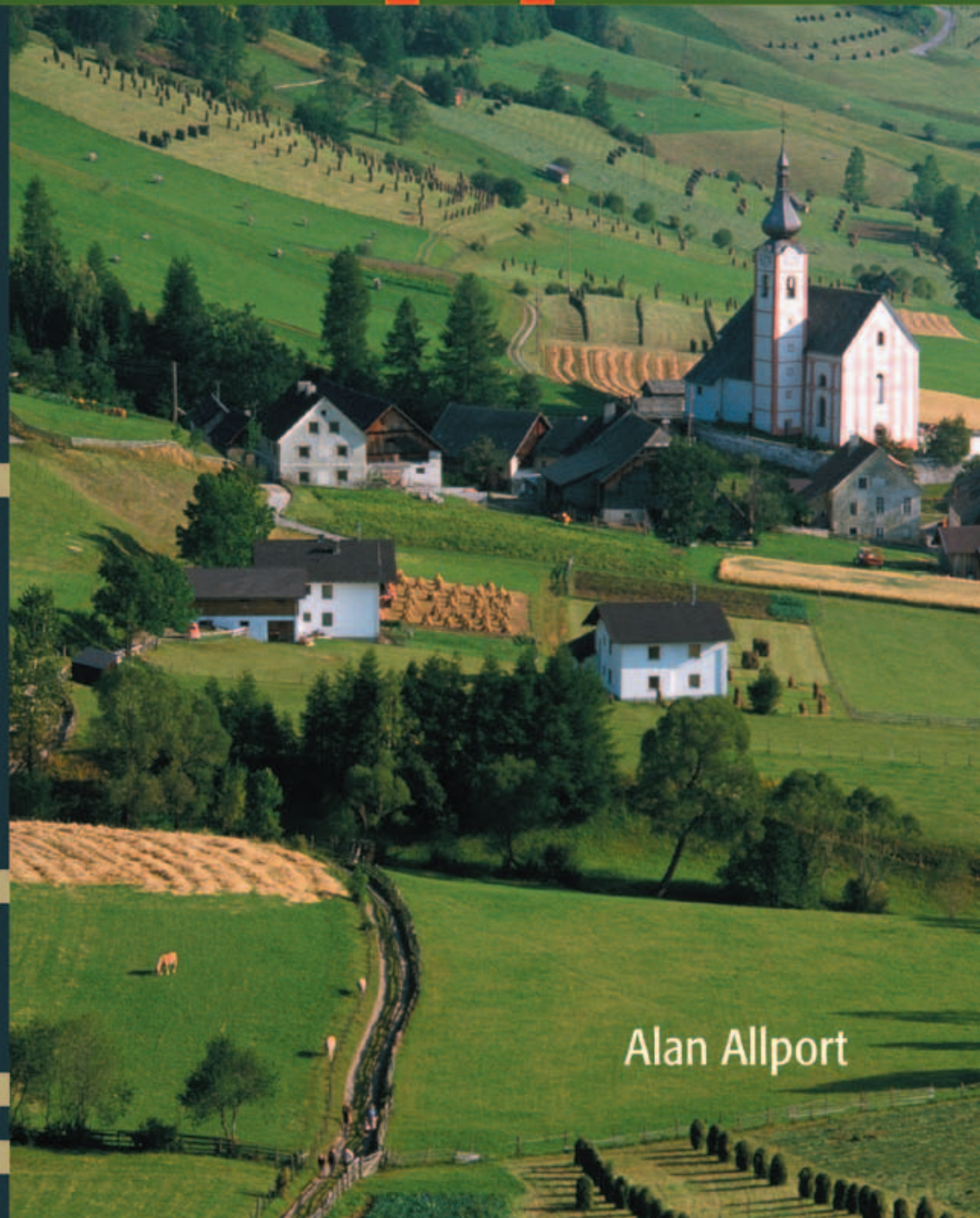




# AUSTRIA



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# 6

## Austria's Economy

In May 1931 the Creditanstalt, one of Austria's oldest and most important banks, collapsed under a mountain of debt. In other small countries the ruin of a big banking concern might have caused some local economic problems, but it probably would not have precipitated a major world crisis. The Creditanstalt failure, however, was different. Austria lay at the heart of Europe's intricate financial web—a web that had been dangerously frayed by the Wall Street crash of the New York Stock Exchange in 1929. The repercussions from the collapse of the Creditanstalt were devastating. Other European banks began to topple and fall, and the panic spread across the Atlantic to North America. Soon, the entire world was in the grip of an economic malaise that became known as the Great Depression, the slump that in part brought about the rise of the dictatorial regimes of Europe and Asia and the outbreak of World War II.

Thankfully, Austria's role in the world economy has rarely been as catastrophic as it was in 1931. But the fall of the Creditanstalt is a dramatic example of Austria's importance to the international financial community. Despite its modest size, Austria's location and resources have long been vital to European economic development. Historically, Austria has gone through a long and—at times painful—transition from a mainly agricultural to a high-tech capitalist base, and in the 21st century it faces new challenges as it adjusts to the changing economic realities of globalization and the decline of old heavy industries.

### Land and Resources

As you might imagine, a country as festooned with mountains and forests as Austria has never been an easy place to develop economically. This is not to say that the Alpine lands are without value, however. On the contrary, Austria has many useful economic resources such as metals, minerals, timber, and even oil and gas. The problem for Austrians throughout history has not so much been the scarcity of useful raw materials as the difficulty of extracting them from a challenging terrain; the areas richest in assets have often been hardest to utilize.

By the sixth century B.C. settlers were mining the salt deposits in the Salzburg region, from which the name of the province derives. It was however copper, and above all iron, which attracted early entrepreneurs like the Romans to Austria; the famous Iron Mountain (Erzberg) in Styria, made almost entirely of its namesake metal, has been strip mined for centuries for its valuable ores. In more recent years Austria's hillsides have also yielded magnesite (a key ingredient in modern chemistry), lead, lignite, and zinc. The thick belts of forest covering these hills can also be used for timber and paper.

Austria has several important energy resources, though not nearly enough to sustain the huge demands of its modern economy. Although some petroleum and natural gas deposits



have been discovered in the eastern part of the country, and it is estimated that the whole region north of the Alps may lie on top of a vast underground oil field that could one day be tapped, for the time being Austria still has to import most of its petrol, coal, and gas supplies from abroad. Electricity is a different story, however. About two-thirds of Austria's electric supply comes from a series of ingenious hydro dams, which use the waterpower of the country's lakes and rivers to turn enormous turbines, generating inexpensive and pollution-free electricity.

Agriculture has always been difficult in Austria for practical reasons, and in recent years it has become a thorny political question as well. Only the eastern part of the country, around the Danube Valley, is really suited to traditional arable farming of cereal crops, potatoes, and sugar beets. Farmers in the hillier Alpine regions, where the land is more rugged and difficult to plough, prefer to keep livestock such as pigs, poultry, and cattle. Before World War II a fairly large proportion of the Austrian labor force, especially in the west, was still concentrated in the agricultural sector. After 1945, however, the share of the population living or working on farms dwindled rapidly. Ironically, part of the reason for this is the enormous increase in agricultural productivity that modern farming methods, especially mechanization, have produced; Austria is now capable of supplying all of its own cereal, meat, and milk needs, which has meant that many farming communities have been surplus to requirements and have drifted out of agriculture altogether, switching to tourism for their income.

The postwar decline of the Austrian small farm raised concerns among many citizens that the traditional social fabric of their countryside was in jeopardy. The government in Vienna responded to this by becoming heavily involved in the agricultural industry, setting minimum market prices and providing generous subsidies to farming concerns. This has kept the remaining Austrian rural sector at an artificially stable size, but it has ill-prepared the country's farmers for the

challenges of competition from abroad. Austria's complex agricultural regulations were a key sticking point when the country negotiated its entry into the European Union in the 1990s, and they continue to cast a shadow over its relationship with its EU partners. Those Austrian farmers who have found it difficult enough to maintain their traditional pastoral life in an increasingly industrialized and urban society now worry that they will lose the government support that has kept their small family-run farms viable.

### **Manufacturing and Services**

One of the paradoxes about Austria is that a country with such a landscape of wilderness should also be a major conduit of human contact and communication. As we saw earlier, the Austrian Alps are intersected by a series of mountain passes that provide a land bridge between the Baltic and Mediterranean worlds, while the River Danube connects Western Europe to the Balkans and the Black Sea. It is not surprising, then, that Austria has long played a major role in transcontinental trade, with Vienna acting as one of the key commercial centers of medieval Europe. This mercantile heritage provided the foundation for Austria's important role as an industrial and financial hub in the modern era.

Modern Austria is one of the world's most industrious and profitable manufacturing nations. The country makes and exports sophisticated goods like specialized ores, tools, textiles, glass, and porcelain as well as many unique luxury items requiring skilled workers and equipment; about half of all the world's skis are made in Austria, for example, perhaps not surprising given the local demand for them. During the 1950s and 1960s, Austria predominantly invested in traditional heavy industries like steelmaking, and a large proportion of the country's workforce was employed in large smokestack factories, producing industrial goods for engineering and machine works. During and after the 1970s, however, there was a slow



Navigable by barges from Ulm, and by larger craft from Regensburg, the Danube is an important shipping route, with canals linking it to other ports.

but steady global decline in the demand for this kind of production, and the focus of the Austrian economy shifted from metals and chemicals to the “service” sector—industries like retail trade, banking, and telecommunications. This was a difficult transition for a mass workforce used to factory methods, and like many European countries Austria suffered serious unemployment.

One service industry in particular, tourism, is especially important to the modern economy. Austria has the highest per capita income from tourism in Europe, and the country's





Skiing remains a major attraction in the Austrian Alps. Each year, thousands of enthusiasts gather at places like Stubai Glacier to enjoy the sport and the dramatic scenery.

unquestionable natural charms, rich cultural heritage, modern amenities, and central location make it an obvious destination for foreign travelers. Indeed, catering to the world's vacation seekers has become so critical a facet of Austria's economic life that all of its political decisions must take the potential impact on tourism into account. The country's new focus on environmental responsibility has been propelled partly because it was feared that Austria's lucrative beauty spots might be in peril from pollution. Unfortunately, mass tourism tends to create ecological pressures of its own, and so the

desire for ever-greater numbers of visitors has to be weighed carefully against Austria's environmental sustainability.

### **National Industries and Privatization**

In 1946 the new postwar Austrian government introduced a nationalization law that put control of the country's 70 most important industrial companies in state hands. The government became the sole owner of Austria's mining, oil refining, and electrical-power industries and also took responsibility for all major banks. In a single sweep, Austria's government now employed one-fifth of the country's labor workforce and soon controlled a higher proportion of national productive output than any other country in Western Europe.

This system of state paternalism has characterized Austria's economy for most of its modern history. It has been a policy with mixed success. Nationalization brought full employment and the guarantee of stability to a people who unsurprisingly ranked economic security highly on their list of wants. During the 1950s and 1960s, while Austria enjoyed rapid economic growth from its postwar ruins, nationalization remained popular with the voters. But as the 1970s ushered in a period of worldwide economic fluctuations caused by an energy crisis and the decline in heavy industrial demand, critics began to voice complaints about the system. It encouraged economic sluggishness and lack of entrepreneurial zest, they claimed, and the managers of the state companies were too closely connected to leading politicians; nationalization was at best inefficient—and at worst corrupt.

Between 1975 and 1985 Austria's ruling Socialist Party (SPÖ) introduced numerous institutional reforms intended to make the country's nationalized industries more cost effective and less beholden to political interests. The collapse of the Soviet Union and the communist Eastern Bloc in 1989 to 1991 and Austria's correspondingly new relationship with the European Union (for which see more below) encouraged even



more radical changes, and during the 1990s the process of economic privatization began in earnest. For all of its newfound enthusiasm for the free market, however, Austria remains by Western European standards a country with an unusually large amount of government influence in the economy.

It is ironic in light of all this that Austria's most significant contribution to modern economic theory, the "Austrian School" of economics, is characterized by a distrust of the state. The Austrian School was founded by a group of professors teaching at the University of Vienna at the beginning of the 20th century, and although their individual attitudes varied somewhat, one of the school's overall beliefs was that governments should interfere in the workings of the market economy as little as possible. The most important student of the Austrian School was Friedrich Hayek (1899–1992), a Viennese-trained economist who emigrated to Great Britain during the 1930s. Hayek's famous book, *The Road to Serfdom*, was influenced by developments he witnessed in the Nazi and Communist spheres. He won the Nobel Prize for Economics in 1974.

### The "European Question"

Perhaps the most pressing of all Austria's economic problems is its relationship with the European Union, or EU, which it joined in 1995.

The postwar Austrian government was committed to a policy of neutrality during the Cold War between the United States and the Soviet Union. This meant, among other things, that Austria had to avoid becoming involved in entangling political relationships on either side of the Iron Curtain, and this prohibition included membership of the EU—originally known as the European Economic Community, or EEC—founded in 1958 by France, West Germany, Italy, and the "Benelux" countries (Belgium, the Netherlands, and Luxembourg). Although officially concerned only with matters of international trade, from its very beginnings the membership of the EEC had clear

political implications, and these became more explicit during the 1970s and 1980s as the organization moved toward greater legal unity between its member states.

In 1960 in place of the EEC, Austria joined what was known as the European Free Trade Association (EFTA), a less closely linked group of states that included Great Britain, Portugal, Switzerland, and the Scandinavian countries. EFTA never really prospered, and as more of its members left to join the EU, Austria found itself more and more economically isolated. This limited Austria's export growth but also allowed it to manage its domestic economy without outside interference.

The end of the Cold War released Austria from its vow of neutrality and opened up the possibility of joining the EU. This initiated an often-rancorous debate within Austria about the country's proper relationship with the rest of Europe, a debate that crossed traditional party lines and created unusual coalitions of left- and right-wing politicians. The public remained skeptical, and the 1995 vote in favor of membership by a 66 percent majority was by no means preordained.

Austria's place within the Union remains an ambivalent one. Membership gives Austrians unprecedented access to one of the richest commercial markets in the world, but it has also required the country to reduce its large budget deficit and deregulate its rigorously controlled financial and energy industries, a process that it still taking place. Integration into the EU opens up the unwelcome prospect of competition from outside, while some Austrians have seen the Haider controversy as an intrusion into their own democratic decision making. The replacement of the schilling with the euro as the country's monetary unit in 2002 will likely heighten these tensions as well as open up new business opportunities. Although Austria has re-entered the mainstream of European economic development, not all Austrians agree as to whether their country really belongs there.

### Land and People

**Official Name**

Republic of Austria (Republik Österreich).

**Capital and Seat of Government**

Vienna (1991 population: 1,533,000).

**Other Major Cities**

Graz (1991 population 232,000), Linz (202,000), Salzburg (143,000), Innsbruck (114,000).

**Language**

German.

**Area**

32,378 square miles (83,858 square kilometers).

**Population**

8.07 million (1998 census).

**Population Density**

249 persons per square mile (1998 census).

**Religion**

78 percent Roman Catholic, 5 percent Protestant, 17 percent none or other.

**Highest Point**

Grossglockner, 12,460 feet (3,798 meters).

**Mountain Ranges**

Austrian Alps (Bavarian, Carnic, Kitzbühel, Lechtal, Ötztal Ranges).

**Major Rivers**

Danube, Drava, Enns, Inn, Mur.

### Economy

**Currency**

Euro (replaced Austrian schilling in January 2002).

**Chief Agricultural Products**

Grain, fruits, potatoes, sugar beets.

**Major Industries**

Construction, machinery, vehicles and parts, food, chemicals, lumber and wood processing, paper and paperboard, communications equipment, tourism.

**Natural Resources**

Iron ore, oil, timber, magnesite, lead, coal, lignite, copper, hydropower.

### Government

**Form**

Federal Republic.

**Suffrage**

19 years of age, universal. Compulsory for presidential elections.

**Legislative Assembly**

Bicameral: two legislative houses, National Council (Nationalrat), Federal Council (Bundesrat).

**Head of Government**

Chancellor.

**Head of State**

President.

**Political Divisions**

Nine self-governing *Länder* (provinces): Burgenland, Carinthia, Lower Austria, Upper Austria, Salzburg, Styria, Tyrol, Vienna, and Vorarlberg.



## History at a Glance

- 7000 B.C.** Earliest known human settlement of Austria.
- 1000–400 B.C.** Halstatt civilization.
- 400–15 B.C.** Celtic civilization (kingdom of Noricum).
- 15 B.C.–405 A.D.** Roman occupation.
- 782** Franks establish Eastern March.
- 880** Magyars conquer Eastern March.
- 955** Eastern March re-established by Frankish King Otto I.
- 976** Leopold of Babenberg made Margrave of Eastern March. Beginning of Babenberg period.
- 1246** Death of the last Babenberg, Duke Frederick II.
- 1273** Rudolf of Habsburg elected Holy Roman Emperor.
- 1278** Rudolf conquers Otaker II of Bohemia at the Battle of the Marchfeld and becomes Duke of Austria. Beginning of Habsburg period.
- 1365** University of Vienna founded.
- 1440** Frederick III elected Holy Roman Emperor. Habsburgs continue to hold the title almost without interruption until the empire's dissolution in 1806.
- 1516** Charles V becomes king of Spain, completing his enormous territorial inheritance.
- 1521** Charles hands over power in Austria to his brother Ferdinand. Division of the Habsburg family into Austrian and Spanish houses.
- 1526** King Louis of Bohemia and Hungary killed by Ottoman Turks at the Battle of Mohács. Ferdinand claims both titles but is able to gain complete control only of Bohemia.
- 1529** Ottomans unsuccessfully besiege Vienna.
- 1618–1648** Thirty Years' War.
- 1683** Ottomans attempt second unsuccessful siege of Vienna. In the ensuing rout, Austria conquers all of Hungary.
- 1701–1714** War of the Spanish Succession.
- 1716–1750** Main years of Baroque artistic period.
- 1740–1748** War of the Austrian Succession.
- 1756–1763** Seven Years' War.
- 1781–1791** Wolfgang Amadeus Mozart composing in Vienna.
- 1792–1815** French Revolutionary and Napoleonic Wars. Abolition of Holy Roman Empire (1806). Period ends with Congress of Vienna.

- 1815–1848** Main years of Biedermeier artistic period.
- 1848–1849** Revolution throughout Austrian Empire. Hungarian uprising quelled by Russian troops. Franz-Josef becomes emperor.
- 1848–1897** Main years of Historicist artistic period.
- 1866** Austro-Prussian War.
- 1867** “Compromise” (Ausgleich) with Hungary: Empire renamed Austria-Hungary.
- 1897–1918** Main years of Jugendstil artistic period.
- 1914–1918** World War I, precipitated by the assassination of Archduke Franz Ferdinand in Sarajevo (1914).
- 1916** Death of Emperor Franz-Josef.
- 1918** World War I ends with collapse of Austro-Hungarian Empire. End of the Habsburg period.
- 1919** Treaty of St. Germain. Federal Republic of Austria created.
- 1927** “Black Friday” police action against left-wing demonstrators leaves over 90 dead.
- 1931** Collapse of the Creditanstalt bank ushers in the Great Depression.
- 1933–1934** Political crisis. Chancellor Dollfuss suspends parliament, suppresses Social Democrat uprising, is killed in unsuccessful Nazi putsch.
- 1938** Anschluss (union) between Austria and Nazi Germany.
- 1939–1945** World War II. Ends with Austria occupied by France, Great Britain, United States, and USSR.
- 1955** Austrian State Treaty. Second Federal Republic created.
- 1966** End of Grand Coalition between socialists and People’s Party.
- 1986** Kurt Waldheim elected president under great controversy.
- 1995** Austria joins European Union (EU).
- 1999** Right-wing Freedom Party of Austria joins government. Diplomatic sanctions imposed by EU.
- 2002** Austria replaces its own currency, the schilling, with the EU euro.