were representatives of a pragmatic wing who would eventually retreat from office after internal disagreements with more traditionalist politicians (Wysocki 1995: 45). Third, the proposals by both finance ministers were watered down by fellow partisans (Ofner 1990: 634). Accordingly, the legislation of May 1990 was a compromise with weak tax incentives to stimulate occupational pensions. This is translated in a low coverage rate. By the late 1990s, only 5 percent of the economically active population contributed to occupational pensions (Linnerooth-Bayer 2001: 18).

The 1993 Pension Reform

History also repeated itself within the ÖVP. The party experienced another leadership turnover after unsatisfying election results (a decline from 41 percent in 1986 to 32 percent in October 1990). On the one hand, the party was held responsible for unpopular retrenchments. On the other, it was unable to claim credits for some welfare expansion as a junior partner. The party was losing its own identity (Fallend 2005: 198). Obviously, it did not help that the number of the party’s core constituents
- Catholic churchgoers - shrunk very gradually (see chapter 4). In response to these electoral challenges, a former head of the business league managed to become the political leader by 56.4 percent of the vote at a party congress in June 1991. The meagre result was due to the fact that the party was heavily divided between ‘economic liberal forces’, notably the Business League and the party’s youth organization, who proposed Erhard Busek and ‘social Catholics’, notably the ÖAAB and elderly Catholicists, who put forward their own candidate (Pelinka 2003: 121-2). As a response to internal divisiveness, the position of the party leader was considerably strengthened by a 1991 reform of the party statute (Fallend 2005: 198).

These developments contributed to a weakening of traditionalist politicians, but still did not have a large impact on pension reforms. This was because the trade unions still had various access channels within parliament and the social ministry. Moreover, the fiscal situation did not necessitate drastic savings in the early 1990s. While pension reforms were already being discussed amongst the social partners (interview with ÖVP politician), social minister Hesoun (SPÖ) - simultaneously ÖGB vice-president – first responded to a December 1990s ruling of the Constitutional Court. Different retirement ages for men and women were unconstitutional, and bound the government to act upon this by 31 December 1992 (Schulze and Schludi 2007: 578). However, female politicians within the SPÖ and the ÖVP were able to postpone the equalization of retirement ages (interviews with SPÖ politicians). It was to be phased in gradually between 2018 and 2034.

After this reform had passed, the government parties agreed on further pension reforms in December 1992. The bill developed by social minister Hesoun included several uncontroversial expansions like the introduction of early retirement due to reduced working capability, a partial pension for those working longer (cf. ÖVP 1990: 10-11) and child-raising credits (cf. SPÖ 1990: 17; ÖVP 1990: 11). In addition, the basis for annual pension indexation was to be changed from gross wages to net wages. Finally, the SPÖ demanded a private/public sector harmonization (SPÖ 1990: 10, 17). This goal was to be met by calculating pension benefits using the best 15 years instead of the final 15 years. The effect of this regulation would either be neutral or beneficial for workers and civil servants.

Nonetheless, negotiations with the trade unions were difficult. Private sector unions would only accept the proposal if net wage adjustment was also applied to public sector pensions. The GÖD opposed this and threatened with strikes. In late
February 1993, after the parliamentary negotiations had already started, the government cancelled net-wage indexation for civil servants in a concession to the GÖD. Instead a different regulation was introduced. This ensured that representatives of the unions and the government would calculate the adjustment rate in the private sector if the adjustment rate in the public sector was larger. Hence, policy concessions had been necessary to avoid parliamentary blockage from union-representatives (Schulze and Schludi 2007: 578-80).

Failed Retrenchments in 1995  

Before the elections of October 1994, the SPÖ had issued a program that was remarkably silent on pension reform (SPÖ 1994). Instead, the ÖVP manifesto repeatedly mentioned ‘Erhard Busek’s stability plan’. Amongst other things, this plan envisioned to increase the factual retirement age and to expand private pensions (ÖVP 1994: 43-4). The grand coalition continued as intended (Vranitzky 2004: 215), though the FPÖ increased its vote share by almost 6 percent up to over 22 percent at the expense of the SPÖ and the ÖVP. The re-elected government was under pressure to adopt a tight fiscal policy, since the budget deficit had increased from 2 percent of GDP in 1992 to 5 percent in 1994. At the same time, Austria’s aspirations to join the EMU necessitated a quick reduction of the public deficit. Against this background, the government in general and finance minister Lacina (SPÖ) and chancellor Vranitzky (SPÖ) in particular worked out a retrenchment package without the usual prior consultation of the social partners (interviews). To the regret of one trade unionist, the social minister was not all that involved. ‘Hesoun was social minister. He would certainly have largely met the demands of the social partners’ (interview).

For the public sector, finance minister Lacina proposed to introduce a reference period of five years as the calculation base for civil servants’ pensions, instead of basing them on the final wage. Not surprisingly, the GÖD-president (also ÖVP MP) rejected this measure. The reforms also met some demands of the ÖVP business wing as the package included up to 15 percent actuarial deductions for early retirement. Both the ÖGB and social minister Hesoun opposed these penalties. Hesoun refused to cut private sector pensions if public sector pensions were left

unharmed. Moreover, the chairman of both the Metal Workers Union and the SPÖ trade union fraction quit the SPÖ bargaining committee in protest against the envisioned cuts. In addition, the FPÖ vehemently attacked the proposed retrenchments as it attempted to benefit electorally from the issue of pension cuts. However, chancellor Vranitzky was determined to push through the retrenchments against all opposition, including the unions if necessary.

Eventually, Vranitzky and Lacina proved unable to withstand the political resistance from the trade unions, especially when some unionist parliamentary members threatened to vote against the bill. Given the large number of unionists in parliament, most notably within the SPÖ (see table 10.1), the threat potential was strong. In order to obtain the unions’ support, the government softened the retrenchment package and completely withdrew the planned cuts in early pensions. In negotiations with the government, the GÖD managed to maintain the final wage assessment base but agreed on an increase in public sector contributions from 10.25 percent to 11.75 percent, and a 5 year extension of the insurance period for pension eligibility. Shortly afterwards, finance minister Lacina announced his resignation in response to intra-party conflicts and unsuccessful negotiations with the unions. Hesoun and two other SPÖ ministers followed suit – showing the growing disagreements within the party. Once the retrenchment package was agreed upon in parliament, it should be considered a failure. Although it did pass on 5 April 1995, it included none of the cuts originally proposed and the overall savings volume turned out to be some 80 percent lower.

**Successful Retrenchments in 1996**

In response to the 1994 electoral losses, Alois Mock and the ÖAAB chairman pleaded in favour of Busek’s retirement as ÖVP party leader. Busek’s only strength seemed to be the weakness of his opponents: They did not have an attractive candidate. Who would be the (new) party leader was to be decided at a special meeting of the ÖVP party executive on 17 April 1995. In a surprise move, the chairman of the business league suggested Wolfgang Schüssel, his predecessor who was economics minister by then. Schüssel would appeal to urban-liberal voters, was the only one who countered Haider successfully in a television debate, and was the most popular minister
according to the polls. This persuaded the majority within the executive (but not the ÖAAB) and Schüssel’s candidacy was secured (Pelinka 2003: 122-28).

Peter Pelinka describes Schüssel as an ‘economic liberal’ who remained ideologically attached to his central publications of the early 1980s: *Mehr Privat, weniger Staat* (More private, less state) and *Staat lass nach* (State decline). In 1999, for instance, Schüssel wrote that these two publications ‘are valid as before… I want a state that thinks from an employer perspective in fulfilling its tasks, retrenches many benefits, operates more efficiently and costs less, and is a lighter burden on the economy and free entrepreneurship’ (Schüssel 1999 in Pelinka 2003: 193).

Schüssel intended to make the ÖVP the dominant coalition party. Indeed, surveys showed increasing support for Schüssel and the ÖVP in the summer of 1995. In September 1995 most respondents trusted the ÖVP to do a better job of consolidating public finances and enacting retrenchment (Schulze and Schludi 2007: 582). What came to be known as the ‘Schüssel-Ditz course’ (Ditz was the ÖVP economics minister) implied budget consolidation through structural welfare reform and reduced expenditure such as through deductions for early retirement (DP 31.10.1995). In principle, Vranitzky had the same opinion on budgetary issues as Schüssel, but he was struck by Schüssel’s ultimative threats that the ÖVP was not unconditionally committed to a grand coalition (Vranitzky 2004: 218). However, most within the SPÖ and the ÖGB favored budget consolidation by revenue-increasing reforms, like raising pension contributions (Schulze and Schludi 2007: 582). Since the chairman of the Economic Chamber (also ÖVP-MP) supported the Schüssel-Ditz course, the social partners drifted further apart (Vranitzky 2004: 219).

In October, a wing around Schüssel, Ditz and the chairman of the Economic Chamber rejected the proposal of the SPÖ Finance Minister (DP 07.10.1995; Vranitzky 2004: 218-20). This was tantamount to a coalition break-up, and indeed a strategic call for early elections (DP 20.09.1995; Schulze and Schludi 2007: 171). New elections were planned for 17 December 1995. In a context of increasing austerity, secularization and de-industrialization, polls found that 44 percent of the electorate was undecided two months before the elections (Schulze and Schludi 2007: 582-3). In this context of uncertainty, Vranitzky mailed thousands of letters to elderly promising that their pensions were safe under the SPÖ (DP 12.12.1995). By contrast, Schüssel once again stressed the problematic situation in the field of pensions (DP 23.11.1995). Moreover, the SPÖ used the ÖVP’s lack of commitment to a specific
coalition to campaign against a government with Haider. In the end, the ÖVP’s strategy did not pay off: it won just one seat (Schulze and Schludi 2007: 583).

The ÖVP’s prerequisite for continuing the grand coalition was to include the main budgetary features for the years 1996 and 1997 in the coalition agreement (ibid). The 1995 savings package proved to be largely ineffective and official forecasts by the government pointed at a deficit of about 8 percent of GDP in 1997 without further fiscal measures. This time, however, the social partners were continuously informed and consulted by their respective allies within the partisan arena (interview with trade unionist; Schludi 2005: 170-3). At the same time, the ÖAAB’s position continued to weaken as GÖD president Fritz Neugebauer was the only Christian democratic unionist in the Nationalrat in 1996. Moreover, membership rates declined from about 250,000 in 1990 to just over 200,000 in 1994 (Müller 1997: 271). Last but not least, the ÖAAB was internally divided. A group of 30 persons aged between 25 and 30 led by the ÖAAB vice-chairman argued that ‘socialist welfare policy is bankrupt’. In order to secure generational equity and to the regret of the GÖD, the final wage assessment base of civil servants’ pensions was to be abandoned (DP 08.01.1996).

In February 1996, the program negotiated by the ÖVP and the new finance minister Victor Klima (SPÖ) was agreed upon by the social partners (Vranitzky 2004: 223). The ÖGB and most within the SPÖ gave in to earlier demands from Schüssel and the Economic Chamber, agreeing to tighter requirements for early pensions and also accepting expenditure reducing measures instead of revenue-generating ones. For instance, the period for early retirement was to be increased from 35 to 37.5 years. Moreover, a bonus-malus system for early pensions was to be introduced (DP 31.10.1995; DP 09.12.1995; Schludi 2005: 171-2). The ÖVP agreed to an increase of pension contributions for farmers and the self-employed. Moreover, the ÖVP was incapable to achieve a more comprehensive pension reform and had to accept some delays before some cuts would become fully effective (Schludi 2005: 172-3).

As the social partners were much more involved than in 1995, the proposals were adopted largely unaltered by the government parties in parliament. Again, the FPÖ vehemently criticized the measures (ibid: 173).
The 1996 reform – which cut key benefits for workers – had a negative impact on the SPÖ in the polls and state elections in Vienna (Schulze and Schludi 2007: 584). In response, Chancellor Vranitzky resigned from office. He appointed his long favored successor, finance minister Victor Klima, in January 1997 (Vranitzky 2004: 379). Like Vranitzky, Klima was a pragmatic politician with a background in finance and no typical party career (Ucakar 2006: 236). In pension policy, Klima announced gradual harmonization and the extension of reference periods without informing and consulting the social partners (interview with trade unionist). To that end, the government asked the German pension expert Bert Rürup to make suggestions for a structural pension reform. This limited the role of pension experts associated with the social partners already at the stage of problem definition (Schludi 2005: 174).

Discussions on the Rürup report, which dealt with public pensions only, started after a secret government meeting in June 1997 (again without informing and consulting the social partners). The intended reforms were more moderate than Rürup’s report, but needed to be adopted in 1997 (Schulze and Schludi 2007: 584). The main proposals were to:

- increase the reference salary from the best 15 to the best 20 years from 2000 to 2012
- change the reference salary for civil servants pensions from final wage to last 15 years
- introduce a demographic factor
- cut pension levels for those retiring early by 2 percent per year (upto 15 percent)
- extend pension insurance coverage

Apart from the last issue, the proposal was fiercely opposed by trade unions (DP 13.06.1997). Especially the GÖD was furious, since the last salary as calculation base was the ‘sacred cow’ of civil servants’ pension principles (Schulze and Schludi 2007: 585). Once again, other trade unions and social minister Eleonora Hostasch (SPÖ), president of the Labor Chamber and ÖGB vice-president before she came to office, favored revenue-generating measures rather than expenditure-reducing ones (DP 04.07.1997). Moreover, they again demanded reforms of public sector pensions as prerequisites for any cuts in the private sector. Nonetheless, the private sector unions
backed the GÖD’s protests in order to count on the resistance of the civil servants and thereby prevent major reforms in the private sector (Schulze and Schludi 2007: 585).

The ÖVP also encountered disagreements within its own ranks. The ÖAAB chairman and most ÖAAB members distanced themselves from the ÖVP’s business wing and the party’s youth organization as they opposed public/private harmonization and cuts in early pensions (DP 05.07.1997; DP 24.07.1997). There was also intra-party conflict within the SPÖ. Trade unionists, state representatives and the leader of the youth organization refused to agree with the extension of the reference period. The SPÖ pensioners’ organization even threatened to defect to the FPÖ, whereas unionist threatened to launch a no-confidence vote against chancellor Klima. Unionists also informed the government that union-members would block the reform during a parliamentary vote if Klima proceeded with unilateral pension reforms (Schludi 2005: 176; Schulze and Schludi 2007: 585).

All this threat potential was very credible, given the large number of unionists within the SPÖ fraction (see table 10.1) and the fact that 27 out of the 52 ÖVP parliamentarians were ÖAAB deputies (DP 05.11.1997). Moreover, defeat of the bill in parliament would lead to the government’s resignation and early elections (Schulze and Schludi 2007: 585). To the regret of Schüssel and the ÖVP business wing, social minister Hostasch withdrew the plan to extend the reference period for standard retirement and introduced educational leave (DP 20.09.97). This became part of a new proposal presented by the social minister on 9 October 1997. In addition, the increased reference period for early retirement would be fully effective around 2019 instead of 2012. Finally, the introduction of the demographic factor was abolished. The social minister also suggested several expansions like increasing the adjustment factor at a more generous level than before (2 percent instead of 1.75 percent). Consequently, a full pension of 80 percent could be drawn after 40 rather than 45 years (Schludi 2005: 176).

Despite these concessions, the unions and many within the ÖAAB remained highly critical about the reforms. Several thousands of ÖAAB members threatened to resign and warned their organization’s chairman that his position was at stake if further concessions were not being made in parliament (DP 24.10.1997; DP 25.10.1997). After a session between the social partners, Klima and Schüssel, the government agreed to gradually phase in both a common 18-year reference period for
early retirement and a common reference period of 15 years for old age pensions between 2003 and 2020 (Schulze and Schludi 2007: 586).

To give government and unions more time to reach an agreement, the parliamentary sessions of October 23 were interrupted and postponed to November 3 (ibid). At the same time, the chairman of the Economic Chamber (ÖVP) left the bargaining table by noting that his organization was ‘not prepared to further water down the reforms’ (DP 25.10.1997). In response to the GÖD and the ÖAAB, child-raising credits and disability pensions for civil servants were improved. Moreover, pension losses caused by the 15-year reference period for civil servants were limited to 1 percent for pensions below ATS 10,000 and to a maximum of 7 percent for pensions up to ATS 28,000 (DP 04.11.1997). Simultaneously, other unionists demanded and received a loss limit in the private sector (DP 05.11.1997).

In short, despite the efforts of pragmatic leaders within both the SPÖ (Klima) and the ÖVP (Schüssel), the 1997 reform was softened considerably due to opposition from fellow partisans in the trade unions. Rüüp calculated that the reform achieved no more than 3 percent savings, in comparison to the 20 percent that he had considered necessary in his report. Moreover, these calculations ignored the extension of the state pension scheme to the entire employed population. This could make pensions even more expensive in the future (Schludi 2005: 177). However, ‘if Schüssel had not ranted and raved at the GÖD, we would not have seen a reform at all’ (interview with social minister Hostasch).

10.2 Pension Politics after 2000: How a Change in Government Implied a Stronger Orientation towards Liberalism

In the elections of October 1999, the SPÖ and the ÖVP witnessed their lowest results ever. Though the SPÖ still remained the largest party, the FPÖ surpassed the ÖVP by a margin of just 415 votes nationwide. According to Plasser and Ulram, contextual challenges like austerity, de-industrialization and secularization help to explain these results. However, the FPÖ was also highly successful in attracting conservative Catholics and blue-collar workers who were frustrated with, respectively, the lack of attention for traditional family values and the “little man on the street” (Plasser and Ulram 2000). Paradoxically, the 1999 electoral defeat enabled the ÖVP to become the pivotal party as it could choose its coalition partner.
The ÖVP’s office-seeking ambitions clearly prevailed over vote-seeking goals. Despite Wolfgang Schüssel’s threats that the ÖVP would resign to the opposition benches if it became the third party, the ÖVP, albeit secretly, entered coalition negotiations with both the SPÖ and the FPÖ. There were several topics on which the SPÖ and the ÖVP disagreed. Most notably, and in line with the demands of the ÖVP business wing, Wolfgang Schüssel demanded to consolidate the budget through an increase of the early retirement age by 2003 and the gradual privatization of pensions (DP 06.12.99; DP 13.01.00). Though Victor Klima was willing to accept this more liberal course, opposition from more traditional and trade-union oriented social democrats had already prevented him from embracing this in the SPÖ election manifesto (DP 29.09.99). As such, it was no surprise that the final negotiations with the ÖVP failed on 20 January 2000, since Klima was unable to guarantee the consent of parliamentary unionists (DS 20.01.00). As one trade unionist put it, ‘we simply could not support the ÖVP’s neoliberal profile in pension politics’ (interview).

The demands in social policy seemed a deliberate attempt by a majority within the ÖVP to force a coalition with the FPÖ (DP 13.01.00; Luther 2003; Müller 2004). In fact, only the GÖD, the ÖAAB and state governors of ÖAAB strongholds preferred the SPÖ over the FPÖ (DP 15.01.00). Secret negotiations with the FPÖ had already taken place before SPÖ unionists refused further pension cuts. The quick formation of the SPÖ-ÖVP coalition – within a week – seems testimony of these talks.

When the new government took office on February 4, the economy was performing quite well – at least in comparison to most Western European countries. Unemployment had declined from about 4.4 percent in 1996 to 3.9 percent in 1999 (Hamann and Kelly 2007: 984). Moreover, the deficit had declined from a peak of 5.2 percent of GDP in 1995 to somewhat over 2 percent in 1999. Pressed by the Stability and Growth Pact, the government was determined to balance the budget. By the same token, the new government was more strongly oriented towards market-liberal ideas than its predecessor (Schludi 2005: 178). In pension politics, the election programs of both parties embraced a three-pillar model and cuts in early pensions (FPÖ 1999; ÖVP 1999). Furthermore, a survey showed that most ÖVP and FPÖ parliamentarians had rather market-liberal policy preferences between 1996 and 1999, while most within the SPÖ had traditionalist preferences (Müller and Jenny 2000). As such, the FPÖ’s earlier attacks on welfare retrenchments implemented by the previous
governments can be interpreted as an opportunistic move to attract disappointed SPÖ and ÖVP voters (Schludi 2005: 178).

In his investiture speech, the new chancellor Wolfgang Schüssel (ÖVP) stressed several market-liberal policy principles like self-responsibility, more market and flexibilization (Schüssel 2002). These can also be found in his earlier publications (compare Hawlik and Schüssel 1983, 1985). In pension policy, Schüssel announced additional occupational and voluntary provisions, and several retrenching measures within the existing public pension schemes. These market-liberal measures were justified by the low ages of factual retirement (Schüssel 2002).

The implementation of such measures was greatly facilitated by the fact that the new government was less dependent on union’s institutional support than its predecessor. This was partly due to the much smaller number of trade unionists in the government parties (see table 10.1). In addition, the SPÖ had obtained the social ministry over the last 30 years and ‘it was controlled by the ÖGB. The ÖGB also determined who would become social minister’ (interview with trade unionist). By contrast, an inexperienced former handicraft teacher (FPÖ) – who had only been a party member since 1997 - took office now (Luther 2006a: 28). To the regret of the former social minister (SPÖ, ÖGB), the competencies for labor market policy were handed from the social ministry to the newly created economics and labor ministry (PK 09.02.00: No. 62). This was occupied by the former family minister, Martin Bartenstein (ÖVP). According to a business representative, the government’s composition had a large impact on pension reform. ‘The chancellor and the economics minister are both members of the Business League, Schüssel had even been its chairman, and one cannot completely hide where one is coming from. By contrast, trade unionists were not represented in government’ (interview).

Last but not least, the bourgeois Karl-Heinz Grasser (FPÖ) became finance minister. He and Schüssel understood one another well according to a high-ranking ÖVP politician (DP 03.05.06). To quote Grasser, ‘we stand for a liberal and fair market economy’ and ‘accordingly see the solution of many of our country’s problems in less state dirigism and more market and private initiatives’ (in Obinger and Tálos 2006: 26). ‘Though the economy is booming, the state is now in dire need of restructuring’ (in Obinger 2002: 57).
The ÖVP-FPÖ governments greatly increased the tempo and severity of pension retrenchment and restructuring (see table 10.3), although opposition from the ÖAAB and the FPÖ slowed these efforts. Pragmatists like Wolfgang Schüssel, Martin Bartenstein and the president of the Economic Chamber (also MP and ÖVP Business League chairman) were all members of the ÖVP negotiation team on pensions during the coalition talks. The ÖAAB with its traditionalist policy preferences was only represented by its general secretary. Against the vehement resistance of the FPÖ and the ÖAAB chairman, the ÖVP negotiation team intended to increase the early retirement age by two years for all employees (DP 28-29.01.00).

In April 2000, the government presented the core features of its pension reform. The measures included an increase in early retirement ages of 18 months for all, larger penalties for early retirement for all, cuts in survivor’s pensions and the abolishment of disability pensions. Moreover, the government proposed to follow net wages in adjusting civil servants’ pensions and to increase pension contributions for civil servants by 0.8 percent (Schulze and Schludi 2007: 588). All of which was to take effect as early as October 1st – though both the FPÖ and the ÖAAB opposed such speed (DP 01.04.00; DP 25.05.00). Moreover, the ÖAAB would only support the reform in parliament if the government introduced a partial retirement scheme and extended training benefits for elderly unemployed (DP 05.04.00; DP 25.04.00). Finally, opposition parties and unions rejected the proposal (Schludi 2005: 178).

On April 7, the government initiated negotiations with the social partners, but it seemed unwilling to make any significant concessions. Within a week, the first protest actions in the public sector took place. Although the negotiations with the GÖD had started on April 19, the government already issued a new proposal on April 24. The ÖGB also launched various protest actions with the support of Christian democratic unionists, including a protest day on May 16. In late May, the negotiations between the GÖD chairman (also ÖVP MP) and the social minister (FPÖ) broke down. By the time the government submitted the bill to the National Rat on May 30, the Economic Chamber was the only interest group to support the proposal. The only part it did not welcome consisted of various employability measures for the elderly, including a partial pension and training benefits (Tálos and Kittel 2001: 90-1; Schulze and Schludi 2007: 588). These were in line with the ÖAAB demands.
For the rest, the parliamentary bill included more or less the same measures as the April proposal (Schulze and Schludi 2007: 589). The ÖGB could no longer rely on a large number of trade union representatives in government parties. Therefore, it had continuously pressed the ÖAAB to join forces with the ÖGB on pension reform. Eventually, it called upon all 24 ÖAAB parliamentarians to vote against the reform. The government parties would not have had a majority if this happened. However, all except one ÖAAB deputy voted in favor of the bill after the government had made a number of small concessions. For instance, men with 45 contribution years and women with 40 contribution years were exempted from the increase in the early retirement age during a five-year transitional period (Schludi 2005: 179). In addition, civil servants received similar child-rasing credits as in the public pension scheme. However, the pragmatic economics minister Bartenstein (ÖVP) ensured that the key principles of the reform would be maintained (DP 06.07.00).

Accordingly, only half a year after taking office, the ÖVP-FPÖ coalition had passed a pension reform that ‘brought much more significant retrenchment with shorter transition periods, than had any previous reform’ (Schulze and Schludi: 589). The ÖVP had now been free to ignore at least the SPÖ-affiliated unions. Moreover, as a consequence of EU sanctions against Austria, the issue of pension cuts was less salient in public debates than it would have been otherwise (ibid). According to interview respondents, frustration about the sanctions also weakened the attention of Austrian policy-makers for the so-called Open Method of Co-ordination.

Last but not least, the social minister had a difficult portfolio and was being outmanoeuvred by experienced ÖVP politicians like Schüssel and Bartenstein. Being highly unsuccessfull in putting populist welfare measures on the government’s agenda, she left her office after it became clearer and clearer that even politicians within her own party, notably Jörg Haider, questioned her capabilities. On October 21, both the FPÖ party leader and the leader of the parliamentary fraction insisted on her retreat. She was then replaced by Herbert Haupt, a former veterinary surgeon and a Haider loyalist (Böhm and Lahondynsky 2001: 143-4).
Table 10.3 Main pension reforms under ÖVP-FPÖ/BZÖ governments, 2000-2006

<table>
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<tr>
<th>Year</th>
<th>Pension reforms</th>
<th>Role of traditionalists in ÖVP</th>
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| 2000 | - Increase the general minimum early retirement age from 55 to 56.5 years for women and 60 to 61.5 for men, and the retirement age of civil servants from 60 to 61.5 (all within 18 months)  
- Bonus and malus for early pensions increased (from 2 percent to 3 percent per year up to a maximum of 15 percent)  
- Reduce survivor’s pensions (old benefit levels from 40 percent to 60 percent; now between 0 percent and 60 percent)  
- Abolish disability pensions  
- Extend unemployment benefits for people aged over 45 who participate in training until 31 December 2003  
- Increase financial assistance to people who find themselves in a situation of hardship due to the earlier retirement age for a five-year transitional period  
- Introduce partial retirement scheme | Moderate |
| 2002 | - Extend severance pay to all private sector employees  
- Oblige employers to pay 1.5 percent of workers’ wage to a central fund  
- Tax incentives if employers invest these payments in a pension fund | Moderate |
| 2003 | - Reduce pension calculation coefficient from 2 percent per pension year to 1.78 percent (phased in over 5 years). This increases the period to receive a full pension from 40 to 45 years.  
- Pension adjustment according to prices for 2003 and 2004  
- Increase of calculation basis from 15 to 40 years (phased in over a 25 year period)  
- Increase bonus and malus for early pensions from 3 to 4.2 percent up to a maximum of 15 percent  
- Gradually abolish early retirement based on a long social insurance record of at least 35 contribution years or 37.5 insurance years (from 2004 to 2017)  
- Abolish early retirement based on unemployment from 2004 on; replaced by less generous unemployment benefit  
- Introduce subsidy encouraging take up of voluntary pensions  
- Extend child rearing pension credits from 18 to 24 months  
- Workers with long contribution histories (40 to 45 contribution years) or workers that operate in a physically abrasive work environment are still able to retire early  
- Introduction of a so-called means-tested ‘hardship fund’ for workers with pensions lower than EUR 1000 per month who have paid into the system for at least 30 years  
- Limit old age pension cuts for each individual to 3.5 percent until 2007, 7 percent until 2015 and 10 percent until 2027 | Moderate |
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<th>Year</th>
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| 2004 | - Gradually create a uniform pension system by 2033  
- Gradually increase retirement age to 65 by 2033  
- Annually adjust pensions based on inflation instead of net wages  
- Introduce ‘sustainability factor’ into the pension formula adjusting benefits according to developments in life-expectancy  
- Raise contributions for self-employed and farmers to 17.5 percent and 15 percent, respectively  
- Introduce voluntary pension accounts  
- Increase child raising credits from €640 to €1340  
- Permanent exception for hard and dangerous manual labor restricted to maximum of 5 percent of the working population  
- Extend exception for workers with long contribution histories (40 to 45 years) until 2010  
- Limit pension cuts for each individual to 5 percent (gradually adjusted to 10 percent by 2024) | Moderate |

Source: Own composition. Information on reforms derived from EIRO (2000); Ney (2004); Schludi (2005); Schulze and Schludi (2007).

Apart from retrenching public pensions, the ÖVP-FPÖ coalition also took other steps in a market-liberal direction. To the regret of various experts and trade unionists, retrenchments soon spilled over to other social insurance areas without expanding benefits for those in atypical employment or promoting active labor market policies (Mazal 2000; DP 23.09.00; Obinger and Tálos 2006). Another example of the liberal policy direction involves the expansion of occupational pensions. In July 2002, the ÖVP-FPÖ government introduced and fiscally stimulated the possibility of using severance payments to fund occupational pensions as a supplement to public pensions (see table 10.3).

Interestingly, the severance pay reform was one of the few examples of a continuation of corporatist policy-making. The reason is that the coalition parties disagreed how to promote occupational pensions. Against this background, the government delegated the drafting of a new severance scheme to the social partners. In line with the unions’ demands, virtually all employees rather than the 15 percent in stable employment relationships would now be covered by severance pay. However, as a concession to the employers, the individual amount of severance paid benefits is considerably lower than under the previous law. The government accepted the social partners’ proposal without major modifications (Schludi 2005: 181-2; Obinger and Tálos 2006: 91-2). In the parliamentary debate, economics minister Bartenstein, who had been responsible for drafting the bill, euphorically labeled it a ‘reform of the
century’. Finance Minister Grasser (FPÖ) stressed that it was a ‘revolutionary step’ by introducing a second pension pillar (in Obinger and Tálos 2006: 92).

Continuing the Road to Liberalism: The Second ÖVP-FPÖ Government

The austerity measures substantially hit the governing parties’ constituents. It was a deep fear of an electoral backlash that led Jörg Haider to pull the plug on the coalition in early autumn 2002. From his Carinthian bastion, he openly obstructed the government’s austerity route and minister Grasser’s priority of a balanced budget. Having staged an internal coup at an extraordinary party session, three FPÖ ministers quit the government, including Grasser. This led to the collapse of the ÖVP-FPÖ coalition and the call for new elections (Obinger 2002: 61).

The election campaign showed remarkable developments. The ÖVP portrayed Schüssel as a responsible leader and claimed the outgoing government’s alleged achievements, like parental leave for all and the expansion of occupational pensions. However, the tactical putsch came in mid-November, when Schüssel and Grasser announced that, if re-elected, the ÖVP would suggest Grasser as its non-partisan finance minister. This brought to the ÖVP camp the most popular minister and also helped attract disenchanted FPÖ voters. By contrast, the FPÖ campaign was a disaster. Internal conflicts and the resignation of politicians continued. As late as 1 November, social minister Haupt became the new party leader (Luther 2003: 142-3).

The SPÖ did not conduct a leader-oriented campaign either, not least due to the consistently low poll rating of its chairman, Alfred Gusenbauer, who had been subject to considerable intra-party criticism in 2002 (ibid: 142). Gusenbauer had become the leader of a party in search of identity after it had been excluded from office in 1999. After the resignation of Victor Klima, many in the party feared that the party’s trade union wing and a more pragmatic wing would polarize as soon as a representative of one of these wings would become party leader. Since Gusenbauer did not belong to either of the two wings, he was eventually nominated unanimously (DP 18.02.2000). Though Gusenbauer intended to renew the party’s politicians, its organization and its policy orientation, this proved rather difficult since the party was now lacking ministerial resources and thus became even more dependent on the trade unions’ expertise and finances (interview with SPÖ-insider). For instance, Gusenbauer aimed at up to twenty new parliamentarians at the 2002 candidacy list.
who had to be young, preferably female and “reform friendly”. However, this proved to be impossible within the existing organizational structure (DP 17.06.02).

Election day brought the SPÖ a small gain, but the ÖVP was the clear winner. It increased its share of the vote by 15.4 points to 42.3 percent. This placed the ÖVP ahead of the SPÖ for the first time since 1966. By contrast, the FPÖ was the major loser slumping from 26.9 to 10.0 percent (Luther 2003: 144). Wolfgang Schüssel, Martin Bartenstein and Karl-Heinz Grasser were all members of the ÖVP negotiation team and supported a rapid abolishment of early pensions, reduced old age pensions and further expansion of private provisions (interview with business representative; DP 17.12.02; DP 13.01.03). This proved unacceptable for SPÖ trade unionists, but at least the expansion of private pensions was very well possible with the FPÖ (DP 31.12.02; DP 25.01.03). Moreover, the vice-chairwoman of the Greens parliamentary fraction complained that the ÖVP’s budgettary proposals could only be accepted by the FPÖ. Hence, to the regret of the ÖAAB and some state governors, Schüssel entered a new coalition with the FPÖ (DP 25.01.03). The new government included several familiar faces. Wolfgang Schüssel remained chancellor, Martin Bartenstein continued as economics and labor minister, Herbert Haupt remained social minister and Karl-Heinz Grasser was again appointed finance minister.

The 2003 Pension Reform

Once in office, the ÖVP-FPÖ coalition immediately drafted a pension reform and presented it within four weeks. For some groups, this draft would have entailed a reduction of pension benefits of upto 30 percent (Obinger 2005: 217-8) - ‘the most severe pension retrenchment in Austrian history’ (Schulze and Schludi 2007: 591). The main proposals were to (ibid; Obinger 2005: 217-8; Schludi 2005: 186-7):

- abolish early retirement based on unemployment and a long social insurance record until 2009
- increase the reference period for benefit calculation from 15 to 40 years
- reduce the pension calculation coefficient from 2 percent per pension year to 1.78 percent (this increases the period to receive a full pension from 40 to 45 years)
- increase bonus and malus for early pensions from 3.75 percent to 4.2 percent
- extend child-raising credits from 18 to 24 months

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Although social minister Haupt was a member of the FPÖ, the original draft of the 2003 pension reform was initiated and dictated by the ÖVP (interviews with trade unionists and business representatives). Both the opposition parties and the trade unions vehemently criticized the proposal (interviews; DP 05.04.03; DS 16.04.03). Resistance also came from the FPÖ. Its politicians had by and large been unsuccessful in their attempts to water down pension reforms during the hectic coalition negotiations. As such, Jörg Jaider threatened that the FPÖ would quit the government (DP 12.04.03; DP 23.04.03). He also pressed minister Haupt to demand a referendum about the reform. However, the ÖVP bluntly refused this (Dachs 2004: 527-8).

The ÖVP also encountered opposition within its own ranks. Virtually all its state governors demanded softenings, seemingly fearing their electoral fortunes (DP 09.04.03). Moreover, whereas Schüssel and the Business League continued to insist on a rapid implementation without major changes, the 36 ÖAAB parliamentarians and the GÖD refused to go along (DS 12.04.03; DP 16.04.03). To quote a high-ranking ÖAAB politician, ‘of course all ÖAAB deputies must vote against the proposal… The reform should not be part of a budgetary law. This shows what it is all about – short term retrenchment, not safeguarding pensions… The development is neo-liberal and unbearable. The Chancellor’s neo-liberal behavior diametrically contrasts to the Catholic social doctrine’ (in DS 14.04.03). Simultaneously, the president of the Economic Chamber (also ÖVP MP) suggested the social partners were willing to cooperate if the government would opt for complete harmonization and suspend the reform until September 2003 (DP 24.04.03). However, Schüssel turned down this unusual offer of social partner unity (Schulze and Schludi 2007: 592).

As such, the ÖVP party conference on 25 April was heading towards heated debates. The party leadership accepted a critical discussion proposal by the ÖAAB, but managed to appoint it to an internal committee. However, despite several attempts from the party leadership, it could not soften a speech by the highly critical state governor of Higher Austria, Josef Pühringer. Like the ÖAAB, Pühringer demanded improvements in child-raising pension credits, longer transition periods for the retrenchments and no cuts for those with 45 contribution years (DS 26.04.03; DP 26.04.03). Eventually, Schüssel managed to secure his continuation as party leader after promising further expansions in child-raising credits, more harmonization and
more careful considerations regarding the accumulation of losses in pension rights. These would be made concrete by economics minister Bartenstein (DP 28.04.03).

This did not satisfy the ÖGB which planned several strikes with the approval of the Christian trade unionists, including ÖVP MP and GÖD chairman Fritz Neugebauer (DP 29.04.03). The unions managed to mobilize the two biggest strikes for over half a century: One on May 6, with 500,000 participants, and one on June 3. Praise for the reform came from the European Council of Finance Ministers which ‘explicitly encouraged the Austrian government to implement the ambitious reform project in pensions and health care decisively’ (in DS 14.05.03). From May 15 to May 25, the social partners were finally invited to talks with Schüssel, together with some state governors (Dachs 2004: 530), including Josef Pühringer (Schulze and Schludi 2007: 592). However, the government largely neglected the mass protests. Most notably, the government made it public that the coalition parties had reached an agreement on June 3 - the day bringing a million people onto the streets. However, in line with the demands of the FPÖ for approving the bill, the ÖGB had obtained a key concession that pension cuts would be restricted at 10 percent (DP 27.05.03; Busemeyer 2005: 580; Dachs 2004: 529).

Furthermore, the FPÖ could claim credit for introducing a means-tested ‘hardship fund’ for workers receiving pensions below €1,000 per month and, in line with the preferences of the social partners, more harmonization (DP 15.04.03; DP 25.04.03). In addition, the ÖAAB had successfully demanded that workers operating in a physically abrasive work environment are still able to retire early (DS 14.05.03).

Only a few days before the final parliamentary debate there was still disagreement within the government. With the support of Jörg Haider, eight out of ten FPÖ parliamentarians threatened to vote against the reform (DP 06.06.03). They demanded a higher capital stock for the hardship fund and eventually managed to increase it by merely 2 euros per pensioner per month ((DP 12.06.03; DP 13.06.03). This obviously did not come close to the ÖAAB demand that those receiving pensions below €1,000 – over half of the elderly – would not be affected by the reform (DP 03.06.03; DS 06.06.03). However, the ÖAAB deputies and, in particular, GÖD chairman Fritz Neugebauer, also obtained some late minute concessions. Most notably, the losses for civil servants were restricted to 10 percent and workers with long contribution histories (40 to 45 contribution years) would still be able to retire early (DP 04.06.06; DS 06.06.03; DP 11.06.03).
To the regret of some in the ÖAAB, the Nationalrat adopted the bill on 11 June 2003 with the ÖVP and FPÖ majority (DP 13.06.03). Throughout the process, business-oriented politicians in government and Chancellor Schüssel in particular clearly had the initiative. A case in point here is Schüssel’s adherence to the strict tight schedule of early June (originally set at June 4), which was consistently backed by minister Bartenstein and minister Grasser (DP 17.05.03). As the government could sideline at least the SPÖ-affiliated trade unions, the main reason why the government had to make some concessions was opposition from within the coalition parties. The social partners were only involved at a very late stage and seemingly had limited influence. However, a business representative stressed that, in comparison to the trade unions, the employers had ‘of course made use of other possibilities. That is to say, we had substantial influence through the chancellor and ministers in government. Although the government had initiated and pushed through the 2003 reform, its spirit was very close to business. Hence, our proposals were implemented’ (interview).

The 2004 Pension Harmonization

The political process surrounding the 2004 law on pension harmonization differed quite remarkably from the 2003 reform. Instead of a late involvement of the social partners, the government and the social partners now held several round table negotiations from the start in early autumn 2003 (interviews). In this sense, one trade unionist identified a ‘learning process of chancellor Schüssel’, but simultaneously pointed out that this did not include the chancellor’s policy preferences.

In agreement with a proposal by the president of the Economic Chamber, the government decided to introduce a uniform pension system with individual pension accounts in its government declaration (interview with business representative; DP 17.02.03). A few months later, the ÖGB also expressed its intentions to opt for a uniform pension system, but with more generous individual pension rights (DP 08.10.03). Pressure for harmonization thus came from a broad range of the political spectrum, including the SPÖ, the ÖVP Business League and the FPÖ. All insisted on retrenching arrangements for civil servants in particular (interviews; DP 10.02.04).

Nonetheless, the negotiations between the government and the social partners proved to be lengthy as the ÖGB and the SPÖ demanded to retract the 2003 reform (BK 11.03.04: No. 174). Moreover, the SPÖ and the ÖGB insisted on compensations
in pensions for lower income groups due to an increase in health care contributions (DK 25.02: No. 123). In addition, the ÖAAB demanded improvements for these groups (DP 13.02.04). Last but not least, Jörg Haider remained furious about the 2003 reform and demanded more attention for lower income pensioners. Frustrated by the lack of visibility of the FPÖ in defending the ‘little man on the street’, Haider had by and large lost his faith in social minister and party chairman Haupt. In late October 2003, Haupt was complemented by Haider’s sister in his function of chairman in order to restore the frictions between FPÖ representatives in government and party members (DP 21.10.2003; Luther 2006a: 28). Informally, however, Haider remained the ‘strong man’ in the FPÖ (Fallend 2006: 1042).

In July 2004, the government announced the pension harmonization proposal. The main features were to (PK 22.07.04: No. 583):

- Create a uniform pension system mandatory for employees under age 50
- Gradually increase retirement age to 65 by 2033
- Annually adjust pensions according to the price index instead of net wages
- Introduce a ‘sustainability factor’ into the pension formula adjusting benefits according to developments in life-expectancy
- Raise contributions for civil servants, self-employed and farmers to 22.8 percent, 17.5 percent and 15 percent, respectively
- Introduce voluntary pension accounts
- Increase chil rearing credits from €640 to €1340
- Restrict the exception for hard and dangerous manual labor to retire at age 60 to a maximum of 5 percent of the working population
- Limit pension cuts for each individual to 5 percent (gradually adjusted to 10 percent by 2024)

Both the ÖGB and the SPÖ mainly rejected the proposal because the Chamber of Labor had calculated losses of upto 20 percent for some groups and working women in particular from 2024 on (ibid; DP 13.07.04). Nevertheless, they had obtained the key concession that pension cuts for each individual would be limited to 5 percent and gradually adjusted to 10 percent by 2024 (DP 13.07.04).

Furthermore, opposition came from within the government parties. At the time the proposal was presented, social minister Haupt was pushed out of his position as
party chairman. Officially, Haupt gave up his position due to feeble health. According to media reports, however, he was forced to do so because of his lack of popularity and to provide Haider’s sister better opportunities to present her party in public (Fallend 2006: 1043). The FPÖ and the ÖAAB pushed through a permanent exception for those in an arduous working environment to retire at age 60, and an extension of early pensions for workers with long contribution histories (40 to 45 years) until 2010, despite claims from economics minister Bartenstein that these could not be financed (DP 19.07.04; DP 03.08.04; DP 25.08.04; DP 27.08.04).

Not surprisingly, the GÖD once again tried to defend its elderly clientele as much as possible. GÖD chairman and ÖVP MP Fritz Neugebauer had also become ÖAAB chairman in late October 2003. He had repeatedly insisted on softening and postponing the cuts in civil servants’ pensions once harmonization would be on the table (DP 05.06.03; DP 13.07.04). One day before the vote in parliament, Neugebauer was able to ensure that the new legislation would apply to all civil servants from 2033 on (interview with trade unionist). By then, calculations from the social ministry indicated that losses of up to 19 percent would be possible from 2024 on. As such, the FPÖ and some in the ÖAAB unsuccessfully tried to limit the cuts to 15 percent (DP 15.11.04; DP 16.11.04). On November 18, the bill was approved with the votes of the ÖVP and FPÖ. The ÖGB was highly disappointed and demanded that the favorable transition period for civil servants would apply to all employees (DP 19.11.04). Moreover, even some ÖAAB politicians could not hide their frustration. To quote an anonymous ÖAAB parliamentarian, ‘I did not like it that the GÖD was able to obtain good transition periods for higher salaried and elderly civil servants at the end of the negotiations’. In addition, this politician perceived the introduction of a minimum pension, as mentioned in the 2003 coalition program, as ‘an important welfare proposal which was not implemented in the pragmatism of the second Schüssel cabinet. It also was not the major proposal. That’s a pity in itself’ (interview).

By contrast, a business representative noted that ‘in principle, the 2004 law on pension harmonization came from us as well. At the end, the transition periods were too favorable in our opinion. We would not have done it that way’ (interview).
10.3 Conclusion

This chapter started out with the question why power resource theory shed quite some light on pension reform in Austria until 2000. The starting point of my answer lied in the composition of government, that is, Austria had been ruled by a coalition of social democrats and Christian democrats from 1986 to 1999. Both parties had strong ties with trade unions in comparison to their German and, in particular, Dutch sister parties. Due to resistance from unionists in parliament, pension retrenchments failed in 1995, despite increased austerity. Afterwards, we witnessed a reinforced trend of a weakening of influence of trade unionists within the two parties at the expense of more liberal and business-oriented politicians. This trend was strongest within the ÖVP where the business league became the dominant faction, and accelerated when the former chairman of the business league became party leader in 1995 – after the ÖVP had undergone strenuous debates over how to improve the “dismal situation” of a hardly visible minority party in government. From 2000 to 2006, the ÖVP formed a government with the populist party (FPÖ). Despite protests from the Christian democratic employees’ wing and the populist party, the responsible ÖVP government members managed to steer reforms in a market-liberal direction. Although the ÖAAB had no representatives in government, it did manage to flex its moderate muscles together with the FPÖ. Standing stronger together, they were able to delay some cuts and to achieve some compensations for housewives, manual workers and lower income groups.

In line with my proposition on organizational change, pragmatists within the SPÖ weakened against a background of austerity and de-industrialization. However, this process accelerated after the SPÖ had been excluded from government in 1999. Although the new party leader Gusenbauer intended to renew the party’s politicians, its organization and its policy orientation, this proved rather difficult since the party was now lacking ministerial resources and thus became even more dependent on the trade unions’ expertise and finances. In June 2006, the financial end of a large Austrian bank - owned and managed by the ÖGB - further stimulated the process of personnel renewal (the so-called BAWAG-Skandal). By then, Gusenbauer and the ÖGB chairman decided that the latter will no longer be represented in the Nationalrat (DP 22.06.06). Once the SPÖ managed to win the October 2006 elections, coalition talks with the ÖVP proved extremely long and difficult because the rather market-
liberal policy preferences of the Christian democrats contrasted sharply with the preferences of trade unionists in the SPÖ.

For the moment, time is too early to tell whether the SPÖ is moving further in a more pragmatic direction. This seemed to be the case with a SPÖ negotiation team on pensions led by a non-trade unionist, a SPÖ minister without a background in the ÖGB entering office in January 2007, and internal opposition from trade unionists and leftist politicians as the SPÖ had seemingly surrendered to the ÖVP’s rather market-liberal social security plans in the coalition agreement. In March 2008, a strategy paper of the ÖVP became public. It announced the break up of the coalition and a call for early elections (DP 28.03.08). According to the ÖVP’s new party leader - who had succeeded Schüssel after the party had failed to maintain its dominant position in office - the SPÖ was lacking orientation and leadership (http://activepaper.tele.net/vntipps/Molterer_Neuwahl_Erklaerung.pdf). Ironically, the early elections of September 2008 left a renewed SPÖ-ÖVP coalition the only option. By December, the grand coalition was reinstalled. Once again, populist parties had eaten into the electorate of both coalition parties - a process likely to be spurred if the government opts for a market-liberal pension reform agenda in response to the credit crisis.