

# Incomes Policy in Austria<sup>1</sup>

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**I**N MOST INDUSTRIAL COUNTRIES inflation has recently proved to be more intractable than had generally been anticipated, and conviction has been growing that the authorities will have to supplement financial policies with measures designed to restrain the rise in wages and prices in a more direct manner. Hence, the current interest in the experiences of countries that have traditionally pursued incomes policies. This paper discusses the experience of one such country, namely, Austria. For the purpose of the paper, incomes policies are understood to be measures, adopted by the government or certain other institutions, toward controlling directly the process of wage and price formation.

Section I of the paper considers some fundamental aspects of Austrian incomes policies. Section II summarizes wage and price policies in the period between the end of World War II and the establishment of the current system of controls. Section III describes the current system of controls and its operation. Section IV deals with recent proposals for modifying the system. Section V assesses the effectiveness of controls, and Section VI presents conclusions.

## I. Fundamental Aspects of Austrian Incomes Policies

Direct measures to control wage and price developments in Austria, and particularly their coordination, date back to the period following the end of World War II. Certain aspects underlying the incomes policy mechanisms may be traced to that period and reflect circumstances prevailing at the time, despite subsequent reforms in the mechanism.

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In general, the task of postwar reconstruction facilitated the coordination of policies among different political parties and organizations representing the interests of business, labor, and farmers. Specifically, these organizations are the Chamber of Commerce and Industry, the Chamber of Workers and Salaried Employees, the Federation of Trade Unions, and the Chamber of Agriculture and Forestry. Both chambers and unions are hierarchically structured and are organized by geographical region and industrial sector. Owing to the joint supervision of the Austrian Government by the Allied Powers from 1945 until 1955, the Government remained relatively weak, while the chambers and unions gained in importance and increased their political leverage. Their functionaries were associated with the two main political parties, the Christian-Democratic Peoples Party and the Socialist Party, and frequently became members of the Cabinet, which in turn led to a close relationship between government and organized interest groups.

The coordination of policies was reflected in a coalition government, in which both the Peoples Party and the Socialist Party were represented, that lasted for 20 years. The increasing importance of the chambers and unions came to be reflected in statutory provisions. The law assigns to them advisory roles in many government decisions, both political and economic. They participate, inter alia, in the administration of social insurance<sup>2</sup> and of various agricultural policies,<sup>3</sup> and they must be consulted sometimes concerning the regulation of cartels.<sup>4</sup> They also take part in the process of price legislation (see Section II).

<sup>2</sup> The unions and chambers may nominate members to the administrative bodies of the social insurance system. See Social Insurance Act, 1955, in the version of the *Bundesgesetzblatt* (hereafter referred to as *BGBI.*) No. 17/1969, § 421 (1).

<sup>3</sup> The Market Organization Act has established special "funds" to assure adequate supplies of grain, milk, and meat products. The funds are administered by a "parity commission," one third of whose members are nominated by the Chamber of Agriculture and Forestry, one third by the Chamber of Commerce and Industry, and one third by the Chamber of Workers and Salaried Employees. See Market Organization Act, 1958, in the version of *BGBI.* No. 36/1968, § 45 (1). The Agricultural Act has established a "parity commission" that assists in preparing annual reports on agriculture that also contain recommendations for subsidies. The commission must be heard when decisions on subsidies are made. It has eight members with equal representation of the Chambers of Agriculture and Forestry, Commerce and Industry, and Workers and Salaried Employees, and of the Federation of Trade Unions. See Agricultural Act, 1960, *BGBI.* No. 155/1960, § 7 (2).

<sup>4</sup> The Cartel Act provides for a "parity commission" that has two members each from the Chamber of Commerce and Industry and the Chamber of Workers and Salaried Employees. The Commission's opinion must be heard regarding all cartel applications. See Cartel Act, 1959, in the version of *BGBI.* No. 241/1968, §§ 8, 11, 14, and 20(d).

From the beginning of incomes policy in Austria, the chambers and unions have been its principal agents. The fact that they have been involved in policy formation on a large scale and beyond their immediate economic interests may have contributed to a generally favorable disposition toward collective settlements and compromise solutions, thereby creating conditions conducive to the operation of incomes policies.

## II. Incomes Policies Preceding the Current System of Controls, 1945–56

Between the end of World War II and the establishment of the current system of wage and price controls, four periods may be distinguished in chronological order: (1) the immediate postwar years, 1945–47; (2) the wage/price agreements of 1947–51; (3) the program of voluntary restraint, 1951–52; and (4) the temporary absence of controls, 1952–56.<sup>5</sup>

### THE IMMEDIATE POSTWAR YEARS

Austria's economy at the end of World War II was characterized by low levels of production, excess money supply, and high rates of inflation. Output was well below that registered in 1937 and 1938, while the money supply was a multiple of its prewar figure. In the two years following the end of the war, wage and price behavior was affected by a number of important developments: (a) the transfer of control over prices and, later, wages by the Allied Powers to the local authorities; (b) the decentralization of price and wage controls; and (c) the sharp rise in food prices in the first half of 1947.

In July 1945, price control was transferred by law to the Austrian Government (see the *Bundesgesetzblatt*—hereafter referred to as *BGBI.*—No. 89/45). While this law related to the control of all prices, it was never applied to the prices of industrial products, and control extended only to the prices of certain foodstuffs, raw materials, and services. The procedures established by the law were virtually the same

<sup>5</sup> For an extensive discussion of developments during these periods and, in particular, of the wage/price agreements, see Edelman [12]. The numbers in square brackets refer to items listed in the Bibliography, pp. 200–202.

as they are under the present Price Control Act (*BGBI.* No. 151/57).<sup>6</sup> Wages continued to be controlled by the Inter-Allied Wage Board until January 1946. Between April 1945 and April 1946, a period coinciding largely with Allied wage control and domestic price control, both the cost of living index of officially controlled prices and the index of net hourly earnings rose by about 14 per cent.<sup>7</sup> However, owing to severe shortages, demand could not be met at the controlled prices; black market prices for food were much higher, so that real wages remained depressed.<sup>8</sup>

With the law of January 28, 1946 (given in *BGBI.* No. 50/46), wage control was transferred to the Austrian Government, and the Central Wage Commission was established under the auspices of the Ministry of Social Affairs. The Commission consisted of two representatives of labor, two representatives of industry, and one representative of the Ministry of Social Affairs. In contrast to the coordinated approach to wage and price policies that was instituted later, the authorities in charge of price and wage control until the second half of 1947—when the first wage/price agreement was concluded—exercised control independently of one another and freely approved proposed wage and price adjustments. Between April 1946 and April 1947, with the control of both prices and wages under domestic jurisdiction, the indices of officially controlled prices and hourly earnings rose by about 50 per cent.

The substantial disparity between controlled prices and black market prices for food led to increasing pressures for an upward adjustment of controlled prices. The situation was further aggravated by poor harvests and the fact that, compared with those in 1937, industrial prices had risen about twice as fast as agricultural prices, compared with levels recorded in 1937.<sup>9</sup> An increase in food prices was therefore inevitable; between April and July 1947 food prices rose by 83 per cent, involving an increase of 50 per cent in the cost of living index. Earnings, however, rose by only 20 per cent, leading to a further

<sup>6</sup> See the section, PRICE LEGISLATION, for a discussion of the Price Control Act.

<sup>7</sup> The indices relate to expenditure and earnings of a married worker with two children.

<sup>8</sup> See Edelman [12], Chapter 1, pp. 9–21, and *Monatsberichte* [25], various issues.

<sup>9</sup> See "Die wirtschaftliche Lage in Österreich," *Monatsberichte* [25], Vol. XX (September 15, 1947), pp. 204–205.

decline in real wages.<sup>10</sup> Strikes followed in the wake of these developments and prompted negotiations to establish coordinated controls of prices and wages. The negotiations resulted in an agreement, which was approved by the Council of Ministers, providing for a general adjustment of prices and wages. In each of the successive years, until 1951, additional wage/price agreements were concluded.

### THE WAGE/PRICE AGREEMENTS

The years of the wage/price agreements mark the beginning of an era in which wage and price controls were administered in a "spirit of permanent compromise," which is still considered to be the basis of industrial relations. The agreements were negotiated by the chambers and unions that together formed the Economic Commission within which negotiation took place, wage and price policies were coordinated, and agreements were concluded. In all instances, the Federation of Trade Unions explained the provisions of the negotiated settlements to a meeting of shop stewards (*Betriebsräte*) and succeeded in obtaining a vote of confidence. Subsequently, the Cabinet Council approved the agreements, and, finally, Parliament passed them as laws. Any violations of the agreements could therefore be brought before the courts.

Of the five agreements, the first two were closely related to demands by farmers, whose prices were far below prices in the world market because of wartime controls. The third agreement had to accommodate the demands of civil servants, while the fourth and fifth agreements were prompted by developments caused by the Korean War. In all instances, price adjustments were accompanied by wage adjustments designed to protect the real income of wage earners.

The first agreement was concluded in August 1947; it established new prices for food, rent, coal, and public utilities, which together accounted for 70 per cent of the cost of living for a married worker with two children. Wage rates and unemployment compensation were raised, and a bill was passed exempting these wage increases from taxation. The demand by labor unions for a reduction in the excess supply of money was met some four months later, after cooperation had been assured from the Association of Austrian Industrialists and its opposition to government control of money and credit had been

<sup>10</sup> See Edelman [12], and *Monatsberichte* [25], various issues.

overcome. A monetary reform bill was passed providing for the exchange of old for new schillings at a ratio of three to one. In subsequent months, black market prices dropped sharply, and wages and officially controlled prices remained stable. The direct consequence of the fall in black market prices was a decline of about 60 per cent in total farm income by May 1948. As a result, farmers demanded price increases. However, they were at first accommodated by the introduction of government subsidies on milk and other basic foodstuffs.

All the same, farmers' demands led to the second agreement, in September 1948. Prices of food were raised, wages were increased correspondingly, and an additional wage increase was granted to reflect labor's share in productivity gains.

The third agreement, in June 1949, followed in the wake of salary demands by civil servants and the Government's attempt to contain a growing budget deficit by raising taxes and charges for public utilities. Civil servants, whose salaries had not been adjusted in the previous agreements, received an additional month's pay. The rise in the cost of living owing to increases in taxes and charges and the reduction in subsidies on imports and agricultural products that became effective at the same time were only partly offset by wage adjustments, so that real wages fell. Labor unions, however, were appeased by increases in the Government's contribution to the social insurance fund and by the creation of a pension scheme for wage earners.

Initially, the agreement appeared to have a stabilizing effect. However, any such effect was offset by two developments: (a) the upsurge in world market prices following the outbreak of the Korean War in June 1950; and (b) the insistence of the Mission for Economic Cooperation, which administered aid to Austria under the Marshall Plan, that import subsidies be removed. Both of these developments necessitated increases in food prices. The Federation of Trade Unions consented to price increases on the condition that they would be enacted within the framework of a fourth wage/price agreement, which was concluded in September 1950.

As the Korean War continued, raw material prices rose further. In these circumstances, the agreement did not provide even temporary relief from inflationary pressure. The Economic Commission, representing the chambers and the Federation of Trade Unions, proposed price controls and rationing of a number of commodities to cope with increasing shortages and rising prices of domestic and imported goods.

In April 1951, these proposals were given statutory basis and an Economic Directorate was established for this purpose. Members of the new directorate were the Chancellor, the Vice-Chancellor, and other government ministers. The chambers and the Federation of Trade Unions were given advisory roles only.

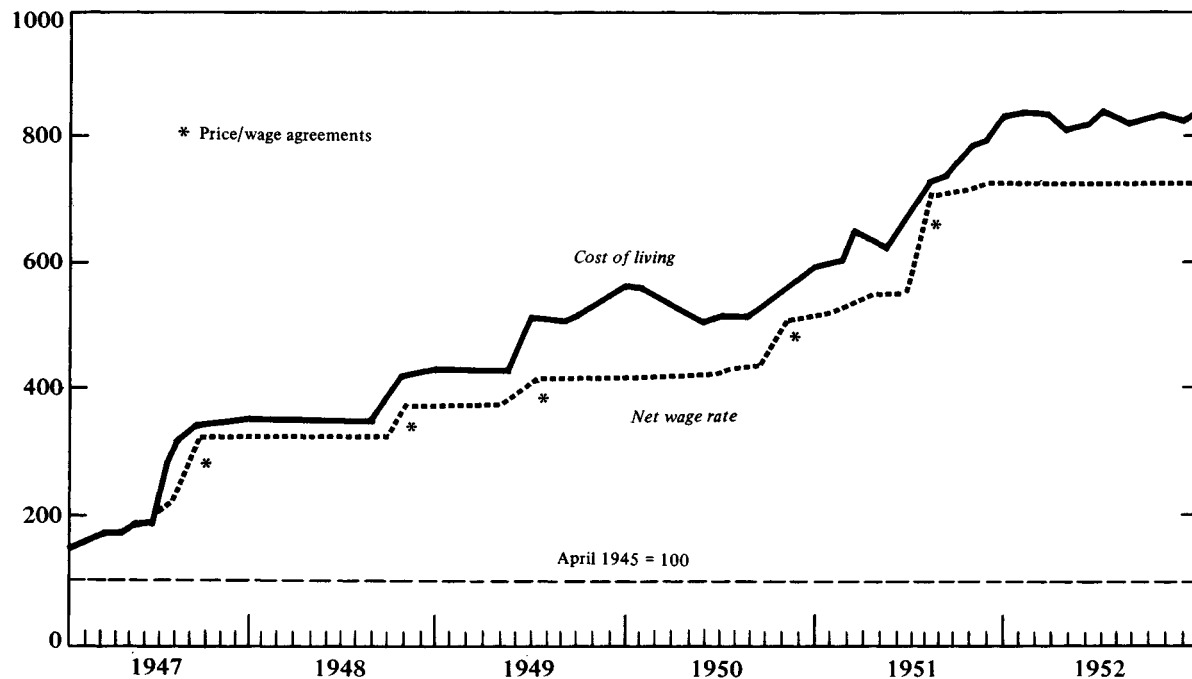
Further developments, such as additional reductions in farm subsidies and a doubling in the price of fuel imported from Czechoslovakia and Poland (then Austria's main suppliers), led once more to negotiations for a comprehensive wage/price agreement. This time, however, the negotiating parties could not agree on a compromise, and, upon request by the Federation of Trade Unions for government intervention, the Chancellor submitted the issue to the Economic Directorate. After some time a compromise was reached within the Directorate and the fifth wage/price agreement was announced in July 1951. In addition to providing for price and wage adjustments, this agreement created a committee to interpret the agreement before disputes relating to it could be taken to the labor courts.

In Chart 1, the settlements that were achieved in the five wage/price agreements are shown as they relate to Vienna. Judging by the stability of consumer prices and wages following each agreement, it appears that the first two agreements were more successful than the others. However, in the last two agreements in particular, failure to prevent inflation was due in large measure to factors originating abroad and therefore beyond the control of the negotiating parties. The chart also shows that settlements in earlier agreements either were superseded by corresponding settlements in later agreements or were eroded by inflation. In any event, the merits of the agreements cannot be judged on the basis of wage and price movements alone, considering the potential for strikes and economic disorder in those years. The low incidence of industrial disputes during this period indicates that, at least in this respect, the agreements may have had a restraining effect.

#### VOLUNTARY RESTRAINT

Inflationary pressures, partly in response to external price and cost developments, continued in the months immediately succeeding the conclusion of the last of the wage/price agreements. Further negotiations between the Economic Commission and the Association of Austrian Industrialists led to a program of voluntary restraint that was adopted

CHART 1. AUSTRIA: COST OF LIVING <sup>1</sup> AND NET WAGE RATE <sup>2</sup> IN VIENNA, 1947-52



Source: J. M. Edelman, *National Economic Planning by Collective Bargaining: The Formation of Austrian Wage, Price, and Tax Policy After World War II*, Institute of Labor and Industrial Relations (University of Illinois, 1954), p. 18.

<sup>1</sup> Worker's family of four.

<sup>2</sup> Married worker with allowance for two children, after deductions.



in September 1951. In exchange for a reduction of up to 5 per cent in the prices of a number of consumer items, the unions agreed to refrain from demanding wage increases. While lacking statutory basis, this program was more successful than the preceding agreements, and wages and prices were stabilized. However, this stabilization was presumably aided by the decline in economic activity in the latter part of 1951.<sup>11</sup>

The restraint program marks the transition from statutory to "voluntary" wage and price policies, under which negotiated settlements were no longer signed into law. This transition was further emphasized by the dissolution of the Economic Directorate following the repeal of the statute on which it had been based.<sup>12</sup>

#### ABSENCE OF CONTROLS

Although coordinated policies had finally helped to achieve stability, none of the parties to the wage/price agreements and the voluntary restraint program felt that these arrangements had furthered its interests. The experience with compromise solutions was regarded as disillusioning, and continuation of existing wage and price policies was not supported. This attitude may partly explain the absence of wage and price policies in subsequent years. However, by 1956 it appeared that the need for such policies was not independent of the cyclical position in the economy. Owing to strains on capacity, inflationary pressure increased, and reactivation of the control system came to be considered.<sup>13</sup>

In October 1956, the Government and the members of the former Economic Commission decided to re-establish a system of controls. In addition to the urgency caused by accelerating inflation, such action was doubtless facilitated by the fact that the persons now holding the offices of Chancellor of the Federal Government and President of the

<sup>11</sup> Other important factors in achieving stability were the devaluation of the Austrian schilling in 1953 (see, for example, Sturc [32]), and the continued aid under the Marshall Plan.

<sup>12</sup> In 1952 the Supreme Court ruled that the existence of the Directorate was unconstitutional, since it conflicted with the provision that final administrative authority had to rest exclusively with the minister in question and not with a commission whose decisions are taken collectively. See the Federal Constitution of Austria, Art. 69 (1), and the decision of the Supreme Court in Antonioli [1], pp. 182 ff.

<sup>13</sup> For the relation between the cyclical position in the economy, as indicated by demand pressure variables, and inflation, see Fleissner and others [13], Part I, p. 88.

Federation of Trade Unions had been the main protagonists in past wage/price agreements and in the voluntary restraint program. Despite interruption of coordinated wage and price policies, some measure of continuity had therefore been preserved.

### III. The Current System of Controls

#### INSTITUTIONS AND THEIR FUNCTIONS

In March 1957, a decision of the Council of Ministers recommended the establishment of a Parity Commission for the control of earnings and prices. Price control was to be exercised through a Subcommission on Prices, while wages and salaries were to be controlled directly by the Parity Commission. The commissions were set up on the basis of this decision; neither was instituted by statute. The decision also set forth certain guidelines for the work of the commissions.

The Subcommission on Prices was to examine the appropriateness of requested price increases in the light of the general economic welfare. Furthermore, price increases should be approved only if there were cost increases that could not be absorbed by raising productivity. The chambers and the Federation of Trade Unions were informed that applications for price increases would have to be submitted to the Subcommission and that when there were unilateral price increases, that is, increases without the Commission's approval, the Government would take measures to reduce their impact. In particular, this would be accomplished through selective tariff and commercial policies.<sup>14</sup> The Parity Commission was to exercise surveillance and a certain measure of guidance in major wage negotiations and to consider the appropriateness of proposed wage and salary increases. Moreover, the Commission was to deal with matters that the Subcommission on Prices either referred to it or failed to decide. In deciding on the appropriateness of proposed price or wage increases, the commissions could address themselves to both the amount and the timing of the proposed changes.

<sup>14</sup> Only one incidence of such government intervention is known. In 1958 the Government removed the tariff on imports of cigarette paper in response to a unilateral increase in the price of domestically produced cigarette paper. However, the intervention had little effect, since at the time foreign prices were higher than domestic prices. See Wenger [42], pp. 11 and 12.

Accelerating inflation prompted substantial modification of the mechanism of incomes policies in 1962. In response to criticism that incomes policies were ineffective, the Subcommittee on Wages was set up and price legislation was amended.<sup>15</sup> The amendment was to strengthen the sanctions available to the Subcommittee on Prices against unilateral price increases. In accordance with this amendment, the Minister of Interior may set specific prices for a maximum duration of six months, provided that the chambers and unions determine that prices had been increased unilaterally by a company that holds a dominant position in the market.<sup>16</sup>

The new Subcommittee on Wages was to relieve the Parity Commission of the administration of wage and salary control in all cases other than (1) those of "fundamental importance," and (2) those in which approval of wage and salary settlements might result in price increases. In addition, the Parity Commission was to decide cases where the Subcommittee failed to reach a decision. Summary presentations of the composition, function, and other aspects of the Parity Commission and the two Subcommittees are given in Tables 1-3.

#### ADMINISTRATION OF CONTROLS

In the control of wages, salaries, and prices, procedures have developed that are by now well established.<sup>17</sup> Individual unions submit their requests for wage and salary increases to the Federation of Trade Unions, which passes the requests on to the Subcommittee on Wages. Companies submit their applications for price increases to the Subcommittee on Prices either directly or, alternatively, through the Federal Chamber of Commerce and Industry. Either way, the Minister of Interior and the Assembly of the Provincial Chambers of Workers and Salaried Employees are notified of applications for price increases and may ask for additional information.

By virtue of their position as intermediaries between applicants and the commissions, the Federation of Trade Unions and the Federal Chamber of Commerce and Industry can exert considerable influence on the form, content, and timing of applications. Their ability to prevent wage and price increases outside the established channels can be

<sup>15</sup> For the assessment of policy effectiveness, see Section V.

<sup>16</sup> For further discussion, see the section, PRICE LEGISLATION.

<sup>17</sup> See also Suppanz [33].

TABLE 1. THE PARITY COMMISSION

Composition	Function	Frequency of Meetings and Procedure	Decisions and Required Quorum	Sanctions
Members of the Commission are the Chancellor, the Minister of Interior, the Minister of Commerce and Industry, the Minister of Social Affairs, two representatives each of the three Chambers <sup>1</sup> and of the Federation of Trade Unions.	The Parity Commission deals with (a) matters referred to it by the Subcommissions and (b) matters on which the Subcommissions fail to decide.	The Commission meets once every month under the alternating chairmanship of the Chancellor and the Minister of Interior. If the Commission fails to reach a decision within six weeks, wage negotiations may begin or prices may be raised. However, the Commission generally tries to avoid such an outcome.	The Commission has the same choice of decisions as the Subcommissions (see Tables 2 and 3). All decisions must be unanimous.	<ol style="list-style-type: none"> <li>1. The Ministry of Interior may impose prices for certain goods and services for a maximum duration of six months. The imposition of prices is contingent upon a unanimous statement by the three Chambers <sup>1</sup> and the Federation of Trade Unions that the price of a certain good or service has been raised unilaterally for a sector as a whole or by a company or a group of companies with a dominant position in the market. (Amendment in 1962 to the Price Control Act.)</li> <li>2. The Federal Government had proclaimed that it would respond to unilateral price increases by lowering tariffs on competing imports.</li> </ol>

<sup>1</sup> The three Chambers are the Chambers of (1) Commerce and Industry, (2) Workers and Salaried Employees, and (3) Agriculture and Forestry. They are represented by delegates from their federal offices—the Federal Chamber of Commerce and Industry, the Assembly of the Provincial Chambers of Workers and Salaried Employees, and the Conference of the Chairmen of the Provincial Chambers of Agriculture.

TABLE 2. THE SUBCOMMISSION ON PRICES

Composition	Function	Frequency of Meetings and Procedure	Decisions and Required Quorum	Sanctions
Members of the Subcommission are one representative each of the Ministry of Interior, the Ministry of Finance, the three Chambers, <sup>1</sup> and the Federation of Trade Unions.	The Subcommission examines applications for price increases by individual companies or groups of companies, on the basis that such increases are justified only by cost increases that cannot be offset by increases in productivity.	The Subcommission meets once every week under the chairmanship of the representative of the Federal Chamber of Commerce and Industry. Applications for price increases are submitted by this Chamber, provided that the Ministry of Interior and the Assembly of the Provincial Chambers of Workers and Salaried Employees have regarded the application as suitable for consideration in the Subcommission. The Subcommission has to take a decision within six weeks; in case of default, this obligation devolves on the Parity Commission. The Subcommission may order companies to submit applications <i>ex post</i> if they raise prices without the Subcommission's approval.	The Subcommission may decide to (a) approve the proposed price increase (b) approve a smaller price increase than had been proposed (c) return the application and require additional information (d) reject the application (although this is generally avoided) (e) pass the application on to the Parity Commission. All decisions must be unanimous.	<ol style="list-style-type: none"> <li>1. The Ministry of Interior may impose prices for certain goods and services for a maximum duration of six months. The imposition of prices is contingent upon a unanimous statement by the three Chambers<sup>1</sup> and the Federation of Trade Unions that the price of a certain good or service has been raised unilaterally for a sector as a whole or by a company or a group of companies with a dominant position in the market. (Amendment in 1962 to the Price Control Act.)</li> <li>2. The Federal Government had proclaimed that it would respond to unilateral price increases by lowering tariffs on competing imports.</li> </ol>

<sup>1</sup> The three Chambers are the Chambers of (1) Commerce and Industry, (2) Workers and Salaried Employees, and (3) Agriculture and Forestry. They are represented by delegates from their federal offices—the Federal Chamber of Commerce and Industry, the Assembly of the Provincial Chambers of Workers and Salaried Employees, and the Conference of the Chairmen of the Provincial Chambers of Agriculture.

TABLE 3. THE SUBCOMMISSION ON WAGES

Composition	Function	Frequency of Meetings and Procedure	Decisions and Required Quorum
Members of the Subcommission are two representatives each of the Federal Chamber of Commerce and Industry and of the Federation of Trade Unions, and one member each of the remaining two Chambers. <sup>1</sup>	The Subcommission examines, on the basis of increases in both the cost of living and the productivity of labor, the appropriateness of proposed wage and salary increases. It decides on initiation of wage negotiations and approves negotiated settlements.	The Subcommission meets once every two weeks under the alternating chairmanship of a representative of the Federation of Trade Unions and a representative of the Federal Chamber of Commerce and Industry. Applications for wage and salary negotiations are submitted by the Federation of Trade Unions. The Subcommission has to take a decision within six weeks. If it fails to do so, this obligation devolves on the Parity Commission.	With regard to initiations of wage and salary negotiations, the Subcommission may decide to (a) allow negotiations to be opened (b) return the application for further deliberation (c) require two representatives of labor to prepare a report (d) reject the application (however, this is generally avoided) (e) pass the application on to the Parity Commission, which it has to do if the wages or salaries at issue are of "fundamental importance" or if price increases are likely to result once these wages or salaries are raised. With regard to approval of negotiated settlements, the Commission may take corresponding decisions. All decisions must be unanimous.

<sup>1</sup> These are the Chambers of (1) Workers and Salaried Employees and (2) Agriculture and Forestry. They are represented by delegates from their federal offices—the Assembly of the Provincial Chambers of Workers and Salaried Employees and the Conference of the Chairmen of the Provincial Chambers of Agriculture.

attributed to two factors: (1) the high degree to which employers and employees are organized; and (2) the hierarchical structure of chambers and unions. Practically all employers and employees are members of the chambers, by law, and nearly all the wage and salary earners are unionized. Power is centralized in the Federation of Trade Unions and in the federal office of the Chamber of Commerce and Industry.<sup>18</sup>

### SCOPE OF CONTROLS

When the commissions were established to administer the controls, their jurisdiction was to cover price and wage formation in general. In principle, therefore, controls may be applied to prices of all goods and services—except prices fixed under existing legislation and charges for public utilities—and to wages and salaries in all sectors of the economy.

In practice, however, the scope of controls is limited. Price control is aimed mainly at damping increases in the more important components of price indices. It has been applied to a range of goods and services that has continuously narrowed, over time, and is currently restricted to brand articles, staple commodities, and standardized services whose prices are not subject to seasonal fluctuations. Prices of imported goods and most prices in the services and fashion sectors are currently free of control. However, even in sectors where controls are more firmly established, unilateral (unapproved) price increases have occurred occasionally. In an effort to contain such erosion, the reforms of 1962 authorize the Subcommittee on Prices to order companies that raise their prices unilaterally to submit an application within 14 days.

The number of applications to the Subcommittee on Prices and the Parity Commission has ranged from 150 to 350 a year, depending on cyclical conditions in the economy. Between 20 and 40 of these applications concern services. Most applications are submitted directly by companies, while the remainder comes from branch offices of the Federal Chamber of Commerce and Industry.<sup>19</sup> Where unilateral price

<sup>18</sup> The Chamber of Agriculture and Forestry and the Chamber of Workers and Salaried Employees have no federal branches. The corresponding institutions are the Conference of the Chairmen of the Provincial Chambers and the Assembly of the Provincial Chambers.

<sup>19</sup> See Suppanz [33], p. 8.

increases do occur, orders to apply for them *ex post* are generally followed. However, action on such applications is presumably more accommodating than on applications *ex ante*.

The effectiveness of wage controls is threatened mainly by wage drift, which involves payment in excess of wage and salary rates agreed in the Subcommittee on Wages or the Parity Commission. In a number of sectors of the economy, such individual settlements usually provide for wage increases that are from one half to two thirds larger than that specified in the collective agreements. During the period from 1955 to 1970, wage drift accounted for 20–30 per cent of actual yearly wage increases in the industrial sector.<sup>20</sup> Wage drift has been attributable in part to the high degree of centralization in collective agreements. For example, more than 30 per cent of some 600 wage and salary agreements concluded in 1968 covered the entire federal area, over 65 per cent covered at least one province, and less than 3 per cent covered individual companies.<sup>21</sup> The agreements involve a certain proportional increase in wage and salary rates based on developments in average productivity and the cost of living. Local differences in these developments are not specifically taken into account, and wage drift may therefore occur. In addition, the magnitude of wage drift in general is likely to respond to conditions of demand pressure in the labor market. Whatever its merits, wage drift tends to undermine the authority of the Subcommittee on Wages and to erode the power of the Federation of Trade Unions, since the excess compensation is usually negotiated between management and shop stewards of individual companies.

The duration of wage agreements varied considerably in the 1950s. By contrast, in the 1960s successive agreements were concluded at regular intervals of 18 months for most sectors of the economy.<sup>22</sup>

The principle that collective wage and salary agreements should take into account increases in the cost of living was specified in 1967, at least regarding remuneration in the public sector. A system of wage indexing was introduced linking salary increases in that sector to increases in the cost of living. At the beginning of every year, salaries are to be raised to match increases in the cost of living during the

<sup>20</sup> See Suppanz [35], p. 260.

<sup>21</sup> See Suppanz [33], p. 3.

<sup>22</sup> *Ibid.*, p. 4.



preceding year from October to October, provided that this increase exceeds 2.5 per cent. At present it seems unlikely that wage indexing will be extended to other sectors. The automaticity of such a system is generally regarded as too stringent, leaving too little flexibility for wage and price determination through the commissions.<sup>23</sup>

#### "VOLUNTARINESS" OF INCOMES POLICY

Austrian incomes policy has often been described as being based to a considerable degree on consensus and cooperation, referred to as "social partnership." This means that decisions in the commissions are not legally binding; it does not imply that compliance with controls is at the discretion of companies and unions. Owing to the high degree of centralization and the comprehensive membership in organized interest groups, the Federation of Trade Unions and, to a lesser extent, the Federal Chamber of Commerce and Industry are ordinarily able to obtain information about intended increases in wages, salaries, and prices. They are therefore able to exert considerable influence to assure that applications are submitted to the commissions and that the decisions of the commissions, in which the interest groups themselves participate, are observed. Moreover, unilateral price increases may be deterred by the sanctions provided in certain cases (see Table 1, column 5, and the section, PRICE LEGISLATION).<sup>24</sup>

#### PRICE LEGISLATION

In addition to price controls based on "voluntary" compliance, which are exercised by the Subcommission on Prices and the Parity Commission, a number of statutes provide for price controls exercised by ministerial decree. These provisions may be divided into four categories

<sup>23</sup> See, for example, Lachs [19], p. 26.

<sup>24</sup> Description of the controls as voluntary therefore seems somewhat euphemistic. Presumably, their voluntary character is stressed to avoid conflict with the Federal Constitution. The Constitution states in Art. 18 (1) that all administration must be based on law, implying that incomes policy may require a statutory basis. However, the Supreme Court's decision in the case of the Economic Directorate suggests that a law authorizing wage and price control through commissions, such as the parity commission, might be equally unconstitutional. It may be a way out of this impasse to regard the controls as voluntary, thereby setting them apart from acts of public administration and avoiding conflict with the Constitution.

relating to (1) prices of basic goods and services listed in the Price Control Act, (2) prices of agricultural products in general (Agricultural Act), (3) prices of "essential" goods and services in general (Unfair Pricing Act), and (4) prices raised in contravention of the voluntary control mechanism.

The Price Control Act entitles the Minister of Interior to impose prices for certain goods and services, listed in the appendix to that Act, subject to agreement with other ministries and to consultation with a Prices Commission. Prices have not been fixed for all goods and services listed; those items for which prices have been fixed carry a weight of about 20 per cent in the cost of living index.<sup>25</sup> A summary presentation of some aspects of statutory price control under this category is given in Table 4.

The Agricultural Act confers additional jurisdiction on the Minister of Interior to exercise price control. In agreement with the Ministry of Agriculture and in consultation with the chambers and the Federation of Trade Unions, the Minister of Interior may set upper and lower limits for prices of agricultural products that are not covered by the Price Control Act, in order to assure adequacy of their supply and to stabilize prices.<sup>26</sup>

Provisions of the Unfair Pricing Act specify that prices of "essential" goods and services should not exceed the level that is "customary" in any particular location. The provisions do not relate to prices of goods and services that are covered by the Price Control Act or other regulations, such as the Rent Control Act. The decision whether a certain price is in excess of its customary level is in the jurisdiction of the courts. A price will be considered customary in court if it has been so declared in a unanimous decision by the chambers and the Federation of Trade Unions.<sup>27</sup>

Finally, the amendment to the Price Control Act in 1962 entitles the Minister of Interior to set specific prices for a maximum duration of six months. The amendment applies only to cases where the chambers and the Federation of Trade Unions determine unanimously that prices have been raised unilaterally for a whole sector or by companies or groups of companies that hold a dominant position in the market.<sup>28</sup>

<sup>25</sup> Suppanz [33], p. 8.

<sup>26</sup> Agricultural Act, 1960, *BGBI.* No. 155, § 4 (1).

<sup>27</sup> Unfair Pricing Act, 1959, *BGBI.* No. 40.

<sup>28</sup> Price Control Act, 1957, in the version of *BGBI.* No. 103/62, § 3a.

TABLE 4. THE PRICES COMMISSION

Composition	Function	Procedure	Decisions	Sanctions
Members of the Commission are the Minister of Interior, one representative each of the Ministries of Commerce and Industry, Agriculture, Social Affairs, Finance, Transportation, and any other ministry if required; one representative each of the three Chambers. <sup>1</sup>	The Commission examines prices for certain foodstuffs, raw materials, and pharmaceutical products, and for services of enterprises marketing these products. The products and services subject to control are listed in the appendix to the Price Control Act, 1957, <i>BGBI.</i> No. 151.	The Ministry of Interior may exercise price control subject to agreement with other ministries, and upon consultation with the Prices Commission.	The price of a good or service is, in each case, determined by ministerial decree.	Violation of the decree is punishable by fines, imprisonment, and confiscation of "excess" revenues, in accordance with the Price Control Act, 1957, <i>BGBI.</i> No. 151, § 9.

<sup>1</sup> The three Chambers are the Chambers of (1) Commerce and Industry, (2) Workers and Salaried Employees, and (3) Agriculture and Forestry. They are represented by delegates from their federal offices—the Federal Chamber of Commerce and Industry, the Assembly of the Provincial Chambers of Workers and Salaried Employees, and the Conference of the Chairmen of the Provincial Chambers of Agriculture.

#### IV. Recent Proposals for Modifying the Controls

When the annual increase in Austria's general price level in 1965 exceeded 5 per cent for the first time since early in the 1950s, labor organizations demanded that price controls be tightened. In 1966 the Federation of Trade Unions and the Chamber of Workers and Salaried Employees proposed modification of the system of price controls.<sup>29</sup> However, the proposal was dropped, presumably because of the opposition it encountered among the employers' organizations and also because the subsequent decline in the rate of price increases may have lessened its urgency. At present, as the annual rate of inflation again approaches 5 per cent, this proposal has received renewed attention. It is addressed to (1) the scope of controls, (2) the working of the control mechanism, and (3) the sanctions.

The proposal suggests that price controls be extended to imports, furniture, footwear, textiles, and clothing. Specifically, applications for increases in the price of imported goods would have to show that the foreign currency price of imports is no higher for Austria than it is for other countries. Price control would not be limited to producer prices but would be extended to markups of the trading sector. Further improvement of the controls is sought by providing that data submitted with applications meet minimum requirements. Owing to the unwillingness of companies to show their books to the unions, such a provision has always been opposed by the Federal Chamber of Commerce and Industry. Moreover, in considering productivity changes, the Subcommittee on Prices would be expected to follow objective standards rather than to continue the current practice of seeking a consensus with the applicant company. Finally, the proposal recommends that the Minister of Interior should send monthly reports on price surveillance to the Subcommittee on Prices, and that the Federal Chamber of Commerce and Industry be obliged to report unilateral price increases within 28 days.

The proposal demands that sanctions against unilateral price increases be made easier. Specifically, the authority of the Minister of Interior to set prices for a temporary period—which would be extended from 6 months to 12 months—is no longer to be subject to the unanimous recommendation of the chambers and the Federation of Trade Unions;

<sup>29</sup> See Österreichischer Gewerkschaftsbund [24].

instead, recommendation of any one of these groups would suffice. In addition, this intervention is no longer to be restricted to companies that hold a dominant position in the market.

## V. Effectiveness of Controls

Austria appears to have been more successful recently in containing inflation than other industrial countries. This has led to the presumption that incomes policies have had a stabilizing effect. However, the effectiveness of these policies cannot be assessed on the basis of the price record alone; other factors, such as the rates of economic growth and unemployment, must also be taken into consideration. As shown in Table 5, Austria's overall price and growth performance since the

TABLE 5. AUSTRIA AND OTHER EUROPEAN MEMBERS OF THE OECD: ANNUAL CHANGES IN REAL INCOME AND THE GENERAL PRICE LEVEL, 1955-70

(In per cent)

	Austria		Other European OECD Members	
	Real income	GNP deflator	Real income	GNP deflator
1955	11.10	3.21	6.20	3.09
1956	6.90	4.05	4.46	4.78
1957	6.10	4.29	4.30	4.01
1958	3.70	0.50	2.27	4.92
1959	2.79	3.47	4.70	2.39
1960	8.32	3.11	6.40	2.37
1961	5.55	4.88	5.51	3.24
1962	2.62	3.77	4.58	4.25
1963	4.15	3.42	4.70	4.50
1964	6.18	3.20	6.00	4.12
1965	3.43	5.32	4.50	4.21
1966	5.00	3.04	4.03	3.94
1967	2.38	3.32	3.22	3.03
1968	4.44	2.41	5.13	3.34
1969	6.12	3.40	6.18	4.87
1970	7.83	4.38	4.93	6.36
1955-70 <sup>1</sup>	5.41	3.49	4.82	3.96

Sources: Organization for Economic Cooperation and Development (OECD), *National Accounts Statistics*, various issues. Österreichisches Institut für Wirtschaftsforschung, *Monatsberichte*, various issues.

<sup>1</sup> Annual average.

mid-1950s compares favorably with the average record of the other European members of the Organization for Economic Cooperation and Development. On average, over the period from 1955 to 1970, Austria experienced both lower rates of inflation and higher rates of growth than these countries, especially in recent years.

This record might be an indication of policy success, since, other things being equal, rapid growth is likely to be associated with high rather than with low rates of inflation. However, an international comparison confined to inflation and growth would be somewhat incomplete. Although the rate of inflation is affected by the pace of economic expansion and the related changes in the pressure of demand on resources, it also depends on the level of this pressure, as reflected, for instance, in the level of unemployment. The question to be considered is therefore whether the rates of inflation that have corresponded to the rates of unemployment and growth observed in Austria in the past would have been higher in the absence of incomes policies. In the attempt to resolve the question of policy effectiveness empirically, at least two difficulties arise. First, it may be impossible to measure adequately what is considered to be one of the main achievements of incomes policies in Austria, namely, their favorable impact on industrial relations. Second, Austria's experience with such policies, relating virtually to the entire postwar period, does not offer the possibility of comparison between "policy on" and "policy off" periods, a method that has been applied in examining the effectiveness of incomes policies elsewhere.<sup>30</sup>

As regards industrial relations, it is argued that wage and price formation within the established system of controls has kept strikes at low levels, thereby largely avoiding their disruptive effects on economic growth.<sup>31</sup> Whatever the magnitude of these effects, low levels of strikes by themselves are consistent with the assumption of successful incomes policies in the sense that frequent and protracted strikes would indicate failure to achieve wage and price settlements in the commissions. In Table 6 a record of strike activity is shown for Austria and nine other

<sup>30</sup> The years between 1952 and 1956, when no incomes policies were pursued (see the section, ABSENCE OF CONTROLS), cannot be regarded as a representative "policy off" period because of a number of autonomous influences, such as the termination of the multiple exchange rate regime in 1953, the subsequent devaluation of the Austrian schilling in the same year, and the liberalization of imports in 1955 in connection with Austria's membership in the European Payments Union.

<sup>31</sup> See, for example, Suppanz [35], p. 265.

TABLE 6. SELECTED INDUSTRIAL COUNTRIES: STRIKE ACTIVITY, 1960-70<sup>1</sup>*(Working days lost per hundred employees)*

	Austria	Belgium	Finland	France	Germany	Italy	Norway	Nether- lands	Sweden	United Kingdom
1960	3.28	10.69	7.20	7.48	0.17	42.67	0.22	13.15	...	14.12
1961	5.29	2.88	3.01	17.72	0.27	70.83	37.84	0.68	...	13.71
1962	29.59	8.33	2.32	12.73	1.96	160.65	7.14	0.24	0.16	25.83
1963	1.55	7.51	96.38	28.94	7.95	79.48	19.70	0.99	0.77	7.82
1964	1.58	13.22	3.93	15.77	0.07	89.56	0.11	1.13	1.05	9.98
1965	6.73	2.07	1.05	6.09	0.20	49.10	0.75	1.38	0.12	12.65
1966	3.14	15.60	7.84	16.21	0.11	101.75	0.43	0.32	10.35	10.30
1967	0.73	5.33	20.42	25.41	1.69	58.88	0.39	0.15	0.01	12.19
1968	0.30	10.68	18.13	...	0.11	62.34	1.09	0.34	0.03	20.66
1969	0.82	4.67	10.02	1.30	1.05	254.74	1.72	0.52	3.22	30.18
1970	1.16	40.17	13.99	9.91	0.38	119.66	3.66	6.25	4.38	48.77
1960-70 <sup>2</sup>	4.92	11.01	16.75	15.16	1.27	99.06	6.64	2.29	2.23	18.75
Rank	4	6	8	7	1	10	5	3	2	9

Sources: International Labor Office, *Year Book of Labour Statistics*, various issues.<sup>1</sup> Strike activity is expressed as working days lost in a year, owing to industrial disputes, for each hundred employees in nonagricultural sectors.<sup>2</sup> Annual average.

European countries for the years 1960–70. Yearly strike activity is expressed in working days lost owing to industrial disputes per hundred employees in sectors other than agriculture. Considering annual average losses for the period as a whole, and ranking countries by the smallness of these losses, Austria ranks fourth behind Germany, Sweden, and the Netherlands. All these countries incurred rather moderate losses of less than five days for each hundred employees. Austria's strike record is therefore in keeping with the assumption of policy success, to the extent that this requires achievement of settlements.<sup>32</sup>

In view of the aim of Austrian incomes policy to keep wage and salary increases in line with productivity increases, it appears that policy effectiveness would have to imply at least lower rates of increase in unit labor costs—by definition, the difference between the rates of wage increases and of productivity gains—than would have occurred in the absence of incomes policy. Since it is impossible to compare inflationary experience in “policy on” and “policy off” periods, some indication of policy effectiveness might be derived from comparing movements in unit labor costs in Austria and abroad. Such a comparison appears useful if it is assumed that maintaining or improving Austria's competitiveness in foreign markets is one of the purposes of restraining inflation. Movements in unit labor costs in Austria and ten other industrial European countries are therefore shown in Table 7, for the years 1955–70.

Ranking the countries by the smallness of the average annual increase in unit labor costs over the period as a whole, Austria's record compares favorably to that of the other countries. This favorable ranking of Austria is in keeping with the assumption of policy effectiveness. However, it may be attributable to a number of factors and cannot therefore be taken, by itself, to demonstrate the effectiveness of incomes policies.

Further indication of policy effectiveness might be obtained from comparing the trade-off between unemployment and inflation among countries, again as a substitute for a comparison between corresponding relations in Austria during “policy on” and “policy off” periods. That

<sup>32</sup> Strike statistics by themselves provide no information of any restraining effects of incomes policies on inflation. In order to end strikes in process, higher wage increases might be paid than would have been granted in the absence of strikes; this implies a positive relation between strike activity and inflationary wage developments. At the same time, excessive wage increases might also be granted to head off strikes, implying a negative relation between strikes and wage increases.



TABLE 7. SELECTED INDUSTRIAL COUNTRIES: ANNUAL CHANGES IN UNIT LABOR COSTS, 1955-70  
(Percentage change from preceding year)

	Austria	Belgium	Denmark	Finland	France	Germany	Italy	Nether- lands	Norway	Sweden	United Kingdom
1955	3.5	1.2	3.7	4.1	2.5	2.0	2.6	4.7	4.8	6.5	6.0
1956	6.0	5.2	3.5	11.2	7.1	4.7	4.2	7.4	4.3	4.2	7.0
1957	4.2	6.5	1.5	3.4	5.7	3.6	3.3	9.1	6.8	4.3	3.2
1958	0.2	4.0	2.7	5.3	12.0	5.0	2.4	4.1	4.6	2.1	2.9
1959	3.4	-1.7	2.5	1.1	8.2	0.2	0.3	-0.7	3.7	-1.0	1.0
1960	1.2	1.5	2.2	1.4	1.6	9.9	4.1	3.2	2.1	7.2	2.7
1961	6.0	-0.2	8.7	3.1	6.0	6.5	2.9	6.7	2.0	4.7	4.5
1962	6.7	4.2	7.7	5.6	6.0	6.1	9.6	5.7	6.9	7.2	4.4
1963	3.8	5.7	5.1	9.2	7.8	3.8	15.4	8.0	2.1	5.0	1.1
1964	3.6	5.5	4.1	9.5	4.1	2.7	9.2	9.6	3.6	3.2	2.5
1965	6.7	6.8	10.6	6.3	3.0	4.7	2.2	7.6	3.9	6.4	5.2
1966	4.9	6.5	8.8	7.2	2.4	4.7	1.3	9.1	5.7	8.0	4.8
1967	5.9	2.7	6.1	6.8	2.4	0.4	3.2	2.1	5.8	5.6	2.2
1968	1.6	2.5	7.5	8.6	7.2	0.4	2.4	2.2	4.3	3.7	3.1
1969	2.6	4.0	4.5	2.0	7.5	4.3	4.2	8.0	4.1	2.8	4.8
1970	1.3	7.1	10.0	3.8	5.7	12.1	10.9	8.1	8.4	6.4	9.9
1955-70 <sup>1</sup>	3.8	3.8	5.6	5.5	5.6	4.4	4.9	5.9	4.6	4.8	4.1
Rank	1	1	8	7	8	3	6	9	4	5	2

Sources: Economic Commission for Europe, *Economic Survey of Europe*, various issues. Österreichisches Institut für Wirtschaftsforschung, *Monatsberichte*, various issues. Österreichisches Statistisches Zentralamt and Österreichisches Institut für Wirtschaftsforschung, *Österreichs Volkseinkommen, 1954 bis 1968*. Organization for Economic Cooperation and Development, *National Accounts of OECD Countries, 1950-68*.

<sup>1</sup> Annual average. Unit labor costs refer to the economy as a whole and are expressed as the ratio of the wage and salary bill to gross domestic product—alternatively, gross national product—at factor costs and constant prices.

comparison is useful because successful incomes policy may be assumed to reduce the rate of inflation associated with a given level of unemployment, and the trade-off relation for Austria might therefore be expected to compare favorably with those of other countries. The extent of the reduction depends on the degree to which wage and price controls through the commissions lessened the impact of both demand pressure and cost/push factors on wages and prices, and succeeded in constraining wage increases to productivity gains and price increases to changes in costs.

An international comparison of these trade-off relations encounters difficulties of measurement, because unemployment data are not entirely consistent among countries. Reported data on the number of unemployed persons in Austria appear to have an upward bias compared with corresponding data for other countries. Differences among countries in the definition of the labor force lead to additional inconsistency in reported unemployment rates. Austrian sources exclude the self-employed from the labor force,<sup>33</sup> while in corresponding statistics for the United States, for example, the self-employed are included. While no attempt is made in this paper to determine the extent to which reported unemployment overstates true unemployment in Austria, an international comparison is facilitated by computing unemployment rates based on consistent definitions of the labor force. Table 8 shows two series of unemployment rates in Austria for the years 1955–70, based on alternative definitions of the labor force, excluding and including self-employed persons.

A comparison of the trade-off between unemployment and inflation among seven industrial countries, excluding Austria, was given elsewhere.<sup>34</sup> In that study, long-run, or “steady-state,” relations between unemployment and inflation were derived from regression equations and from the assumption that unemployment rates in those countries were kept constant over time at alternative levels. Countries were then ranked by their relative success in combining low levels of unemployment with price stability. In Chart 2, this comparison of steady-state relations is shown, with the difference, however, that Austria is now included in the sample of countries.<sup>35</sup> It appears that at unemployment

<sup>33</sup> See, for example, labor market statistics in *Monatsberichte* [25].

<sup>34</sup> See Spitaller [31], pp. 543 ff.

<sup>35</sup> The trade-off relation for Austria was derived in two steps. First, an ordinary least-squares estimate of the annual percentage change in the GNP deflator,  $GP^*$ ,

rates below 3 per cent the trade-off for Austria is more favorable than for the United States, Canada, the United Kingdom, and France, and less favorable than for Germany, Japan, and Sweden. However, the true trade-off relation for Austria is likely to be more favorable than the chart suggests, owing to the upward bias in the reported number of unemployed persons already noted. On the whole, it would seem therefore that the combinations of unemployment and inflation attainable for Austria, in comparison with other industrial countries, are not incompatible with the assumption that incomes policy has been effective.

It has been argued that incomes policies have modified the relation between inflation and demand pressure in the Austrian economy. In particular, incomes policies seem to have succeeded in delaying wage and price increases: collective wage and price settlements were timed so as to diminish the acceleration of inflation, which generally occurs at the peak of the cycle. In addition, but less frequently, wage negotiations were initiated in anticipation of cyclical upturns in order to

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was obtained by relating  $GP^*$  to the reciprocal of the unemployment rate lagged one year,  $[1/2(U_{-1} + U_{-2})]^{-1}$ , and the concurrent rate of change in the unemployment rate,  $U$ . For the purpose of comparison, the unemployment rate was defined as the percentage of the number of unemployed in the total labor force including the self-employed; see Table 8, column 2. The following regression equation was obtained, fitted over the period from the mid-1950s through 1970.

$$GP^* = 0.44 + 6.42[1/2(U_{-1} + U_{-2})]^{-1} - 9.02U, \quad \bar{R}^2 = 0.38, \overline{SE} = 1.00, D-W = 3.26, \quad (1)$$

(0.30) (1.96) (3.13)

where the figures in parentheses are  $t$ -statistics. In equation (1), the value of the Durbin-Watson statistic indicates clearly that the errors of the equation are negatively correlated, implying that the recorded  $t$ -statistics and the  $\bar{R}^2$  understate their true values. As a second step, the equation was therefore re-estimated in a way that adjusts for autocorrelation of the form

$$u = \rho u_{-1} + \varepsilon \quad (2)$$

where  $u$  refers to the errors in equation (1) and  $\varepsilon$  is an error term assumed to be randomly distributed with zero mean and constant variance. The results obtained were

$$GP^* = -0.10 + 7.52[1/2(U_{-1} + U_{-2})]^{-1} - 9.40U, \quad \bar{R}^2 = 0.79, \overline{SE} = 0.60, \quad (3)$$

(0.18) (5.87) (7.06)  $D-W = 2.02, \rho = -0.71$

This equation is better than equation (1) in all respects; the Durbin-Watson statistic supports the assumption that  $\varepsilon$  in equation (2) is randomly distributed. On the assumption that unemployment is kept at given levels over time, the trade-off relation between inflation and unemployment in Austria was derived from this equation.

shorten the recession. Delays of wage and price increases are reported to have been achieved in the years 1957, 1961, 1964, and 1967, while recovery of economic activity was apparently aided by early initiation of wage settlements in 1960 and in the years 1968–69.<sup>36</sup> It appears, therefore, that these timing effects of incomes policies have modified the relation between inflation and the level of demand pressure by affecting the lag in the response of wage and price increases to that level. Results from an analysis of price behavior in Austria are consistent with such a view; they suggest a lag of one year, which is longer than that implied in corresponding results for other industrial countries.<sup>37</sup>

TABLE 8. AUSTRIA: ANNUAL AVERAGES OF UNEMPLOYMENT RATES, 1955–70

(In per cent)

	In Measuring Labor Force, Self-Employed Persons Are	
	Excluded	Included
1955	5.54	3.50
1956	5.32	3.71
1957	4.90	3.36
1958	5.31	3.66
1959	4.81	3.35
1960	3.71	2.60
1961	2.89	2.05
1962	2.72	1.95
1963	2.96	2.13
1964	2.74	1.99
1965	2.72	1.99
1966	2.57	1.88
1967	2.73	2.00
1968	3.00	2.32
1969	2.81	2.23
1970	2.43	1.96

Sources: Österreichisches Institut für Wirtschaftsforschung, *Monatsberichte*, and Organization for Economic Cooperation and Development, *Labour Force Statistics*, various issues.

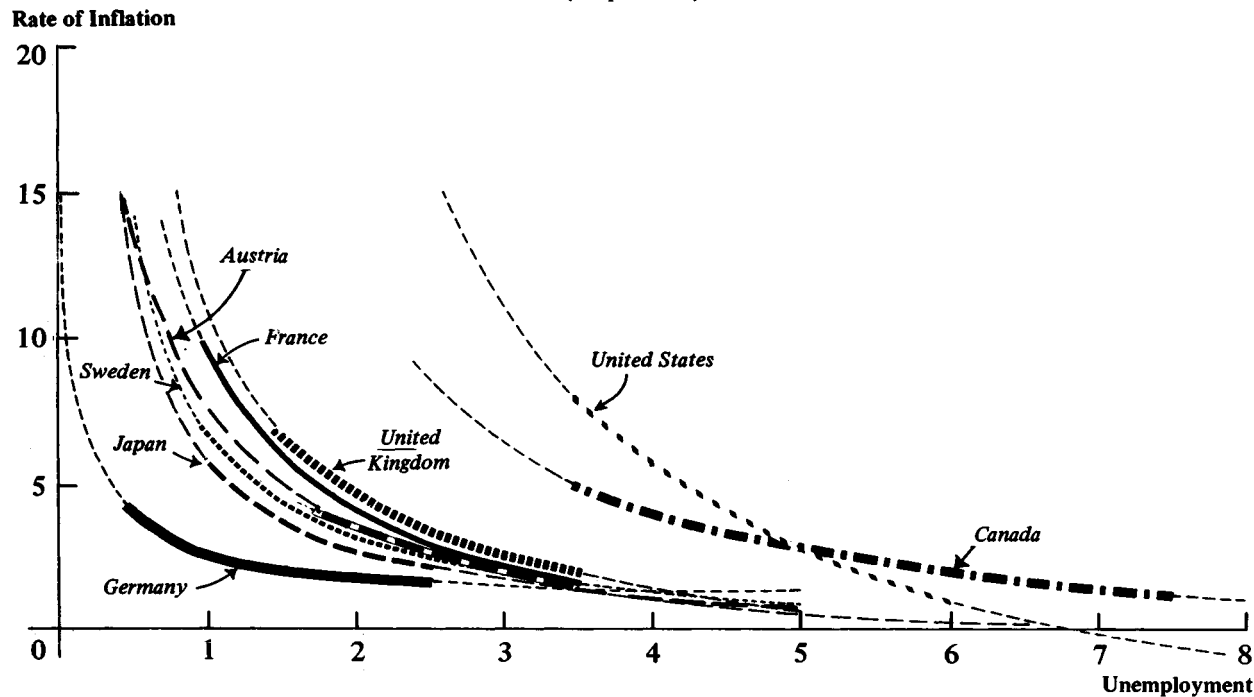
If Austrian incomes policies have in fact succeeded in delaying wage and price increases, it is plausible that the rate of inflation would have been reduced even in the long run. Excessive wage and salary

<sup>36</sup> See Kienzl [17], pp. 40 and 52, and Lachs [19], p. 24.

<sup>37</sup> See the price equation shown in footnote 35 of this paper and Spitäller [31] for results for Austria and other countries.

CHART 2. SELECTED INDUSTRIAL COUNTRIES: STEADY-STATE RELATION BETWEEN INFLATION AND UNEMPLOYMENT<sup>1</sup>

(In per cent)



Source: For countries other than Austria, the relations are based on regression equations derived in Spittäler, "Prices and Unemployment in Selected Industrial Countries," *Staff Papers*, Vol. XVIII (1971), pp. 543 ff. The relation for Austria is based on the equation shown in footnote 35 of this paper.

<sup>1</sup> Those segments of the trade-off curves that are represented by heavy lines correspond, approximately, to the range of unemployment observed during the periods over which the equations were fitted.

concessions at the peak of the cycle, when demand pressure is high and growth in productivity slows down, may well have led to an acceleration of price increases and then to further wage claims based on a rising cost of living, involving self-perpetuating inflationary developments. The record of inflation in other countries bears evidence of such developments. In the United States, for example, an index of inflation severity, defined as the excess of price increases above a certain level, has been demonstrated to affect wage movements independently of other factors.<sup>38</sup>

Austrian incomes policies may have had further restraining effects on inflation by preventing possible effects of inflationary expectations. Inflationary expectations, inducing price increases in anticipation of rising costs, are unlikely to be important in collective price settlements, since applications for price increases are approved only when costs have risen in the past. Similarly, as regards wage settlements, the policy mechanism does not allow for the approval of any wage claims in anticipation of rising living costs.

## VI. Conclusions

This study has described the mechanism of incomes policies in Austria and has discussed their effectiveness. It has not attempted to provide a quantitative estimate of the impact of these policies, which may indeed not be amenable to quantitative assessment. There are indications, however, that these policies were reasonably successful. Incomes policies may have been instrumental in maintaining good industrial relations and therefore may have helped in large measure to avoid the disruption of growth and stability caused by strikes. In addition, judging not only by the favorable developments in unit labor costs but also by the trade-off between unemployment and inflation in Austria compared with other industrial countries, wage and price settlements through the commissions may have restrained inflation. At least in part, restraint appears to have been accomplished through the timing of settlements, involving a delay in wage and price increases and thus a reduction in inflationary pressures. Finally, incomes policies may have prevented the formation of inflationary expectations, which tend to induce anticipatory price and wage increases.

<sup>38</sup> See Eckstein and Brinner [11], p. 4 and pp. 12 ff.

It has often been stressed that incomes policies in Austria, however useful they may have proved in that country, cannot serve as a model for other countries. Historical and political circumstances peculiar to Austria have been important in the evolution and operation of these policies. Nevertheless, the Austrian experience may be of interest to other countries, if for no other reason than to illustrate some basic conditions, present in Austria, that appear to be conducive to success. Among these conditions are (1) comprehensive organizations of employers and employees, (2) a high degree of centralization of policy formation and execution in these organizations, (3) their close association with the administrative and political establishment—whatever may be the desirability of such association on other grounds, and (4) willingness of these organizations to compromise.

These conditions are interrelated. Organizations whose membership is comprehensive and whose powers are centralized are likely to have a strong voice in political and administrative decisions. The responsibility of these organizations may in such circumstances go beyond representation of their immediate interests. They may therefore be more inclined toward compromise, less intent on short-term gain, conscious of the need to adapt to change, and sufficiently flexible to act accordingly.

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<sup>39</sup> An asterisk denotes items referred to in the text.

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