

Why did Austrian Business Oppose Welfare Cuts?

How the organization of interests shapes business attitudes towards social partnership¹

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Abstract

In recent decades, business interests became protagonists of welfare retrenchment in many countries. In contrast, Austria's national business organization, the WKÖ, defended welfare programs and social partnership against government initiatives to dismantle them. Drawing on interviews and media reports, this paper analyses the reasons for this deviation, focusing on reforms in two fields: (a) public pensions, and (b) social insurance administration. The paper suggests that the institutional setup of interest representation in Austria explains this stance better than alternative explanations that focus on competitive advantages. The paper identifies compulsory membership, equal voting rights and encompassing organization as the relevant features of the institutional setup. These features shaped the WKÖ's social policy attitudes in two ways: first, by ensuring a strong role for small firms, and second, by reducing the vulnerability of the organization to discontented minorities. The findings point to the importance of organizational structures in shaping associational policy preferences.

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Introduction

Since the 1970s, the postwar model of social partnership, associated with a compromise between capital and labor and generous social benefits, has become strained in some European countries, while it has regained strength in others (see e.g. Avdagic, Rhodes, & Visser, 2011; Compston, 2002; Ebbinghaus & Hassel, 2000; Lindvall, 2010). Recent research has identified differences in employers' preferences as one potential explanation for this cross-national variation in the sustainability of social partnership. Inspired by the Varieties of Capitalism (VoC) approach (Hall & Soskice, 2001), some scholars have argued that employers in "coordinated market economies" will defend corporatist institutions against calls for liberalization (e.g. Hassel, 2007; Thelen, 2001; Wood, 2001). Others have argued that employers in these countries have turned against institutions of social partnership. Studies focusing on Germany, often considered a paradigmatic case of an economically beneficial institutional setting, have shown that employers there have undergone a neoliberal reorientation since the 1990s, expressed in eroding support for collective bargaining, intensifying calls for welfare retrenchment and a turn away from corporatist compromises (Kinderman, 2005, pp. 433-435; Menz, 2005, pp. 198-200; Paster, 2010, pp. 356-357; Streeck & Hassel, 2003, pp. 107-108).

Similarly, in Sweden, an offensive on the part of employers against centralized corporatist institutions and in favor of market-oriented reforms is well documented (Blyth, 2001, pp. 1-2, 2002, pp. 202-247; Pestoff, 2005; Pontusson & Swenson, 1996; Swenson & Pontusson, 1999). In the case of France, Woll identified a retreat of the employer federation from corporatist policy-making and a turn against state interventions (Woll, 2006). In short, business interest groups appear to have turned away from corporatist institutions, or social partnership, in many European countries.

This paper focuses on Austria because it is a deviant case in this respect. Unlike business groups in other countries, Austria's national business organization, the Austrian

Economic Chamber² (Wirtschaftskammer Österreich, WKÖ), opposed government plans to cut social benefits and to curtail the role of institutions of social partnership. The purpose of this paper is to explain the reasons for this deviation. How can we account for a business stance that appears exceptional in a cross-national comparison?

The article's main argument is that the institutional setup of business interests in Austria results in support for social policy and social partnership. The joint representation of small and large firms by a single national organization, compulsory membership and equal voting rights are the main causal factors. These institutional features explain why the WKÖ continues to support social partnership and generous social policy. Two mechanisms play a role: first, the institutional setup shapes the balance between small and large firms; and second, it reduces the WKÖ's vulnerability to discontented minorities. The explanation offered in this article casts doubt on arguments that increased capital mobility invariably turns business groups into protagonists of neo-liberal policies, but at the same time challenges arguments that see competitive advantages for large, export-oriented firms as the main cause of cross-national differences in employers' preferences. The argument suggests that differences in the extent of business support for social partnership result from the way institutions shape the aggregation and reconciliation of interests among different types of firms, rather than from differences in the preferences of individual firms as such. The article's broader implication for comparative political economy is that countries in which the organization of business interests is encompassing are less likely to experience business assaults on institutions of social partnership and social protection.

The article focuses on two specific reform episodes: a major reform of the pension system (2003–2004) and a reform of social insurance administration (2000–2001). These reforms are chosen because the government that initiated them was pro-business and pro-market: a coalition between the center-right People's Party (*Österreichische Volkspartei*,

ÖVP) and the far-right Freedom Party (*Freiheitliche Partei Österreichs*, FPÖ), which was in power from 2000 to 2006 (Tálos, 2006). This is important because, as other studies have shown, actors often pursue strategic preferences: that is, they adjust their policy positions to what they consider feasible (Callaghan, 2011, pp. 918-919; Hacker & Pierson, 2002; Korpi, 2006; Paster, 2010). Therefore, we may expect that under a left-wing government, business will moderate its demands for welfare cuts and be more willing to seek social compromise. In contrast, we may expect that under a market-liberal government, business will be more outspoken in demands for welfare cuts because its chances for success are better. Therefore, the stance taken by Austrian employers is all the more surprising. It cannot be explained in terms of strategic adjustment.

In investigating the involvement of the national business federation (the WKÖ) and other actors in the two reform episodes, this article uses opinions submitted to parliament by interest groups,³ press reports by the Austria Press Agency (APA), and semi-structured expert interviews with representatives of the WKÖ and participants in policy-making.⁴ The interviewees were granted anonymity.

The article proceeds as follows: The next section (1) presents the theoretical argument, elaborating on how the organization of business interests affects the policy positions that business organizations take. Section 2 gives an overview of the relevant features of the Austrian system of interest representation and how they affect the representation of small firms in particular. The third section presents case study evidence on the two reform initiatives: the 2003 pension reform (3.1) and the reform of social insurance administration in 2000–2001 (3.2). The fourth section concludes.

1. Theory: The Institutional Sources of Business Interests

The explanation for business interests' support for social partnership offered in this article follows an institutionalist logic. A combination of institutional features explains the WKÖ's exceptionally strong support for social partnership and generous social programs. These institutional features are compulsory membership for all private-sector firms, equal voting rights, and the representation of small and large firms within a single, encompassing organization. These features, characteristic for Chamber organizations, affect policy choices through two mechanisms: first, they strengthen the position of small firms within the association, and second, they strengthen the association's leadership vis-à-vis discontented groups of members. The first mechanism explains the WKÖ's opposition to the pension reform; the second, its opposition to the reform of social insurance administration.

First, the organization of small and large firms into a single, all-encompassing association with equal voting rights, independent of firm size, provides the greatest power resources to small firms. In contrast, business interest associations that rely on voluntary membership tend to represent the interests of their larger members. Empirically, voluntary associations often link voting rights to firm size (i.e., the number of employees or turnover), or to the size of contributions paid (Behrens, 2011, p. 214; Traxler, Bernd, & Pernicka, 2007, p. 365). Voluntary associations are dependent on their larger members, as membership fees are also typically linked to firm size. As Section 3.1 shows, this bias on the part of the WKÖ in favor of small firms, combined with features of the Austrian welfare state, best explains the WKÖ's opposition to welfare retrenchment.

Second, compulsory membership gives an association's leadership a greater degree of autonomy vis-à-vis discontented members. Since it does not need to fear member exits, the association is in a better position to prioritize compromises and cooperation with labor. It has a greater capacity to subdue neo-liberal preferences on the part of some of its members. At the

same time, an organizational self-interest in defending their influence and administrative resources provides business interest associations and unions with an interest in the maintenance of corporatist institutions. While this is true of both voluntary and compulsory associations, voluntary associations face a greater need to legitimize the policy output created by corporatist compromises *vis-à-vis* their members, since they need to prevent member exits. If firms perceive the outcomes of social compromise as being too burdensome, business interest associations may come under pressure to abandon compromises. Compulsory associations are also dependent on the backing of their members, since they want to avoid an open revolt against compulsion; however, their vulnerability to discontented minorities is weaker, partly because members cannot exit, and partly because their leadership has greater capacity to reconcile and balance different interests (Schmitter & Streeck, 1981).

This article's emphasis on how the organization of business interests affects policy positions also contributes to a better understanding of the social policy choices of business groups in a cross-national perspective. As argued by Cathie Jo Martin and Duane Swank, "[h]igher levels of employer organization...make firms and national business communities more likely to support social programs" (C. J. Martin, 2010, p. 565). This paper's findings are in line with this thesis. As shown in the next section, the WKÖ is the most encompassing business association in the world, and if Martin and Swank's thesis holds, we should expect it to be the most likely to support social programs. This is, indeed, what the paper finds.

Going beyond Martin and Swank's approach, however, this paper investigates a causal mechanism behind the social policy support of encompassing associations to which existing studies have so far paid little attention: the role of compulsion. The article shows that compulsory membership, combined with the integration of business people into the welfare state, explains a pro-welfare stance. As shown in Section 3.1, business people may be affected by social policy not only in their role as employers, but also in their role as benefit recipients.

Clearly, welfare coverage matters mainly for owners of very small firms and for the self-employed, while the cost burden of social policy matters most for larger firms. Although small businesses are covered by public social policy in many European countries — either through universal citizenship-based or fragmented occupational programs (European Commission, 2012) — the existence of voluntary business associations in most countries means that business interest associations in these countries will mainly represent the employers' perspective.

This article's emphasis on small firms as supporters of social policy contrasts with studies which identify small firms as those most opposed to social protection. A study of welfare state development in Germany and France by Isabela Mares, for instance, found that large firms in both countries supported certain types of social insurance, while small firms opposed all types (cf. also Hatzfeld, 1971, p. 170; Mares, 2003, p. 255). Similarly, studies of social programs facilitating early retirement show that support for such programs typically comes from large firms, while small firms oppose them (Ebbinghaus, 2006, pp. 47-48; Trampusch, 2005, pp. 212-214). Studies on the erosion of wage bargaining in Germany often identify discontent among small firms as one cause for this erosion (Hassel, 2007, pp. 261-262; Schroeder & Silvia, 2003, pp. 261-263; Silvia, 1997, pp. 187-189; Streeck & Hassel, 2003; Thelen, 2001, pp. 83-84). Small firms also tend to be more cost-sensitive with regard to vocational training (Culpepper, 2007, pp. 613-617). The findings of this article deviate from these studies and show that the character of intra-business cleavages is contingent on the way business is organized and on specific features of social policy.

2. Austria: A Deviant Case

In country indices of corporatism, Austria typically scores highest⁵ (see Crouch, 1994 : Table 1.1 for a survey of country rankings; Hassel, 2006, Table 3.3; cf. also Kenworthy, 2003; Traxler, 2007, p. 42). The country's system of public policy-making has undergone

significant changes since the mid-1980s, which have reduced the capacity of the social partners to determine public policy. At the same time, social partners continue to be incorporated into the administration of public policy, in particular of social insurance programs and public employment services. The organizational setup of Austria's system of interest representation has also changed very little since the postwar period (cf. Heinisch, 2000, pp. 89-90).

Central to the system of economic interest representation in Austria are the Chambers. Chambers are bodies established by public law for the purpose of representing the interests of specific socioeconomic groups. Every major socioeconomic group has its own Chamber. Chambers rely on compulsory membership, a centralized structure of decision-making and equal voting rights for all members. This organizational setup is defined by law. The Chamber of Labor (*Kammer für Arbeiter und Angestellte*, AK) and the Economic Chamber (*Wirtschaftskammer*, WKÖ) are the two largest and most influential Chambers. The WKÖ represents the interests of business. Among its tasks are wage bargaining with the unions, as well as the representation of its members' public policy interests through participation in government committees and by issuing opinions on legislative proposals. In addition to the Chambers, voluntary interest groups play a role in policy-making through lobbying and public campaigning. Of greatest relevance are the Federation of Austrian Industries (*Vereinigung der österreichischen Industrie*, IV) and the Confederation of Austrian Labor Unions (*Österreichischer Gewerkschaftsbund*, ÖGB). The latter is a non-partisan federation of industry unions. The ÖGB is a key actor in tripartite negotiations between government and the social partners. In contrast, the IV typically is not. Instead, the IV relies on public campaigns, lobbying, as well as close cooperation with the industry section within the WKÖ (Fink, 2006, pp. 454-455).

2.1 The organization of business interests

Business interests are thus represented by two groups: the IV, which relies on voluntary membership and represents big industry, and the WKÖ, which relies on compulsory membership and has a legal mandate to represent the entire business community. All private-sector firms outside of agriculture are members of the WKÖ. As Section 3 shows, the IV endorsed government plans to curtail pension rights and the role of the social partners in social policy administration; the WKÖ opposed both. This subsection gives an overview of the WKÖ's decision-making structures in order to show how these structures affect its policy positions.

Decision-making within the WKÖ is highly centralized. Public law mandates the WKÖ to represent the collective interests of the Austrian business community as a whole, rather than those of a specific sector or type of firm. The Economic Chamber Act (*Wirtschaftskammergesetz*,⁶ WKG) obliges the WKÖ to reconcile different interests and to seek a common stance (Art. 59, WKG). In principle, interests are aggregated stepwise, from lower-level to higher-level units (Interviews WKÖ1 and WKÖ2). Regional-level sectoral units are part of regional multi-sector units as well as of national-level sectoral units. At the national level, sectoral units are arranged into seven groups: craft, commerce, industry, tourism, transport, banking and insurance, and information technology and consulting (cf. ILO, 1986, p. 36; Wirtschaftskammer Österreich, 2011).

Policy departments located at the peak level are in charge of formulating policy positions. The social policy department is in charge of drafting the WKÖ's positions in this policy field. Interview data indicate that in the field of social policy, unlike in other policy fields, sectoral and regional conflicts tend to be rare. According to the interviewees, such cases are exceptional and occur primarily when a bill appears to have a particular impact on a specific sector⁷ (Interviews WKÖ1 and WKÖ4). In short, despite formal rules prescribing a

bottom-up decision-making process, decision-making in the field of social policy appears to be highly centralized.⁸

WKÖ officials emphasize that a common position held by the entire business community enjoys greater political weight. One interviewee pointed out that “the Chamber [WKÖ] represents Austrian business as a whole. The Chamber only speaks with one voice. The voice of a sectoral organization... would have no [political] weight.” (Interview WKÖ1, cf. also Seiser, 2007, p. 12). Thus, the WKÖ leadership justifies its encompassing organization with benefits in terms of political influence (cf. also Stummvoll, 1996, p. 521; Wirtschaftskammer Österreich & Arbeiterkammer Österreich, 2011).

Small firms are particularly influential within the WKÖ. The reason for this lies not in the structure of the Austrian economy, but rather in the organizational framework. As Figure 2 shows, the share of small firms in the Austrian economy is not disproportionately high compared to other OECD countries. The figure shows two indicators of firm size: the share of manufacturing employees in firms with less than ten employees and that in firms with 250 or more employees. On both indicators, Austria is situated approximately in the middle. The Southern European countries have the largest share of small firms.

As we discussed earlier, two institutional features favor the representation of small firms: compulsory membership and equal voting rights. Compulsory membership strengthens the position of small firms by increasing their numerical presence, as small firms are typically less inclined to join associations. Moreover — and equally important — it reduces the need for an association to court its largest, well-paying members. As shown in Table 1, the numerical dominance of small firms (<10 employees) within the WKÖ is overwhelming: more than 90 percent of WKÖ members have fewer than 10 employees; about 50 percent have no employees at all — that is, they constitute the self-employed. About 35 percent of WKÖ members are in crafts and trade, about 27 percent in commerce (see Figure 1), two

sectors where small firms dominate. Remarkably, a majority of members supports compulsory membership: in a referendum among members held in 1995, 82 percent voted in favor of maintaining compulsory membership (Stummvoll, 1996, p. 522). Opposition to compulsory membership comes mainly from within industry.

[Table 1 about here]

[Figure 1 about here]

Equal voting rights (one firm – one vote) apply in Chamber elections (cf. ILO, 1986, p. 36; Traxler, 2007, p. 48). In these elections, members elect a “Chamber parliament” using party lists. This parliament elects the WKÖ leadership and decides on major policy issues. In the 2010 elections, the business wing of the ÖVP (*Wirtschaftsbund, ÖWB*) gained about 70 percent of the seats (Karlhofer, 2012, p. 535). Since membership fees are linked to the payroll sum (ILO, 1986, p. 36), large firms are underrepresented relative to the fees they pay. While industry accounts for only 1.9 percent of all members, it accounts for 25 percent of fees paid (Seiser, 2007, p. 12). Taken together, compulsory membership and equal voting rights strengthen the position of small firms, even though the economic importance of small firms is not greater in Austria than it is in many other OECD countries, as Figure 2 shows.

[Figure 2 about here]

Chamber organizations with compulsory membership also exist in other European countries, but their membership domains and tasks are more restricted. There is no other country where the entire business community is organized for political purposes within a single organization that is based on compulsory membership. In Germany, the Chambers of Industry and Commerce and Chambers of Crafts organize firms on a regional level based on compulsory membership (Grote, Lang, & Traxler, 2007, pp. 160-162). They represent business interests in vocational training and product market-related fields like competition policy or technology. The social policy and labor market interests of German firms are

represented mainly by the employers' associations, where membership is voluntary and large firms dominate (Grote et al., 2007, pp. 156-157; Paster, 2012, pp. 172-174). In France and Luxembourg, compulsory Chambers exist for specific segments of business, in particular for craft firms (*Chambres de Métiers*), but their role in public policy-making is much more limited than that of the WKÖ. Voluntary associations that are dominated by large firms act as the main voice of business in politics in these countries (Kenis & Traxler, 2007, pp. 231-232; Saurugger, 2007, p. 124). Similarly, in Italy, the Chambers of Commerce (*Camere di commercio*) are mainly administrative bodies, carrying out tasks such as licensing and the promotion of foreign trade, while a fragmented system of voluntary confederations represents the political interests of different types of business (Trentini & Zanetti, 2012; Vatta, 2007, p. 213).

The comparison of Austria with other countries shows that this country is unique in terms of the political influence of small firms — a product of encompassing organization and an exceptionally strong institutional role of the Chambers in politics. Many European countries have voluntary associations that specifically organize small firms (Traxler et al., 2007). However, in countries where small and large firms are represented by separate associations, the largest peak association of large firms is typically the one that dominates the articulation of business interests in politics. Associations representing smaller firms tend to enjoy less political influence. In contrast to this dual system, a system with small and large firms organized in a single, encompassing association with equal voting rights and compulsory membership gives small firms the greatest power advantage. Being an extreme case, Austria is thus particularly well suited to test the impact of organizational structure on policy choices. The following sections show how the exceptionally strong position of small firms, combined with features of the Austrian welfare state, led the WKÖ to oppose radical welfare retrenchment.

3. Business and Welfare State Reform in Austria

In Esping-Andersen's typology, Austria fits the "conservative welfare model" well (1990 Table 3.3). Financing through payroll taxes, earnings-related benefits, occupational fragmentation and the male breadwinner model traditionally characterize the Austrian welfare state. The social partners and the government jointly administrate social insurance programs and labor market policy.

Austrian employers fought adamantly against the formation and expansion of social programs in the interwar period and before, arguing that such programs constitute an undue cost burden on business (Tálos, 1981, pp. 164-175). In the postwar period, the WKÖ converted into a supporter of a "modern social policy" (Tálos, 1981, pp. 319-321). This conversion was largely a product of the expansion of social insurance coverage to business people (Tálos, 1981, p. 319). Rather than demanding cuts in social benefits for wage earners, the WKÖ began to promote the extension of social benefits to business people — in particular to smaller ones, who were particularly exposed to the vagaries of life. The extension of insurance coverage to include pensions (1957) and health insurance (1971) for the self-employed was partly the product of WKÖ demands. These measures clearly benefited the small crafts- and tradespeople, who constitute a large share of the WKÖ's constituency, as shown in Section 2. Not surprisingly, the IV, dominated by big industry, opposed social insurance coverage for the self-employed (Tálos, 1981, p. 348). In short, the WKÖ changed over time from an opponent to a supporter of social protection, while the IV did not.

The following two subsections analyze two recent welfare reforms that were both opposed by the WKÖ, but supported by the IV. The first reform was intended to cut pension benefits, the second to reduce social partner influence in social insurance administration. As mentioned earlier, a center-right government committed to market-liberal reforms initiated

both reforms. We can thus exclude strategic adjustment as an explanation for employers' anti-reform stances. My analysis demonstrates that in the first case, the strong role of small firms within the WKÖ, combined with the coverage of these firms by the pension system, was the main reason for the WKÖ's opposition. In the second case, a commitment to social partnership and organizational self-interests, made possible by the WKÖ's relative autonomy from industry, explains the stance.

3.1 Pension reform

Up until the late 1990s, the politics of pension reform in Austria focused on incremental adjustments, like stepwise increases in the statutory retirement age and actuarial deductions for early retirement. Opposition to these reforms came primarily from the unions, while the WKÖ endorsed these cuts (e.g. APA0372, 07.10.1997; Schludi, 2005, pp. 165-185). A change in government in 2000 brought a more radical approach. A new coalition between the center-right People's Party (ÖVP) led by Wolfgang Schüssel and the far-right Freedom Party (FPÖ) led by Jörg Haider brought to an end a period of "grand coalitions" between the Social Democrats (SPÖ) and the Peoples' Party (1987-1999). This new government embarked on a course of far-reaching pension cuts. Not only did the unions and the opposition Social Democrats oppose these reforms, but the WKÖ did as well. In contrast, the Federation of Austrian Industries (IV) welcomed the reforms (APA0260, 12.12.2002; APA0274, 22.04.2003).

These reforms were implemented through several laws passed in 2003 and 2004. Together, these reforms will lead in the long run to a substantial decline in public expenditures for pensions. In 2004, public pension expenditures were at 13.4 percent of the GDP. According to the Austrian National Bank, the reforms will cause them to go down to 12.2 percent in the year 2050 (Knell, Köhler-Töglhofer, and Prammer 2006: 74). These

expected cost savings result from a combination of measures, which the following paragraphs briefly summarize.⁹

The 2003 reform. The second reform included a gradual extension of the reference period for benefit calculation from 15 to 40 years of work. At the same time, the pension credits earned for each year of work were reduced. In effect, these changes reduce pension benefits for a person with 40 years of work from 80 percent to 71.2 percent of previous average income. In addition, deductions for early retirement were increased further, from 3 percent to 4.2 percent per year. Early retirement due to unemployment is phased out entirely by 2017. Privileges for civil servants were abolished. As a compensation for these measures, losses caused by the reform were limited to 10 percent of the benefits payable under the old rules. According to some calculations, the reform would have caused benefit losses of up to 30 percent without this cap (Obinger & Tálos, 2006, p. 91). In addition, individuals with very long periods of employment (>45 years) and individuals in occupations considered to be heavy work will continue to be allowed to retire early without deductions.

The 2004 reform. The 2004 reform further extended the reference period for benefit calculation from 40 to 45 years of work. In effect, the new rules result in a benefit level of 80 percent of previous average earnings for a person retiring at the age of 65 with a 45-year employment record, a rule known as the 45-65-80 formula. At the same time, the reform extended the new benefit rules to the self-employed and some other occupational groups — which had hitherto benefited from rules more advantageous than those for wage earners — and raised the contribution rate for the self-employed. Wage earners now pay 22.8 percent, the self-employed 17.5 percent (Knell et al., 2006 :79). Up to now, the contribution rate for the self-employed had been substantially lower. Since the government subsidizes pension schemes to cover revenue shortfalls, the reform thus reduced the cross-subsidization of the self-employed by the taxpayer.

In short, the reforms affected not only wage earners, but also owners of small businesses, which form the core of the WKÖ's constituency. Moreover, the restrictions on early retirement also affected large firms — those firms which, in the past, made the most extensive use of early retirement programs to facilitate labor shedding. Small and large firms alike thus had reasons to oppose components of the reforms. The following subsection traces the processes that led to the 2003 and 2004 laws, the main components of the reforms, with the goal of identifying the role of business interests therein.

The role of business in the reform process

The new center-right government pursued an adversarial approach. It tried to push through the reforms on a fast track and did not consult with the social partners in the drafting of the government bill, as had been customary under previous governments. Under pressure from the protests, however, the government eventually agreed to consult with the social partners. These talks resulted in some concessions, in particular the cap on benefit cuts.

The WKÖ's stance is remarkable, as its social policy positions in general reveal a preference for cutbacks. In the past, the WKÖ had advocated reforms of the pension system in order to contain a future rise in labor costs (e.g., APA0489, 12.6.1997). The abolition of early retirement pensions, in particular, has been a major demand of the WKÖ for some time. At the same time, the WKÖ opposed a full-scale switch to private, pre-funded pensions (interviews WKÖ1 and WKÖ2, June 2006 and APA press releases¹⁰ APA0367, 30 May 2000; APA0599, 19 July 2000). In contrast, the Association of Industrialists (IV) did advocate this switch from a pay-as-you-go system to a pre-funded system (Interview IV1, APA0469 28.06.2001).

If the WKÖ favors cost containment in pensions, why did then it oppose the government plans? One possible explanation is that its opposition simply reflected an act of defiance against not having been consulted by the government. In other words, its opposition may not have been motivated by substantive policy concerns, but was merely a protest against its exclusion. Clearly, the WKÖ would hardly have raised any objections in public if its objections had been taken into account at an early stage. However, exclusion from policy-making does not explain the direction of the WKÖ's objections. It does not explain why the WKÖ protested against the extent of the cutbacks, rather than insisting on more radical measures. Policy documents and interview data reveal that this position was motivated by the protection of the pensions of small business owners.

The WKÖ demanded three specific changes. First, it called for a slower phasing-out of early retirement pensions in order “to take into account the currently difficult situation at the labour market.” (Wirtschaftskammer Österreich, 2003, pp. 7-8) Second, it wanted a longer transition period for the introduction of the new rules in order to avoid a sudden drop in pension benefits. Its criticism focused in particular on the relatively rapid extension of the reference period and on the reduction of the pension credits earned per year (accrual rate). It demanded a slower phasing-in of these rules and compensations for the self-employed in particular. Third, it demanded that the cuts be spread among current and future pensioners to ensure inter-generational justice (Wirtschaftskammer Österreich, 2003, pp. 7-9; APA0377, 25 April 2003).

Policy documents and interviews with representatives of the WKÖ and the AK shed light on the motivations behind these stances (interviews WKÖ1, WKÖ2, AK1, IV1). In its opinion to parliament, the WKÖ argued that “[t]he expansion of the reference period affects no other group as much as the self-employed. The unsteady incomes [of this group] would lead to disproportionate benefit cuts.” (Wirtschaftskammer Österreich, 2003, pp. 8-9) As a

compensation for the new rules, the WKÖ demanded that the first five years after the start-up of a new company be excluded from the reference period. (Wirtschaftskammer Österreich, 2003, pp. 8-9; APA0310, 25.04.2004). In contrast, the IV strongly backed the harmonization of pension schemes (APA0242, 25.08.2004). This illustrates the WKÖ's focus on the interests of small firms.

Concerns about industrial peace also affected the WKÖ's role in the reform process. After the government had announced its plans for the 2003 reform, the union federation announced protest actions. Several large demonstrations and political strikes took place during April and May 2003. The threat of strikes motivated the WKÖ to take a mediator position between the government and the unions. It called on unions to abandon the strikes and on government to enter into negotiations with the social partners (APA0503, 29.04.2003; APA0305, 02.05.2003). In promoting a negotiated compromise, the WKÖ effectively sided with the unions against the government, which wanted to push through the reforms without consulting the social partners.

In a press statement, the deputy secretary general of the WKÖ, Reinhold Mitterlehner (ÖVP) announced the WKÖ's opposition to the government reform plans and said that "it is difficult to understand why we need such dramatic measures in the short run" (APA0061, 10 April 2003). He demanded a postponement of the reform in order to have more time to negotiate a compromise. Similarly, WKÖ president Christoph Leitl (ÖVP) called on "all those [to] stand up who want a reform that is reasonable and balanced. Austria has grown up with social peace; we need a republic of consensus, not of conflict." (APA0084, 8 May 2003).

WKÖ and ÖGB officials met several times during 2003 to discuss a joint response to the government plans. The WKÖ and the ÖGB made the government an offer to develop a joint proposal for a long-term structural reform of the pension system by September 30, 2003. However, the government rejected this offer. The government was only willing to offer a

“round table” of informal tripartite talks. Five meetings between government, unions and employers took place in May 2003, but no compromise was reached. The government offered several concessions: in particular, a ceiling on benefit cuts, a special hardship fund and a special exemption for heavy laborers which was also applicable to entrepreneurs. The ÖGB and the AK rejected the compromise and held another general strike on June 3, 2003. The WKÖ decided to accept the compromise, and the WKÖ-affiliated members of parliament voted in favor of the revised bill. The ÖGB and the WKÖ both argued that the talks failed due to the government’s intransigence, and complained about the government’s unwillingness to allow the social partners to draft an alternative bill (APA0006, 27 May 2003).

To conclude, the empirical analysis reveals three types of preferences that motivated the WKÖ’s opposition to radical retrenchment: first, the WKÖ wanted to protect the benefit rights of small-firm owners, its main constituency, as shown in Section 2.1. This preference motivated the WKÖ’s demands for a slower phasing-in of cuts and compensation measures for owners of small firms. The importance of small-firm interests is also evident from the fact that the IV endorsed the reforms (Industriellenvereinigung, 2003). Second, the WKÖ wanted to avoid a sudden drop in consumer purchasing power, as interviews revealed (WKÖ2). This preference motivated the WKÖ to demand a slower phasing-in of the cutbacks. This concern is also linked to firm size, since small firms, typically in crafts and trade, tend to rely on domestic consumption, while large firms, typically in manufacturing, tend to rely on exports. Third, the WKÖ prioritizes social partnership and social peace, which involves cooperation with unions. Therefore, it preferred a negotiated compromise with the unions to unilateral action by the government.

3.2 Reform of social insurance governance

Government plans to reform the organization of social insurance provide a second example of a unilateral cost-cutting reform which was opposed by employers. The social partners are in charge of the administration of social programs and public employment services. Soon after coming into power, the government presented plans to curtail the role of the social partners in social policy administration. At the center of these plans were attempts to reorganize the Main Association of Austrian Social Security Institutions (*Hauptverband der österreichischen Sozialversicherungsträger*, henceforth in this article called the Main Association), the body in charge of supervising and coordinating the agencies administering individual insurance schemes. The government justified its plans with improvements in cost efficiency and accountability.

A change in the composition of the Main Association's board of directors (*Verwaltungsrat*) was the centerpiece of the government's plans. Employers and employees elect the board of directors using party lists. Employees elect two thirds of the directors, employers one third. Employers' representatives are predominantly affiliated with the ÖVP, employees' representatives predominantly with the SPÖ.

The bill by the Ministry of Social Affairs consisted of three elements. First, the Ministry wanted to change the distribution of seats on the board from the two-thirds majority for labor to parity. Second, the Ministry intended to provide itself with a veto right over decisions made by the board, thus effectively curtailing the influence of the social partners. Third, the Ministry intended to strengthen the representation of smaller party factions on the board by establishing minority representatives. This measure primarily benefited the labor wings of the ÖVP and the FPÖ. Fourth, top-level officials of Chambers and unions were banned from serving as board members in order to prevent an accumulation of power (Obinger & Tálos, 2006, pp. 82-83).

These plans met with opposition from the federations of unions (ÖGB) and employers (WKÖ) (APA press releases APA0478, 19 March 2001; APA0421, 23 May 2001; APA0492, 25 June 2001). Even though the WKÖ favored the shift to parity (APA0473, 26 June 2001; APA0541, 27 June 2001), it decided to side with the ÖGB against the government plans. A parliamentary majority sufficed in order for the reform to pass. The social partners thus had no formal veto power. However, several ÖVP members of parliament were affiliated with the WKÖ: the business wing of the ÖVP (ÖWB) held eighteen out of a total of 183 seats in parliament. Upon the insistence of unions and employers, the government agreed to negotiations. After some hesitation, the WKÖ eventually decided to endorse a revised compromise version of the bill, and the WB-affiliated members of parliament voted in favor of that bill. The government dropped veto powers for the Ministry, but maintained parity representation and the minority representatives (APA0004, 07 July 2001). In short, although the reform shifted the balance of power in favor of the WKÖ, a reluctance to go along with the government's plan and an insistence on a compromise with the unions characterized the business federation's stance on this issue.

Media statements by WKÖ representatives show that interests in the maintenance of good relations with unions and of social partnership motivated the WKÖ's opposition to the government plan. WKÖ leaders, predominantly affiliated with the ÖVP, decided to prioritize these goals over party loyalty. In a television interview on July 3, 2001, WKÖ president Christoph Leitl (ÖVP) said that his organization would not support the bill for the moment because the maintenance of social partnership would be of "more significant value" compared to party loyalty (APA0722, 3 July 2001). Leitl embraced "partnership with the ÖGB" and argued against using the issue for party-political gains (APA0359, 6 July 2001). Similarly, WKÖ deputy secretary general Reinhold Mitterlehner (ÖVP) argued that the government plans "would be a provocation of the social partners. If the [social insurance] system would be

directly responsible to the government this would be an incentive for partisan intervention, which is not beneficial to continuity in this sensitive field” (APA0669, 26.01.2001).

A conflict concerning the president of the Main Association preceded the conflict over organizational reform. In both conflicts, the ÖVP-led WKÖ opposed the FPÖ-led Ministry of Social Affairs. The Minister, Herbert Haupt, wanted to dismiss the president of the Main Association, Hans Sallmutter. He was a Social Democrat and chair of the union of private-sector white-collar employees (*Gewerkschaft der Privatangestellten*, GPA). The Minister justified his decision based on Sallmutter’s alleged unwillingness to take cost-cutting measures in the loss-making health insurance program. However, Haupt’s decision was widely seen as a move to dismantle a political opponent.

Like the ÖGB, the WKÖ opposed the dismissal of Sallmutter (APA0083, 30 January 2001; APA0145, 31 January 2001; APA0041, 2 February 2001). While the president is officially appointed by the Minister of Social Affairs, it was hitherto customary for the social partners to propose a candidate. Mitterlehner and Leitl pointed out that the Social Democrats have the prerogative to nominate the president, as they represent the largest group on the board of directors (APA0083, 30.01.2001; APA0041, 02.02.2001). In defense of Sallmutter, Leitl argued that “even after the change in government the social partners maintain peace – the Republic is not burning, it is flowering” (APA0145, 31.01.2001). In short, the WKÖ perceived the government’s interventions as interference in a policy domain that was traditionally a prerogative of the social partners. It prioritized the maintenance of corporatist structures over any potential cost savings that government control might have made possible.

The WKÖ’s prioritization of good relations with the SPÖ-led union federation is also evident in its position on the change in the partisan composition of the Main Association’s board of directors. On this issue, the ÖVP-led WKÖ sided with the Social Democratic labor wing and against the labor wing of the ÖVP. As mentioned earlier, the Minister of Social

Affairs tried to change the partisan composition of the board's employee side. Reflecting the outcome of the elections, the 6-member employee side of the new board of directors would consist of four members from the SPÖ, one from the ÖVP, and one from the FPÖ. The ÖVP's labor wing (*Österreichischer Arbeiter-und Angestelltenbund, ÖAAB*) demanded an additional seat at the expense of the Social Democratic labor wing (i.e., a shift to a 3-2-1 formula). On this intra-labor conflict, the WKÖ and the ÖVP business wing sided with the Social Democratic labor wing rather than with the labor wing of their own party (APA0270, 29 June 2001; APA0094, 30 June 2001). WKÖ president Leitl argued that "social partnership does not allow for wheeling and dealing. ...Fairness requires that we respect the ÖGB's arguments." In short, on this issue as well, the ÖVP-affiliated WKÖ leaders gave priority to the maintenance of cooperative relations with the (predominantly Social Democratic) labor representatives rather than to party-political gains.

As in the case of pensions, the WKÖ's line contrasts with that of the Federation of Austrian Industry (IV). The IV, which is not an official social partner, has always been rather critical of social partnership and the concentration of power in the hands of the Chamber organizations. Representing big industry, it often voices discontent with the agreements hammered out by the social partners (see e.g. Dertnig, 1996; Die Presse, 2007; B. Martin, 1998, p. 2). After the national elections in 1999, where the SPÖ and the ÖVP lost votes and the anti-social partnership FPÖ gained votes, the executive director of the IV, Lorenz Fitz, declared that "the vote...is a clear rejection of ...social partnership" (Dertnig, 1999, p. 6). In contrast, the WKÖ declared on the same day that its support for any future government would depend upon that government's unconditional support for social partnership (Dertnig, 1999, p. 6).

These conflicts between the WKÖ and the IV point to differences in interests. Industry is most exposed to international competition and is thus most likely to oppose compromise-

based policy outputs that raise production costs. Industry plays a part in both organizations, but it is more dominant in the IV. Within the WKÖ, industry is just one of several groups. Thanks to compulsory membership and equal voting rights for all firms, the leadership of the WKÖ is in a much stronger position to sideline the preferences of discontented minorities. Industry certainly plays an important role within the WKÖ as well, but discontent is more easily contained by the need to balance the interests of different groups.

At the same time, differences in organizational interests, distinct from members' interests, do play a role. As an official social partner, the WKÖ is integrated into corporatist institutions, while the IV is not. Although government may decide to consult informally with the IV, its institutional standing is clearly weaker, and it has little interest in protecting the social partners' privileged channels of influence. In contrast, the WKÖ gains organizational legitimacy through its participation in policy administration, in particular because social insurance covers the self-employed, who are therefore interested in having a say in the administration of these programs. In the interviews, social peace was the argument in favor of social partnership most frequently mentioned by WKÖ officials, but some also tacitly acknowledged the role of organizational legitimacy¹¹ (Interviews WKÖ1, WKÖ3). In short, due to a combination of the interests of small business people and protection from member exits, compulsory membership allows the WKÖ to prioritize participation in social policy administration at the expense of industry's interest in lower labor costs.

Conclusions

The way business interests are organized has a crucial impact on business support for institutions of social compromise and social protection. This paper has explored a previously neglected aspect of business organization: the role of compulsory membership and its impact on the balance of power between small and large firms. This aspect is also evident when we

compare Austria and Germany: these two countries are often seen as belonging to the same “variety of capitalism,” both characterized by sectoral collective bargaining, institutionalized vocational training, close ties between industry and banks, and codetermination in firms. However, since the 1990s, German employers’ associations have become protagonists of welfare retrenchment and deregulation of labor markets, as other studies have shown (Kinderman, 2005; Menz, 2005; Paster, 2010; Speth, 2004), while the WKÖ has not. This difference results from the vulnerability of German employers’ associations to member exits. Medium-sized manufacturing firms in Germany became increasingly dissatisfied with their associations and tended to leave (Hassel, 2007, pp. 260-263; Silvia & Schroeder, 2007, p. 1446; Thelen & Wijnbergen, 2003, p. 870), which pushed the associations to take more neo-liberal stances. In contrast, due to compulsory membership and encompassing organization, the WKÖ was under less pressure from discontent minorities. In short, despite similar production regimes, German and Austrian business associations take very different stances because of their different organizational structures.

The article’s findings on the importance of organizational structures have implications for the study of the sustainability of organized capitalism. The explanation offered in this article differs from those that identify comparative institutional advantages as the main source of business support for social partnership. While some types of firms may indeed see institutions of social partnership as a competitive advantage, the argument presented here suggests that these competitive advantages are insufficient to ensure business support if associations rely on voluntary membership or if the system of interest representation is fragmented. Since other types of firms will be discontented, voluntary associations are under pressure to adjust their positions to accommodate these firms, as they are the ones which are most inclined to exit. The focus on microfoundations seen in the VoC-inspired literature about employers’ preferences tends to neglect the different ways in which different types of business associations aggregate and balance members’ interests, and thereby misses an

important source of variation in business associations' political attitudes. Investigating organizational rules that shape the balance of power between large and small firms — such as weighted vs. unweighted voting or fragmented vs. comprehensive organization — is also likely to shed light on the variation in business attitudes towards public policies and institutions of social partnership in cross-national comparisons.

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Tables

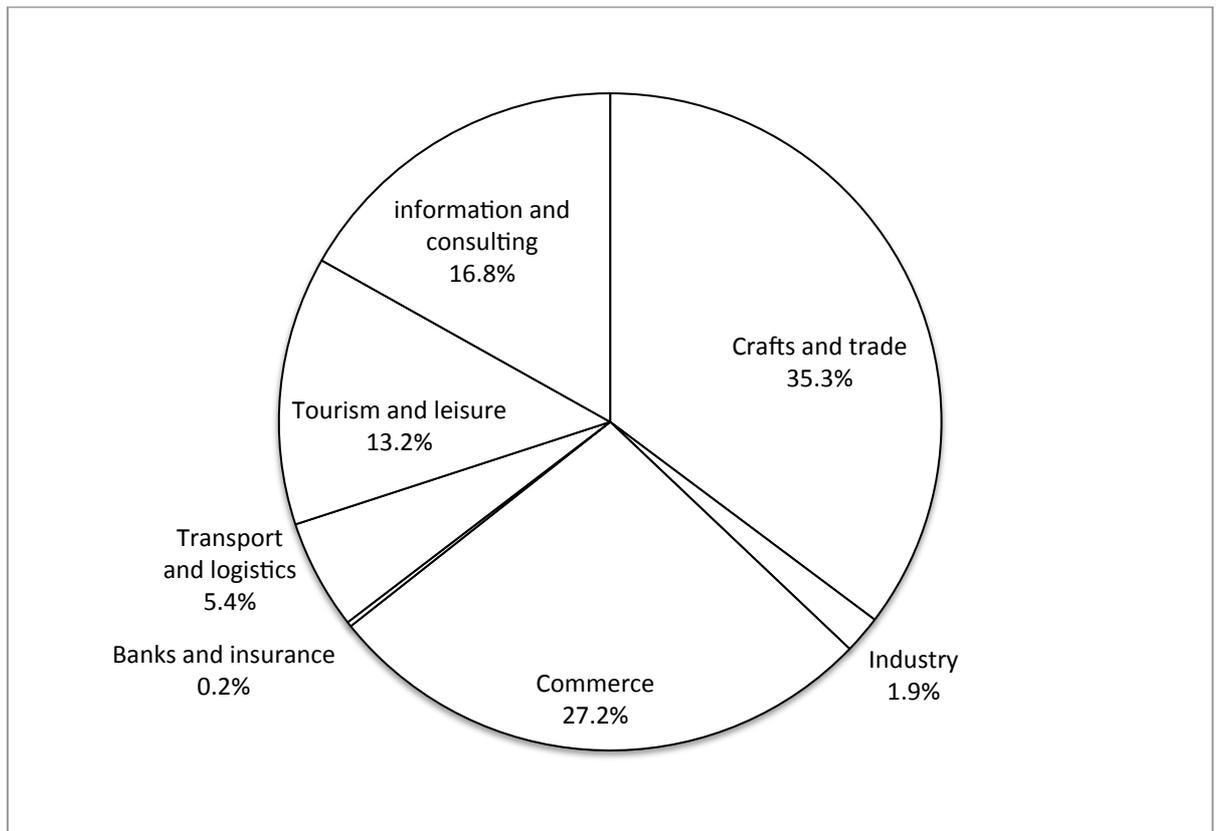
Table 1 Distribution of Austrian firms according to size

Firm size (employees)	No. of firms	%	No. of employees	%
0	144,358	49.0	0	.0
1-4	92,652	31.5	180,497	8.3
5-9	26,570	9.0	173,998	8.0
10-19	15,488	5.3	208,250	9.6
20-49	9,523	3.2	287,743	13.3
50-99	2,936	1.0	201,686	9.3
100-149	1,030	0.3	123,913	5.7
150-199	510	0.2	87,713	4.1
200-249	300	0.1	67,084	3.1
250-499	609	0.2	206,143	9.5
500-999	260	0.1	175,474	8.1
>1000	161	0.1	451,808	20.9
Total	294,397	100	2,164,309	100.0

Source: Wirtschaftskammer Österreich 2010: Table 14.1, p.76. Data for December 2009. No. of employees: number of employment contracts with firms in the respective size group.

Figures

Figure 1 Distribution of WKÖ members according to sector

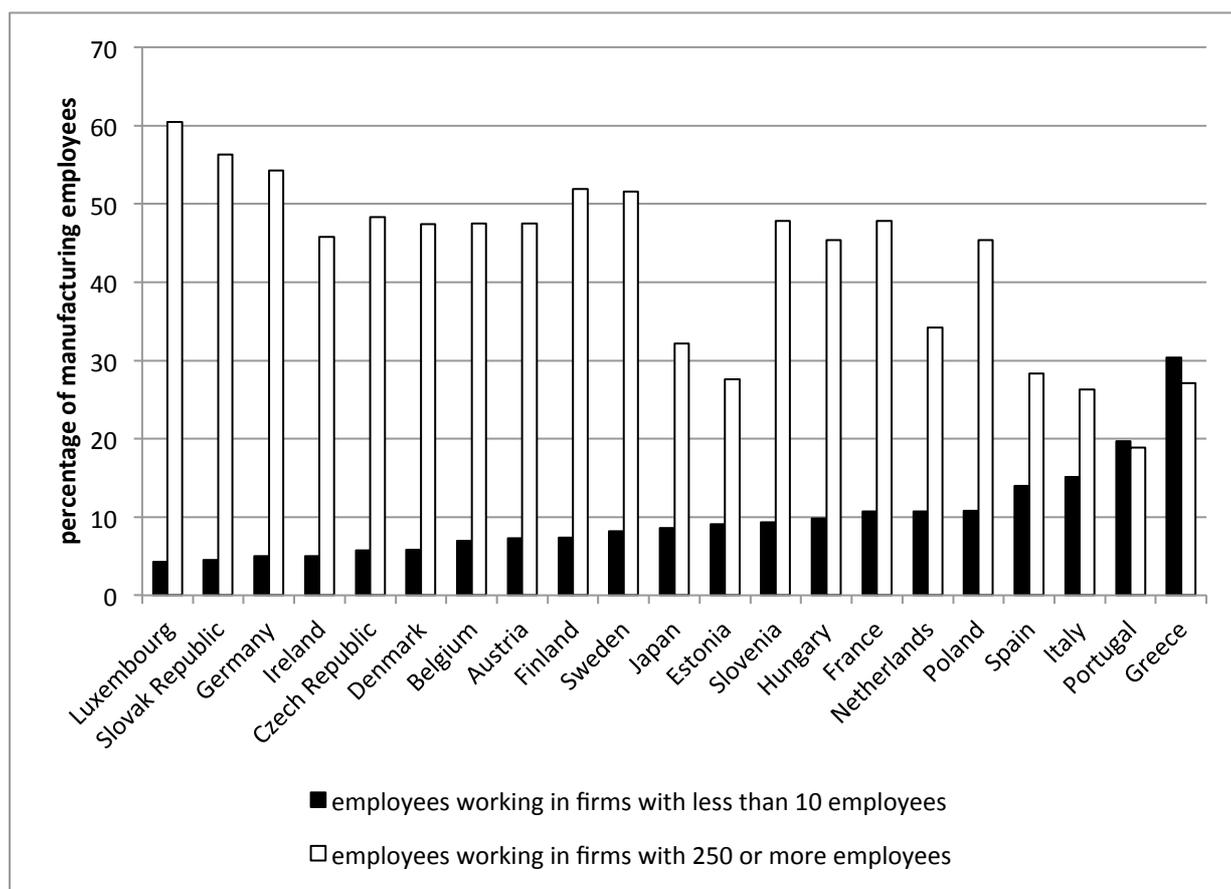


Source: Wirtschaftskammern Österreichs 2011: Table 15.2 (p.84)

Notes: Based on WKÖ members' affiliations with the WKÖ's seven sectoral divisions.

Multiple counting of firms affiliated with more than one sectoral division. Data for 2010.

Figure 2 Manufacturing firm size in international comparison



Source: OECD 2010.

Note: the figure shows the percentage of manufacturing employees in firms with less than 10 employees and in firms with 250 or more employees, respectively. Data for 2007.

Endnotes

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² For all organizations, I use the official translation used in the organization's own publications.

³ Opinions were accessed through the website of the Austrian parliament (URL: <http://www.parlinkom.at/PAKT/VHG/>).

⁴ Interviews cited in the paper are labeled as follows (organization, sector of industry, and date of interview in brackets): WKÖ1 (representative of WKÖ Industry, June 23, 2006), WKÖ2 (representative of WKÖ Commerce, June 26, 2006), WKÖ3 (representative of WKÖ metal engineering, June 30, 2006), WKÖ4 (representative of WKÖ Tourism, July 6, 2006), WKÖ5 (representative of WKÖ Transport, July 4, 2006), IV (representative of the IV's social policy department, June 9, 2006, email), AK1 (representative of the AK social policy department, July 7, 2006). WKÖ: *Wirtschaftskammer Österreich* (Federal Economic Chamber). IV: *Industriellenvereinigung* (Association of Industrialists). AK: *Kammer für Arbeiter und Angestellte* (Federal Chamber of Labor).

Interviews were conducted in person except where indicated. For each organization and sectoral division, I identified the person in charge of social policy issues and interviewed this person. If the sectoral division did not have anyone in charge of social policy, I interviewed the division's executive director (*Geschäftsführer*).

⁵ Lane Kenworthy conducted a survey of 42 indicators of neo-corporatism (2003). His survey shows that Austria is generally among those countries receiving the highest scores on

neo-corporatism. For country scores, see Kenworthy's dataset, accessed online at www.u.arizona.edu/~lkenwor/ijs2003-dataset.xls on November 7, 2011.

⁶ The full text of the Economic Chamber Act is available online at http://www.jusline.at/Wirtschaftskammergesetz_%28WKG%29_Langversion.html (accessed June 22, 2012).

⁷ One example given by an interviewee is that of working time regulations affecting bus coaches and taxi drivers. Unfortunately, the WKÖ's internal opinion papers on draft legislation are not publicly accessible. Consequently, a systematic comparison of cross-sectoral positions is not possible. However, the interview data indicate that the involvement of sectoral units on social policy issues is highly selective.

⁸ Some interviewees pointed to the existence of internal conflicts in other policy fields, such as environmental regulation or urban planning (WKÖ1). A high level of internal cohesion thus appears to be a feature specific to the field of social policy.

⁹ The following paragraphs draw on Knell, Köhler-Töglhofer & Prammer (2006 :78)

¹⁰ Press releases by the Austrian Press Agency (APA) are cited using the number of the press release and its date.

¹¹ A quote from an interview with an official of the WKÖ's metalworking section illustrates how much the WKÖ sees its organizational legitimacy as being linked to social partnership. Responding to the author's question about why the WKÖ supports social partnership, the interviewee responded with astonishment: "What, you ask a social partner why he favors social partnership?" Interview WKÖ3.