

HOW PARTIES OF CORPORATIST-CONSERVATIVE WELFARE STATES RESPOND TO THE INTERNATIONAL ECONOMY - A COMPARISON OF AUSTRIA AND GERMANY

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Abstract

How does the international economy influence parties' ideological positions on economic policies? Can the internationalization of the economy explain parties' ideological shifts? Do social democratic parties indeed face a crisis in light of neoliberal pressures, as suggested by the literature on globalization? How do right-wing parties respond to economic openness? To answer these questions, I examine both qualitatively and quantitatively the impact of economic internationalization on the policy programs of Germany's and Austria's catch-all parties. Confirming results of a previously conducted cross-national study, I find that economic openness does *not* entail neoliberal policy convergence. Neoliberal pressures on leftist parties are partially offset by social democratic parties' policy-seeking motivations, by their organizational ties to trade unions and by public opinion's skepticism toward neoliberalism. Secondly, economic openness provides incentives for right-wing parties to shift further towards the right. The Austrian and the German cases not only call into questions arguments about neoliberal convergence but reveal tendencies of *divergence* of economic policy positions. However, the degree of divergence and the degree to which neoliberalism has come to dominate the political discourse *differs* between the cases and depends upon whether or not social democratic parties have been in office. Thus, there is some evidence that policy regimes - to borrow Przeworski's (2001) term - have been shifting to the right.

With respect to the literature on political behavior, these findings contribute to an enhanced understanding of the linkages between the international economy and party behavior, complementing the research of spatial modelers who typically focus on shifts in public opinion to explain parties' policy shifts. With respect to the international political economy literature, the findings invite a second look at arguments about (and conceptions of) policy convergence. Lastly, the findings suggest that the research agenda of globalization - currently focused on social democratic parties - ought to be expanded to include right-wing parties.

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1. INTRODUCTION

How and to what degree does the international economy affect the economic policy positions of political parties? This question lies at the heart of the debate concerning the effects of the global economy on the future of the welfare state. Clearly, welfare states must come to terms with an open economy. However, just *how* vulnerable welfare states are to neoliberal¹ economic pressures and to what degree these pressures will entail changes in existing welfare state arrangements have been subject to disagreement. I seek to contribute to the debate by examining how political parties - the most important actors of the domestic political arena - react to economic openness. I seek to address numerous areas in which the globalization literature is rather “thin.” For one, the importance of partisanship and the role of political parties in the potential phase of *welfare state retrenchment* has not been sufficiently explored (Allan and Scruggs 2004). Secondly, few studies have made a link between changes in economic conditions and parties’ policy positions (but see Milner and Judkins 2004; Haupt 2005; Adams, Haupt and Stoll 2006, forthcoming). Thirdly, the responses of right-wing parties to the global economy have received little attention and needs to be explained further.

I previously conducted a quantitative cross-national analysis of 165 parties’ policy proposals/ideological positioning on socio-economic policies in 17 European countries (Haupt 2005) and presented evidence that parties systematically adjust their economic policy positions in response to changes in economic openness. This finding underpins arguments about the relevance of the international economy for national level actors. However, different responses to various economic openness indicators (i.e. trade and capital mobility) called into question straightforward claims about neoliberal policy convergence associated with the early globalization literature.² Furthermore, and surprisingly, the cross-national analysis revealed that left-wing parties do *not* respond differently to changes in economic openness than do right-wing parties. Parties kept their ideological distance and moved in the same ideological directions. This finding invites further analysis of right-wing parties’ responses to globalization.

¹ The term “neoliberal policies” - as used in the academic literature – refers to liberalization of capital flows, monetary policy committed to low inflation, financial and labor market deregulation, trade liberalization, increase of the power and freedoms of entrepreneurs and investors, and restructuring of corporatist production regimes. The goal of neoliberal policies is to lower costs, invite private investment, reduce inflation, and to increase economic production.

² Results available from author upon request

This analysis seeks to explore the findings of the quantitative study by focusing on two case studies. Drawing from interviews with policy elites and from the data published by the Comparative Manifesto Project (CMP), I primarily seek to answer three questions: how does rising international economic openness and European integration influence parties' economic policy positions over time? Are social democratic parties forced to embrace the market as suggested by the convergence theories about globalization? If so, does this entail a paradigm shift towards neoliberal convergence? Do the neoliberal pressures associated with economic openness allow conservative parties to shift further to the right? In addition, the analysis also pays attention to the degree to which systemic international pressures affect the internal cohesion of political parties, to the relationship of the parties to each other, and, lastly, to the parties' relationship with their electorate.

Based on a study of Austria's and Germany's catch-all parties, this paper presents three central findings. First, economic internationalization, in particular the parameters of the EU membership, have resulted in an upsurge of market-oriented policies; however, this has *not* led to neoliberal policy convergence, nor to neoliberalism constituting the dominant policy regime. Secondly, I find evidence that economic openness leads to increased policy *divergence*, as economic openness has opened a window of opportunity for conservative parties to pursue market-oriented structural reforms while social democratic parties remain reluctant to commit to 'third ways.' Along with divergence, economic openness has rendered domestic politics more conflict ridden, and a rise in both intra-party and inter-party tensions can be observed. Thirdly, the degree of polarization between the right-wing and left-wing catch-all parties is less if social democratic parties have been in office, lending *some* support to arguments about social democratic parties' electoral dilemmas.

2. LITERATURE REVIEW, HYPOTHESES AND METHODOLOGY

2.1. The Effect of Globalization - Conflicting Predictions

The rich literature on the effects of globalization on the welfare state is characterized by contradictory claims about the manner and the degree to which economic openness will affect traditional policy making. The early literature on globalization literature was dominated by

claims about welfare state “retrenchment,” and predictions about *neoliberal convergence* of national socio-economic policies and welfare related institutions (e.g. Berger 2000; Glyn 2001; Rodrik 1997). The underlying logic is that globalization entails a loss of state power over markets, increase the influence of capital vis-à-vis labor, and reduces governments’ ability to pursue the politics of full employment. In addition, the competitive pressures of an international economy prompt government to prioritize reduction of deficits to lower taxation at the expense of social protection and social expenditure. Therefore, globalization affects the ideological foundations of social welfare by legitimizing inequality (Mishra 1999: 15). Mair believed that the pervasive influence of transnational actors and financial flows undermines parties’ ability to satisfy local interests which in turn undermines party’s legitimacy (Mair 1995, referenced in Ladrech 2000:23). Arguments about convergence foresee that it will become inconsequential “whether the left or the right wins the election, [as] the constraints of the internationalized economy will oblige either party to follow the same monetary and fiscal policies” (Berger 2000:51). Based on the results of a cross-national study, Huber and Stephens (2001) confirm a decline of partisan political effects, while the economic agenda “is by and large either a defense or retrenchment of the welfare state. Expansion is off the agenda” (2001:6).

However, sustained high levels of welfare states’ spending have called welfare state decline and convergence into question (Garrett and Mitchell, 2000 p. 145). Within the European Union, often considered an “intense case of globalization³” (McNamara 2003), social protection expenditure has remained stable over the last twenty years (around an average of 20-30% of GDP during 1980-97). McNamara, studying the recent effects of the Maastricht convergence criteria in the European Union, finds *some* evidence in support of the “downward-convergence” hypothesis, but overall the results are mixed (McNamara 2003:333).

Scholars who question cross-national policy convergence have also focused on the effects of institutions and varying incentives in responding to international economic developments (e.g. Pauly 1988; Alesina et al. 1994; Rosenbluth 1996; Milner and Keohane 1996, Garrett 1998, Swank 2002). Their arguments highlight numerous reasons for continued welfare state resilience

³. Within Europe, trade, especially intra-European trade, and investment flows have been steadily increasing (McNamara, 2003, p. 334-5). McNamara clarifies that “the fact that the EU is also a highly institutionalized setting with well developed supranational governance structures is analytically separate from the fact of market integration, although the two facts are likely to be causally related.” The introduction of the Economic and Monetary Union (EMU) incorporated in the Maastricht Treaty (1991) further accelerated the neoliberal agenda of economic and monetary integration, notably without being accompanied by equivalent EU-wide social policies. In short, European integration is predominantly based on deregulation (negative integration) rather than regulation (positive integration) and as such has an anti-social democratic bias (Notermans, 2001, p. 256)

and divergent policies, such as institutional incentives, popular demands for greater social security and for compensation in light of economic openness and the competitive economic performance of “non”-liberal approaches to the economy. Generally speaking, the argument holds that political outcomes and parties’ ideological positions are not simply a product of economic interests and economic restraints, but that policy positions are critically influenced by the institutional context in which political actors frame their preferences. Garrett (1998) foresees that the welfare regimes that most in need for reforms are those in which labor is strong but decentralized because this combination results in sub-optimal macroeconomic performance. In comparison, Swank (2002) extends his institutional analysis beyond political-economic institutions and identifies various institutional features which shield against neoliberal pressures: social corporatist interest representation and policy making, centralized political authority, electoral institutions of proportional representation and social-democratic welfare institutions. Swank concludes that globalization has the least impact on the welfare states of Northern Europe, and the most impact on the Anglo nations (Swank, 2002).

The globalization literature does not stop here, however, and the institutionalist argument has not gone unchallenged. Highlighting the effect of partisanship, Boix (1998) questions the predominance of an institutional model of contemporary political economy, and instead emphasizes the importance of political coalitions and partisan strategies in governments’ choice of specific economic strategies (Boix, 1998, p. 10). Allan and Scruggs (2004) present evidence of convergence in certain policy areas related to welfare spending (i.e. unemployment replacement rates and sickness insurance) which suggest welfare state retrenchment, but at the same time conclude that “partisanship exerts a considerable effect on welfare state entitlements in the era of retrenchment” (Allan and Scruggs 2004:497). Kersbergen, in comparison, casts doubts on the resilience of institutions, pointing to the importance of incremental changes over time. Kersbergen (2000) believes that institutionalist arguments to explain divergent responses to globalization overemphasize the path-dependent, resilient qualities of institutional mechanisms, overlooking the signs of institutional change and fundamental transformation (but see Alston et.al. 1996). Kersbergen writes “[i]n spite of the powerful mechanism against radical change, it may be that in the light of contemporary developments the resistance argument is stretched too far.... small incremental changes are seen as resilience, but can at a certain point in time be seen

as a more fundamental transformation⁴”(2000:26-7) For example, Hemerijck believes the policy constraints associated with European Monetary Union are stronger than resistance to institutional change. They might not bring about radical changes of Europe’s welfare states, but nonetheless ‘structural reforms’ in labor market, collective bargaining systems and social protection programs (Hemerijck, 2002:175).

2.2. Social Democracy in Decline?

Overlapping with the discussion of globalization and the welfare state, the future of social democracy has sparked especially wide interest in the scholarly community⁵ The interest in social democracy is obvious: social democratic policies seek to regulate capitalism and correct the effects of the market (Przeworski 2001:327),⁶ Based on “demarcated national economies managed by efficacious centralized states in a broadly bipolar world order” (Pierson 2002:64), social democracy’s foundation is challenged by globalization. For example, capital mobility undermines politics of intervention, of redistribution and a large public sector (Pierson 2002:78. The stagflation of the 1970s first forced social democrats to acknowledge tradeoffs (Przeworski 2001:320). Thus, in light of international competitive pressures, social democratic parties are arguably *caught in a “catch-22:”* they must either scale down their commitments, or promise what they are unable to deliver to their electorate (Heywood 2002). Particularly within Europe, the parameters of European integration and monetary union are considered knotty problem for social democratic parties (Kleinman, 2002, p. 151).⁷ European Monetary Union (EMU) rules out nominal exchange rate adjustments, meaning that adjustments and stabilization must be sought elsewhere, for example in national fiscal policies, labor mobility and wage flexibility. In response to policy constraints, some social democratic parties, most notably British Labour Party leader

⁴ Kersbergen refers to incremental changes in social policies, such as more stringent eligibility criteria, contribution standards, levels of means testing, replacement rates, greater number of waiting days, reduced funding etc. (2000)

⁵ e.g. Callaghan 2003; Garrett 1998; Glyn 2001; Kitschelt 1994; Kuhnle 2000; Ladrech 2000; Lordon 2001; Luther and Müller-Rommel 2002; Mishra 1999; Notermans 2001; Pierson 1995, 1999; Przeworski 1985; Roder 2003; Scharpf 1999, 2001; Schmitt 2002; Thompson 2000

⁶ The traditional social democratic position is outlined in detail by Kessleman: 1. acceptance of a capitalist economy along with state intervention; 2. Keynesian economic with the aim of full employment; 3. state policies aiming at redistribution; 4. association of the working class with social democracy which is closely linked to a trade union movement (Kessleman, referenced in Thompson 2000:8).

⁷ The 1986 Single European Act abolished exchange controls (Notermans 2001:3). The Amsterdam Treaty of 1997 and Stability Pact reinforced an orthodox line. Members of EMU give up autonomy over key aspects of economic policy –particularly monetary policy and exchange rate. In addition, as part of the Maastricht Treaty, member states agreed that those wishing to join the single currency had to meet economic and financial requirements, the so-called Maastricht fiscal convergence criteria. In contrast, no criteria about acceptable unemployment, poverty and inequality were specified. (Kleinman 2002, p. 148).

Tony Blair and German Social Democrats' leader Gerhard Schroeder, have turned to the "third way" - a mix between social democracy and market economy.⁸

Is there evidence for convergence? Indeed, Glyn (2001) finds that in the time period between 1980 and 2000, numerous leftist governments accepted orthodox policies, prioritizing inflation control, limitation of the tax burden and labor market deregulation. He believes that the left can still intervene and counteract inequality, but that its objectives are limited (Glyn 2001:20). Similarly, Ladrech finds that following convergence around support for European integration, European social democrats were faced with "the loss of a critical area of programmatic distinction and identity from.... right of center parties" (Ladrech 200:4). Przeworski states "the major policy innovation of social democrats was the very idea that capitalist economies can be regulated and the effects of markets can be corrected" (Przeworski, 2001, p. 327). Przeworski addresses the issue of convergence through the lens of *policy regimes*, defining them as "situations in which major parties, regardless of their partisan stripes, propose and implement similar policies." Policy regimes differ on three areas: the form of ownership, instruments for coping with unemployment and international economic arrangements (such as trade and exchange rate arrangements (2001:324-6) and are likely to change in response to economic crises. After a left-oriented policy regime during the 1970s, Przeworski concludes that "[t]he policy regimes are converging again, this time to the right" (2001:325).

However, there are also reasons to doubt the onset of neoliberal convergence. To begin, on a theoretical level, social democratic parties have traditionally been more *policy-seeking* than their conservative parties. Przeworski and Sprague (1986) argue that socialist parties sought to *transform* society and shape public opinion, which renders them *ideologically less flexible* than their right-wing parties which typically defend the status quo. Building on this argument, Adams, Haupt and Stoll (2006) present evidence that social democratic parties are indeed less responsive to shifts in public opinion and to the global economy than are centrist and right-wing parties. Pennings (1999) finds social democratic parties turning towards market-oriented policies and welfare state entrenchment, but emphasizes that these policies are based on pragmatism, not on an "irreversible" embrace of neo-liberalism. Secondly, the effects of institutions and varying incentives in responding to international economic developments explain cross-national policy divergence (e.g. Alesina et al. 1994; Garrett 1998; Kersbergen 2000; Milner and Keohane 1996,

⁸ Giddens (1998) identified most clearly outlines "Third Way" politics: "the policies are a reaction to globalization, the rise of individualism, the deterioration of the environment, the 'decline of politics' and a believe in fading distinction of left and right" (Giddens 1998, referenced in Thompson 2000).

Swank 2002). In this context, Garrett (1998) challenges the conventional wisdom that globalization in general, and capital mobility in particular, are incompatible with social democracy. Pointing to the causal *linkages between partisanship, the structure of labor market institutions and macro-economic performance*, Garrett considers the social-democratic approach a viable alternative to liberal, market-oriented policy regimes (Garrett 1998:8-9). Organizational ties to unions arguably also contribute to ideological inflexibility, as these ties uphold an association with the working class even when social-democratic parties pursued cross-class electoral strategies (Adams, Haupt, Stoll 2006, forthcoming). Lastly, *public opinion* has consistently supported existing national welfare state structures and has arguably become disenchanted with neoliberalism. Growing economic security has led to increased support for left of center parties (Przeworski 2001; Garrett 1998).

2. 3. Globalization and Right-Wing Parties: A Tale Seldom Told

In contrast to social democracy, center-right parties, such as Christian democratic parties, have received little attention.⁹ Even fewer scholars have addressed the effects of globalization on mainstream conservative and/or Christian democratic parties' economic policies (but see Milner and Judkins 2004, and, to some degree Kersbergen 1995). Considering the important role that Christian democratic parties' have played in Europe (Kalyvas 1996), this lack of attention is anomalous.

In comparison to leftist parties, rightist parties favor private (versus governmental) ownership of the means of production, a weak governmental role in economic planning, oppose redistribution of wealth and favor less extensive governmental social welfare programs (Harmel and Janda, 1979). While conservative parties lean towards classical liberalism, Christian democratic parties combine liberalism and social responsibility, having given rise to models such as Germany's social market economic model. Kersbergen (1995) outlines the ideological profile of Christian democratic parties, which he labels "social capitalism." Representing a middle way between capitalism and socialism, Christian democratic parties' distinct political and social practice is shaped by "a blunt commitment to the market and a confident trust in the possibilities of politics" (Kersbergen 2000:231). In respect to social policies, Christian democracy aims to lessen the political importance of social cleavages, without aiming to eradicating them. The state steps in when fundamental social units (such as family, the market or vocation) prove unable to

⁹ but see Kersbergen (1995); Hanely (2002); Johannson (2002), Kaiser and Gehler (eds. 2004)

secure existence. In essence, Christian democracy aims at accommodating social, occupational and cultural differences, but it does not strive to *transform* them (Kersbergen 1995:231,239).

What does the extant literature suggest about conservative and right-wing parties reaction to increasing economic openness? Roder (2003) believes that unlike social democratic parties', conservative parties' pursuit of Keynesianism in the post-war era served only as a temporary way to correct capitalism and are thus quick to abandon it (Roder 2003:91). Examining the link between trade policy and economic openness, Milner and Judkins (2004) find that increasing economic openness leads rightist parties to advocate more free trade policies than leftist parties (2004:97). Kersbergen concludes that Christian democratic parties during the 1990 focused on a "socially acceptable capitalism." Though not whole-heartedly embracing neo-liberal market-based approaches in the 1990, they pursued policies of welfare state retrenchment and austerity, while attempting to preserve some form of social compensation to compensate the losers of economic adjustments (Kersbergen 1995:237). On the whole, Christian-democratic parties' emphasis on politics of mediation and its goals of nurturing an "organic harmony of society" has declined (1995:238), and, as a consequence, the distinction between Christian democracy and conservative parties has become hazy¹⁰. By the mid 1990s, the common response to the internationalizing economy included moderate neoliberal, supply side policies "without entirely abandoning the post-war model of compensatory social policies" (Kersbergen 1995:244). As such, the approach did not indicate a break within in the given policy paradigm (Hall 1993, referenced in Kersbergen 1995:244). Similarly, Kaiser and Gehler (2004) find that Christian democratic and center-right parties did not develop a new societal vision in the global age.

2.4. Hypotheses

Global economic developments and European economic integration change the political dynamics of economic policy-making on the national level by favoring market forces. Despite pressures for convergence, I argue that neoliberal convergence of mainstream (catchall) parties' policy positions is not an inevitable outcome of economic openness (Hypothesis 1). This hypothesis is based on two claims which build on the assumption that parties simultaneously seek votes, office and policies - goals which at times are in conflict with one another (Müller and

¹⁰ Indeed, both the German CDU/CSU and the Austrian ÖVP describe themselves as Christian democratic *and* conservative (Kaiser and Gehler 2004:205).

Strom 1999). First, while systemic constraints contribute to pressured on leftist parties to adopt “third ways,” their traditional policy-seeking orientations, their quest to shape public opinion, as well as their organizational links to unions limit their ideological flexibility and their response to neoliberal pressures (Sub-Hypothesis 1a). By contrast, rightist parties are expected to benefit from economic openness, as market oriented policies complement their economic policy approach. While rightist parties face incentives to move further to the right, they continue to be *office seekers* and, thus, move to the right *only if* this move is electorally advantageous (Sub-Hypothesis 1b), especially considering evidence that European public opinion has become disenchanted with neoliberal policies. Secondly, building on hypothesis 1, I argue that the whether parties are in government or opposition should influence the intensity of “electoral dilemma” which social democratic face. Thus, social democratic parties in office will be more responsive to neoliberalism than social democratic parties in opposition (Hypothesis 2).

Based on these claims what we should expect to see greater divergence between the Austria catch-all parties, and neither convergence nor divergence of Germany’s catch-all parties.

3. Methodology

My analysis of the parties’ economic policy evolution is primarily based on qualitative research (i.e. interviews with policy actors¹¹), the tracing of parties’ programs and policies over time, and the extant literature on Austria’s and Germany’s parties. In addition, data published by the Comparative Manifesto Research Group is used to trace the party’s economic policies over time. Unlike the majority of the globalization literature’s focus on welfare policy outputs, I focus predominantly on parties’ *policy proposals/ideological positioning on economic policies*, rather than government policy outputs, for three reasons. First, parties’ programs are important in and of themselves, as they are endorsed by the party as a whole and as pre-election declarations they serve as a guideline for voters (Adams et al. 2004, 2006, Klingemann 1994, McDonald and Budge 2004, Volkens 2004). Second, empirical research suggests that parties’ pre-election policy programs are a reliable indicator of the policies they will pursue once in office (Klingeman 1994, McDonald and Budge 2004). Third, parties’ policy positions reveal shifts in domestic economic

¹¹ Specifically, I conducted 21 interviews in Austria (9 interviews with policy actors of the conservative People’s Party) and 13 interviews with German policy elites. (See Appendix 1 for more details)

agendas more clearly than do policy outputs, and therefore they enable a researcher to examine the *ideological* foundations of socio-economic policy-making.

Germany and Austria are very similar in many respects and thus invite comparison. The two countries have a common historical heritage and a similar political culture. With respect to their welfare regime characteristics, both countries belong to the welfare regime category “corporatist conservative” and they are quite similar with respect to their welfare state expenditures (Austrian public expenditures on social policy account for 26.0 percent of GDP in 2001 and in German for 27.4 percent) (Busemeyer 2005:571). Both countries are members of the European Union’s single market¹² are thus subject to the pressures of the fiscally conservative parameters of the Growth and Stability Pact specified in the Maastricht Treaty. .

Concerning their parties, both countries have been ruled either by a social democratic or a Christian democratic government -either in coalition or alone. Furthermore, the two countries’ party systems have become increasingly alike: with the rise of the Freedom party in Austria and the emergence of Green parties in both countries, the party systems are characterized by two opposing blocks on the left and the right of the ideological spectrum.¹³ Though Christian-democratic parties in Europe are quite heterogeneous, Germany’s CDU and Austria ÖVP have traditionally been very similar in terms of their platforms and the makeups of their electorates. The cases *differ* inasmuch as the Social Democratic Party has been in power since 1998 in Germany, while in Austria the conservative People’s Party has governed since 2000.

4. AUSTRIA’S AND GERMANY’S CATCH-ALL PARTIES

4.1. Social Democracy: In Search for a Viable Paradigm

4.1.1. SPÖ and SPD - The Early Postwar Decades

The Austrian social -democratic SPÖ (*Sozialdemokratische Partei Österreichs*) has been one of the strongest left-wing parties in Europe, rivaled in strength only by the social-democratic parties of the Nordic countries (Garrett 1998:12, Veiden 2001:203). Membership in the SPÖ is high, including approximately 15 percent of Austria’s electorate (Luther 1999: 22). Soon after the

¹² Though Austria is a latecomer to the European Union, Austria’s economy has always been very open and subject to the forces of the international market

¹³ In the case of Austria, a more competitive policy making climate is a more recent phenomena.

newly acquired independence and the establishment of the second Austrian Republic in 1945, the Austrian Social Democrats abandoned their revolutionary rhetoric and successfully rebuilt their dense networks of auxiliary associations, interest-groups links and close ties to the Austrian Federal Trade Union (*Österreichischer Gewerkschaftsbund- ÖGB*). Based on its tumultuous interwar history of near civil war, both the SPÖ and the conservative ÖVP acknowledged the need for *consensus* and strong electoral backing, to provide an “antithesis” to Austria’s tumultuous political history of class conflict and near-civil war of the 1930s¹⁴ (Pelinka et.al. 1999:13). Cooperation and mutual guaranties of power-sharing between government and labor and business - the so-called “social partners” - constitutes the defining feature Austria’s economic policy climate (Guger 2001: 61). In the consensus-oriented climate, the SPÖ and the ÖVP agreed to a long-lasting coalition. The distinct Austro-Keynesian approach pursued by the parties extends beyond anti-cyclical demand management: with a long-term perspective on investment and growth, the corporatist institutions help to stabilize business expectations, including in the private sector. Compared to other countries, Austria’s labor internalized a more long-term perspective which underpinned wage restraint in light of goals of low inflation and international competitiveness¹⁵ (Guger 2001:70). In addition, wide-ranging nationalization of industry, though pursued pragmatically to keep the industry from Soviet claims of “German-owned property,” was in line with a socialist economic agenda of a planned economy.

In contrast, the German postwar Social Democratic Party was constructed along the lines of the SPD in the Weimar Republic - an ideological party, primarily representing the interests of unions and the working class. It was not as quick in abandoning its radical rhetoric during the first post-war decades and therefore struggled to establish broad voter appeal. In the increasingly tense cold-war climate, the Marxist orientation of the party raised lingering doubts about the ultimate loyalty of its members. In this context, the SPD’s call to nationalize the German industry seemed outdated (Palmer 2001:158). Unlike CDU party leader Konrad Adenauer who

¹⁴Austria’s First Republic was marked by political and social instability: established in November 1918, the Versailles Peace treaty prohibited a union with Germany. Domestic political tension soon arose between the social-democratically dominated city of Vienna and Austria’s other regions. Political turmoil, violence and economic depression finally culminated in the establishment of an authoritarian regime in 1933 and in civil war the following year. In 1938, Hitler annexed Austria. Austria regained its independence in 1945 but continued to be occupied by the Allied forces until 1955 (Honan 2002:16)

¹⁵ The specific elements of Austro-Keynesianism include 1. Counter-cyclical use of budget deficits prioritizing full employment and growth; 2. Expansionary fiscal policy and subsidies to industry; 3. Monetary policy aimed at a stable nominal exchange rate to fight inflation and increase competitiveness - which frequently meant appreciating the Austrian Schilling against currencies of trade partners; and, 4. moderate, voluntary wage and incomes policy (to control wages and prices) based on social partnership (Guger 2001:59-60; Veiden 2001:215).

clearly sought close relations with the West, SPD leader Kurt Schumacher preferred economic socialism as an alternative to American-style capitalism (Sodaro 2000:506). The SPD's electoral failures meant that the party and the trade unions had only limited influence over the emerging "social-market" model, keeping pressures for income redistribution low. The ordoliberal¹⁶ "social-market" model, which emerged in the post-war years, is based on a combination of laissez faire market conditions and restrictive fiscal and monetary policy (the public budget was explicitly prohibited from growing faster than GDP). The model stresses cooperation between government, industry and labor. The autonomous German Central Bank (Bundesbank), constituted the basic institutional means for containing wage and public expenditures growth through restrictive monetary policies (Esping Andersen 1990, p. 169). Though there were many elements in German economic policy that were inconsistent with a strict ordo-liberal approach,¹⁷ Germany was an exception to the dominant paradigm in Europe at the time (Dyson 1999:219).

Receiving only 30% of the vote in the elections of 1957, the SPD famously broke with its Marxist elements. At a party meeting at Bad Godesberg, the SPD dropped its demand for nationalization of German industry, distanced itself from Marxism and affirmed that socialism and Catholicism are compatible doctrines. Along with its explicit support for NATO, the Bad Godesberg conference marks the SPD's birth as a catch-all party. Federal Economics minister Schiller pushed the SPD to embrace the "social market economy" in its program in 1959. The party held on to its commitment to Keynesianism and economic democracy, a less antagonistic relationship to the East and more liberal social values (De Deken 199:90). During this time, the party also moderated its marked ambivalence towards European economic integration (Moeller 1996:37).

¹⁶ Ordoliberalism focuses on a competitive market, on monetary stability and a framework for ensuring the functioning of the market. The state should provide a framework for economic *order* rather than directing the economic process. Ordo-liberalism favors a division of labor in economic management, with specific responsibilities assigned to particular institutions. For instance, a central bank should be responsible for monetary stability and low inflation, and insulated from political pressure by independent status.

¹⁷ for example, subsidized housing, controlled rents, codetermination, weak application of cartel policy and protectionist character of the EEC's agricultural policy (CAP) (Dyson 1999:220). In addition, the comprehensive protection of employees against dismissal, regulated opening hours in the retail sector and high public expenditures are not in line with ordoliberalism (Dyson 1999:220).

2.1.2. *The 1970s: Social Democracy in Government and Left-Leaning Policy Regimes*

The German Social Democrats entered into government in 1966, which silenced doubts about their ability to govern and marked the *rise of Keynesian policies in Germany*¹⁸. With the Stability and Growth Law of 1967, Finance Minister Schiller committed the system to move beyond stability and pursuing medium-term budgetary planning. Furthermore, a newly created Council for Anti-Cyclical Policy and an anti-cyclical reserve fund at the Bundesbank enabled the government to vary income and corporate taxes. In 1969, in a coalition with the liberal Free Democratic Party (FDP), the SPD took office with Willy Brandt as chancellor. The government implemented a number of generous social reforms, for example the *Lohnfortzahlungsgesetz* of 1972 (which guaranteed full wages during the first six weeks of sickness to all workers), and introduced means tested educational grants. The government increased the progressivity of the income tax system and introduced improvements in social welfare policies. A landmark institutional reform was the Co-determination Act of 1976 introducing equal representation between management and labor in the supervisory boards of all enterprises with more than 2000 employees (De Deken 1999:92). Although the SPD retained government control in the 1976 and 1980 elections, these were trying times for the party. In response to the worldwide recession, Chancellor Schmidt, who replaced Kohl in 1974, took an economically conservative approach. In *Foreign Affairs* of 1970, Schmidt calls for a pragmatic approach to solving the economic problems of the decade. He pushed for the establishment of the European Monetary System (EMS), which was supposed to stabilize international and monetary relations (Moeller 1996:39). Recognizing the challenges of globalization, the *expansion of welfare policies ended* in 1975¹⁹. Chancellor's Schmidt's policies led to conflict with the left wing of this party. In contrast, SPD's coalition partner, the FDP, gained electoral strength in 1980 and pushed for market-oriented policies more assertively. Resulting tensions with the unions and the SPD eventually culminated in a vote of no confidence in 1982 which ended social democratic rule for 16 years.

In comparison, the Austrian SPÖ governed alone during the 1970s, embracing Austro-Keynesianism whole-heartedly. Gaining more than 50% of the votes in 1971 under the leadership of Bruno Kreisky, the SPÖ ended 4 years of conservative rule and became the strongest social democratic party in Europe. Still in an era of *welfare state expansion*, Kreisky

¹⁸ Nonetheless, due to ordoliberal traditions, Dyson argues "Germany's shift in a Keynesian direction had been reluctant, tentative and incomplete" (Dyson 1999:222).

¹⁹ Changes to the unemployment insurance and labor market policy were introduced (Seelieb-Kaiser 2003:158).

initiated sweeping reforms to develop and to modernize the welfare state (Luther 1999: 20). For example, the educational and social security system were expanded (Guger 2001: 53). Believing that unemployment can undermine democratic stability and foster radicalism, Kreisky remained focused on the promotion of full employment. Austro-Keynesianism was continued successfully after the first oil crisis along with an effort to control inflation through the exchange rate and to uphold international competitiveness via incomes policy. In comparison, other industrialized countries focused on fighting inflation and on restrictive monetarist policies (Guger 2001:54).

4.1.3. *The 1980s and 1990s -The SPÖ in Government*

The international economic slowdown eventually caught up with the Austrian Social Democrats. Following the second oil crisis, while in a coalition with the FPÖ (1983-7), the Austrian SPÖ was only moderately successful in dealing with rising economic problems. Electorally, the party was weakened by allegations of financial impropriety. Citing the *need for international competitiveness*, the party moderated its commitment to full employment (Luther 1999: 27). Both the left wing of the party led by Ferdinand Lacina, and the right wing led by Franz Vranitzky, implemented step-by step privatization of the nationalized industries (Pelinka 2006, interview by author). Pointing to *structural constraints*, former finance minister Ferdinand Lacina explains that de-nationalization of industry was an “acknowledgement of political realities after the oil crisis” rather than indicative of an ideological shift (2005, interview by author, own translation). The subsequent SPÖ -ÖVP coalition of the late 1980s and 1990s maintained the strong currency option, moderate incomes policy, and reduced its emphasis on full employment at the expense of less expansion and budget consolidation (Guger 2001: 67). Together, the parties embarked on a program of privatization, for example of formerly state-run enterprises such as Telekom Austria, Austrian Airlines and Austrian Tabak (Luther 1999: 29). The SPÖ changed its name from “Socialist Party Austria” to “Social Democratic Party Austria,” symbolizing the party’s transition from a counter-culture party to an establishment party (Luther, 1999:20).

As the lead party in a new grand coalition in 1994, the SPÖ continued its market-oriented reform course. In light of EU membership and the Maastricht Treaty, the SPÖ agreed to “the most stringent austerity plan in recent Austrian history” (Huber and Stephens 2001:276) aiming to reduce the budget deficit by 2 percentage points, from 5 to 3 percent, within two years. The measures included increases in taxation and cuts in spending, for example on personnel in public

sector, reductions of transfer payments (e.g. pensions and child allowances) and raising the retirement age (OECD 1997, referenced in Huber and Stephens 2001:276). With respect to these policies, Pelinka et.al. argue that the *emphasis on budget consolidation* constitutes *the key difference* between the policy approach of the 1990s and the 1970s (1999:30). Remarkably, in contrast to the debate around membership in the EU, membership in the European Monetary Union (EMU) was almost a “foregone conclusion” despite large-scale opposition in the electorate (Lordon, 2001, p. 137).

Within Europe, EMU membership was opposed by social democratic parties in Spain, Finland, Italy and, less adamantly, in France and Germany (Notermans 2001:3-4). At the same time, the Austrian Social Democrats’ rightward shift during the 1990s was not uncommon. The French left temporarily abandoned their commitment to Keynesianism during this time, embracing the neoliberal parameters of European Monetary Union. French Premier Chirac entered office in 1995 with a anti- *désinflation compétitive* agenda, opposing Maastricht, yet embraced European integration quickly thereafter - arguably due to the “historical weight” of perceived obligation to support the project of an integrated Europe traditionally championed by France.

4.1.4. Intra-party Tension in the SPÖ

The SPÖ’s market-oriented and EU-oriented direction and chancellor Vranitzky’s EU-oriented policies caused intra-party tension (Duffek 2005, interview by author). Though it was *ein mühsamer Prozess* (‘a cumbersome process’), Vranitzky convinced the skeptical wing of the SPÖ party base and the party’s electorate to espouse EU membership (Caspar Einem 2005, interview by author). Subsequently, pointing to benefits such as economic growth, employment and lower consumer prices (Veiden 2001:210), the SPÖ favored membership, even more strongly than the ÖVP.²⁰ Vranitzky was also more inclined than the party base to pursue changes with respect to nationalization and taxation (Müller et.al. 1996:96).

The policies of the SPÖ during the 1990s support Przeworski’s (2001) theories about right-shifting policy regimes (2001:325). The SPÖ 1998 program stated that the party sought to redistribute wealth in a market economy rather than aspiring to ‘overcome’ capitalism and strive for a classless society. Luther argues that the 1998 programs constitutes a “radical departure

²⁰ Two reasons contribute to this outcome: for one, though the ÖVP strongly endorsed EU membership, the agricultural wing of the ÖVP electorate remained skeptical. In addition, the unions (associated with the SPÖ) supported EU membership a (Veiden, 2001).

from the SPÖ's traditionally radical rhetoric," resulting in a loss of popularity with the unions and the youthful leftwing of the party (Luther 1999: 29). SPÖ executive member Caspar Einem, too, remembers strong tendencies towards neoliberalism in the party during the 1990s. In particular, the election program of 1997-8, written in a "top down" fashion by a relatively small number of party members sparked an unexpectedly intense programmatic discussion in the party.

Importantly, the SPÖ's intra-party programmatic debate included a consideration to re-define the party's close relationship with the unions, which some party members viewed as burdensome. While the program eventually included the unions, debate of the party's electoral orientation continued until 2000. Similarly, some party members proposed to do away with the close association with the working class and the underprivileged to pursue a more broad-based electoral appeal. However, Einem explains that the party then reflected on its purpose and its long-established electoral base, and decided to *re-focused on a more traditional direction* (Einem 2005, interview by author). The fact that the party decided against a redefinition of its relationship with the unions and the electorate *while still in government* supports Przeworski and Sprague's (1986) argument that organization links with unions and a working-class appeal limits social democratic parties' ideological inflexibility - especially since the party was in power at the time. At the same time, it is noteworthy that intraparty debate regarding this issue continued until 2000 - suggesting that the opposition role reinforced the party's tendency to remain 'traditional.'

4.1.5. *The 1980 and 1990s: The SPD in Opposition*

During the 1980s, the growing influence of monetarism in Europe brought the international economic paradigm closer to the German model. This conferred further credibility onto German ordoliberalism, especially with the return of CDU/CSU to power in 1982. Sixteen long years in opposition led to an internal crisis for the SPD. Unlike a change of policy direction as was the case with their Austrian sisterparty, the SPD was unable to define its direction. Party elites had begun to see the tension inherent in the Bad Godesberger 'Leitmotif' of market economy and social state and found it increasingly difficult to reconcile Keynesian style politics with rising monetarism (Padgett 2003:41; Roder 2004:166). In 1987, an election campaign in which the issue of international competitiveness was widely discussed, the SPD followed a centrist strategy but was unable to improve its vote share significantly.²¹ As an opposition party,

²¹ The party publicly stated that would impossible to attain a social-democratic majority as long as the electorate trusted them only on social safeguards but not on economic modernization (Padgett 2003:41).

the SPD chose a policy of “co-operative opposition,” essentially shying away from a creating a competitive political atmosphere. With the exception, of the period following German unification in which both major parties embraced Keynes, the SPD’s emphasis on Keynesian demand management declined after the mid 1980s. However, the party’s 1989 “Berlin Program” reflected again the compromises made between traditionalists (traditional labor movement) and modernizes. It referenced the need for more flexible work organization, but lacked reference to more ambitious labor market reforms. Importantly, the program endorsed European integration, harmonization of economic policies, favored a common currency and suggested initiating a European wide employment strategy (De Deken 1999:93). SPD legislator Wend argues that the Berlin Program merely described postwar society and did not search for answers to globalization or demographic change and did not serve as a guideline when the party came to power in 1998 (Wend 2005, interview by author)

The party’s lackluster performance continued throughout most of the 1990s, in part because the party was overtaken by events in the East, where voters strongly favored the CDU. Programmatically, the SPD stuck to social-democratic demand management policies during the early 1990s, accompanied by some supply side policies (e.g. reduction of payroll taxes and reduction s of income tax on low incomes, employers’ contributions to reduce the price of labor (Roder 2004:164). Finally, the SPD’s economic policy direction shifted rightwards in the mid 1990s. The party indicated its support of the Maastricht Treaty in 1992, which, according to Roder, meant that party accepted a “neoliberally oriented process of European integration...as a policy path” (Roder 2003:146). As the mid 1990s witnessed an enormous increase in capital mobility and increased competitiveness (Dyson 1999:227), the reference to economic orthodoxy in the SPD’s policy programs began to increase, reaching an all time high in 1998.

4.1.6. *The Late 1990s: A Turn of Electoral Tides*

The Austrian SPÖ received a plurality of votes in 1999 but was forced into opposition by the a center-right coalition of the conservative ÖVP and the populist FPÖ. Importantly, after having embraced market-oriented policies during the 1990, the time during opposition cemented the SPÖ’s *reorientations towards traditional social-democratic policies*, apparently without major dissent in the party. The party’s speaker for economic Affairs Johann Moser emphasizes that ideologically the party is currently relatively homogenous, focusing on a “pragmatic approach” (2006, interview by author). As their policy priorities, policy actors emphasized active labor market

policies, full employment, redistribution and maintenance of social security systems. SPÖ legislator Manfred Lackner believes the SPÖ was “not on the right path” during the 1990s, resulting in loss of vote share. In comparison, the party’s re-orientation and its integration of popular demands for greater economic security have been reinforced by the party’s rise in electoral support in recent years - a sign of successful policy innovation. Lackner believes the SPÖ’s traditional values have shielded it from experiencing a crisis like the German social democrats (Lackner, interview by author 2005). Considering the influence of policy paradigms, it is clear that neoliberalism has *not* taken root as the dominant policy paradigm of the SPÖ.

Assessing the party’s recent leftward orientation, numerous party members as well as Austria’s leading political scientists emphasize a gap between political rhetoric and political practice. Ferdinand Lacina admits that the party in opposition has greater leeway to distance itself from neoliberalism and believes at times the left-leaning position is exaggerated. While the party’s emphasis on more traditional Keynesian-style policies is arguably stronger in rhetoric and facilitated by the party’s role as the opposition party (Kitschelt 1994), the SPÖ’s leftward move nonetheless clearly *belies arguments about inevitable neoliberal policy convergence*, as neoliberalism has not become the Social Democrats’ dominant policy regime.

Meanwhile, in Germany, Gerhard Schröder was chosen as party leader to run against Helmut Kohl in the 1998 electoral campaign. Victory resulted in a coalition of the SPD and the Greens. The party leadership was composed of both reform-minded Gerhard Schröder and left-leaning Oskar Lafontaine. With the agenda to modernize the party, Schröder had published his “Twelve Theses,” emphasizing competition, innovation, and wealth creation in the economy. Schröder also published a joint paper on economic policy with Tony Blair in 1999, in which he argued that social democratic policies fell short on creation of private sector jobs and overemphasized regulation and social spending. Adopting parts of the liberal agenda, Schröder attempts to move the SPD towards *‘die neue Mitte’*²² - modernization based on the argument that in a global age, social democratic parties must increase the welfare state’s competitiveness and find a way to reconcile economic efficiency and social justice. In addition, running counter to the dominant currents in the SPD, Schröder’s ideas did not translate into a “firm programmatic commitment” (Padgett 2003:41). Rather, traditional policies coexisted uneasily with the new centrist approach. For example, the 1998 program was more business friendly, reflected liberal

²² Padgett (2003) points out that the situation for the SPD was very different from that of British Labor and not favorable. For example, British Labor had modernized during opposition, but the SPD had just begun this process and inherited an economy that was considered “the sick man of Europe” declining since the late 1980s (2003:38).

values, personal achievement and responsibility, a promise to reduce corporate taxation, and non-wage costs of labor. However, this rhetoric was couched in the context of traditional commitments of social democracy (Padgett 2003:42). In addition, in practice, several of Schröder's suggestions were stifled. For example, his proposal to create a 'low wage sector' as an answer to unemployment was vetoed by the unions.²³ During the first four years of the SPD-Green government, there were no major reforms in health care, social assistance or unemployment insurance (Seelieb-Kaiser 2003:151).

The 2002 electoral program was based on the campaign "renewal and solidarity," but was less bold than the 1998 program. However, during the second term the government initiated major reforms. For example, the SPD initiated tax reform lowering the bottom rate of income tax (increasing the degree to which they are progressive) and provided tax relief to businesses by cutting corporate tax rates and reducing employers' obligations to their employees (Clement 2004:265). Finance minister Hans Eichel put forth a program with an emphasis on austerity, for example by linking pension, jobless and welfare benefits to inflation rather than earnings. In 2001, the government also worked on a pension reform proposal that was considered a major departure from previous approaches (Clemens 2004:267). The Hartz IV Labor market reforms - part of a larger agenda (Agenda 2010) - aimed at fine-tuning unemployment assistance, at increasing the effectiveness of the office of Public Employment Service at increasing more flexibility in the labor market (Kemmerling and Bruttel 2005). However, Germany's rigid system of wage bargaining and high protection of employees against dismissal were not changed. Padgett claims that the program "provided neither a coherent vision of left politics nor a mandate for economic reform" (Padgett 2003:43). In the 'Alliance for Jobs' program, Schröder attempted to create a consensus-oriented climate by bringing together key Ministers along with leaders of important business groups and trade unions. Though the aims of the 'Alliance' were not ambitious, Schroeder pursued a wider goal of achieving consensus on welfare and pension reform and labor market liberalization (Padgett 2003:46).

The SPD's latest 2005 electoral program emphasizes that the party wants to *maintain the social market economy*, with a *balanced mix of supply and demand policies*, in order to boost investment and private consumption. SPD General Secretary Hubertus Heil argues that programmatically

²³ In addition, the party embraced reforms which ran counter to liberalization measures, for example reversing welfare cuts in pension (the Pension Reform Law) and sick pay introduced by the CDU

the SPD party has undergone critical changes during the 10 years critical, evolving into a reform-party (2005, interview by author).

4.1.7. Intra-party Tension in the SPD

The transition to reform was not smooth. Schröder had excluded his party from collaboration of the ‘third way’ paper with Blair and remained an outsider to his party. Party activists soon criticized his style and his economic policies (Clement 2004:268), in particular statements which de-emphasize the traditional goals of social democracy and their programmatic profile. Schroeder stated “there is no social-democratic economic policy. There is no Christian democratic economic policy. There is only a modern economic policy” (Clemens 2004:264). Schröder’s attempt to foster good relationship with business, earned him the nickname ‘comrade of the bosses’ (Clement 2004:264) and sharp criticism from left-wing members in the party and the German Trade Union. In 1999, hundreds of SPD associations demanded policy change, such as raising taxes on corporations, and many within the party suggested replacing Schröder with defense Minister Rudolph Scharping (Clement 2004:268). The power-sharing arrangement with left-wing member Lafontaine came to an end when Lafontaine left the party in March 1999. An open letter of 45 left-wing members openly criticized his domestic policies, and his pension reform was supported by the CDU and FDP to a greater degree than within Schröder own party. Surprisingly, his position as Chancellor remained secure and was never seriously challenged and continued to exerted an usually high amount of control over his party which explains the relatively high policy passing rate in parliament (Clement 2004:269).

The political mood within the SPD improved only after the surfacing of the CDU/CSU finance scandal in the late 1990s. In addition, after the 2002 elections, Schröder’s popularity with his party rose due to the strong electoral results attributed to Schroeder’s leadership skills. However, in 2005, continued intra-party tensions led Schroeder to call for early elections. Reminiscent of the 1970s Schmidt era, Schröder presented the German president a list with reasons he cannot trust his own party in order to call for early elections.

The divisions within the party between a traditional left wing, a right wing and a group of younger legislators continue to this day. The right-leaning “Seeheimer“ wing of the party provocatively advocate “what used to be socially just cannot be afforded today” and clashes with the traditional wing of the party. SPD legislator Wend admits that party itself is not entirely clear about its future direction, though the selection of ministers in 2005 indicates that the party’s

centrist wing appears to dominate (Wend 2005, interview by author). Clearly, the identity of the party at large is in flux and it remains to be seen which faction of the party will become dominant.

4.1.8. The Parties' Relationship with Their Voters: Policy Actors' Perceptions

In accord with Heywood et.al.'s (2002) argument about a dilemma stemming from systemic constraints and electoral demands, many SPÖ policy actors expressed concern that voters do not understand the policy dynamics at the international level and that their demands exceeded the problem-solving capacity of the party (e.g. Silhavy 2005; Bauer 20005, interviews by author). Thus, the party needs to come to terms with the fact that there are not "easy solutions" - such as leaving the EU - and that the complexity has led to charges that the party fails to take a clear position. Similarly, Karl Duffek believes a dilemma also arises because the Social Democratic Party is more EU oriented than its electorate (2005, interview by author). While on an electoral decline during the 1990s, support for the party in recent years has been rising - not only in state elections but also in the recent national elections, confirming the parties' policies.

Policy actors of the SPD voiced similar concerns. The party's reforms made the gap between electoral demands of the traditional voting base and the demands of voters who support a 'third way' very apparent. For example, the governments' announcement to cut the national debt by \$28.5 billion by 2003, which required broad based spending cuts (in ministries, social welfare benefits, government supported student loans, retirement pensions, etc), was followed by electoral loses in state elections, and public demonstrations rejecting these austerity measures (Sodaro 2001:534). In the 2005 elections, the economy was the central issue. Legislator Wend and Heil believe the SPD was somewhat successful in conveying to the voters that globalization and demographic developments necessitate change, even to the working class and the pensioners who were most reluctant to change (Wend 2005, interview with author). In this context, the strongly market-oriented electoral strategy of the CDU might have benefited the SPD. In conjunction with the emergence of the Left Party (which combined the socialist PDS and the Lafontaine left wing) opened some policy room for the SPD, which received 34.2 per cent of the votes.

4.1.9. Conclusion - *The Effects of International Economic Pressures: Social Democracy in a Crisis? Social Democratic Paradigm Shifts?*

Clearly, the SPÖ's policies of the 1980s and 1990s and the SPD's policies since 1998 indicate that *systemic constraints* stemming from a global economy and from EU integration critically influence the policy programs of the parties. Not surprisingly, members of both Social Democratic parties interviewed almost unanimously agreed that the internationalization of the economy poses a challenge. Several legislators referred to globalization as "the number one" challenge (e.g. Hubertus Heil 2005; Rainer Wend 2005, interviews by author).

In case of the SPÖ, the most obvious influence of international economic pressures was its support of EU membership, which had still been explicitly opposed in the party's 1978 program, and the policies which followed during the 1990s (Duffek 2005; Lacina 2005, interviews by author). However, most policy elites do *not* consider the party's policy direction of the 1990s an ideological re-orientation. Instead, they attribute the party's market-orientation to the influence of the conservative coalition partner and the increasing pressure of the FPÖ (Moser 2005, interviews by author). While the SPÖ went as far as rethinking its organizational structure - its close ties with the unions and its electoral profile - the party reoriented itself back to traditional roots. Importantly, this occurred in 1998, while still in office, and as such must be considered a policy-seeking move which lends support to the policy inertia stemming from its ideology and its organizational ties. In respect to the SPD, the reforms ushered in by Gerhard Schröder constitute the most obvious response to perceived competitive pressures. While these reforms led to electoral victory and a 'third way' direction after many years in opposition, they also magnified the divisions in the party.

Has globalization led to a policy regime shift to the right, a new policy paradigm for either party? Are the parties in a crisis? In the case of the SPÖ, the clear answer is 'no' to both questions. Though the party began to draw limits to the actions of the state, the party has clearly delineated itself from a neoliberal reform course pursued by its main competitor. The SPÖ electoral program, while acknowledging the globalization and global interdependence, calls for an international paradigm shift and re-emphasizes its commitment to full employment. The recent electoral success as well as policy actors' perceptions also refutes arguments about Austrian social democracy in a crisis. The answers are less straightforward in the case of the SPD. Clearly, Schroeder's attempt to modernize the party and to embrace third ways seemed the classic example of social democracy in transition, but the party's base is too divided between

traditionalists and modernists to speak of a new policy paradigm for the German SPD - or make the claim that the social democracy turned decisively towards the 'third way.' However, it is clear that in search for international competitiveness and growth has indeed contributed to serious divisions within the SPD which hamper its effectiveness. In conjunction with the perceived electoral dilemma, it is safe to claim that the SPD is facing a crisis.

4.2. Christian Democratic Parties' Responses to Economic Openness

4.2.1. A Brief History

The Austrian People's Party (*Österreichische Volkspartei, ÖVP*) was founded immediately following the reestablishment of the Federal Republic of Austria in 1945 and has been a major player in Austrian politics ever since its inception. The party perceived itself as a catch-all, non-socialist party with various conservative currents: Christian social doctrine, conservatism and liberalism, with the former dominating the party's image. Classical state conservatism has had only limited influence. Religious tendencies, such as Catholicism, manifest themselves as a component of a social reformism in the economic goals of the party (Müller 1988: 99)²⁴. Like the German Christian Democratic Party (CDU), the ÖVP has traditionally been committed to a social market economy (*Soziale Marktwirtschaft*).

On the federal level, the ÖVP was the strongest party between 1945 and 1970 but then entered a phase of ideological uncertainty. In 1966, it formed a single government, but lost its majority in 1970 to the Social Democrats. It remained in opposition until 1987 (Müller 1988:98). Its relatively weak performance during the 1970s has been attributed to the party's failure to advance a comprehensive economic program. Mueller explains that the party was preoccupied with pragmatism, e.g. pragmatic intervention and government regulation serving the ÖVP core groups, such as agricultural subsidies (Müller 1988). While diverging ideological positions within the ÖVP seldom surfaced, some ideological differences emerged between the party's leadership and the party base. The party elite focused on the modern conservatism found among German and Scandinavian parties, shying away from a conservative label which might be mistaken for "reactionary." In comparison, the party's base favored conservative Catholicism. In accord with

²⁴ The party is considered to belong to the Christian-Democratic party family based on the coding of the Comparative Manifesto Project (Budge et.al. 2001).

a degree with ideological indeterminacy characteristic of the Christian-democratic family (Kersbergen 1995), the ÖVP moved away and then back to conservatism during the 1970s. For instance, the 1972 “Salzburg Program” in part reflected the position of the party’s business wing and in other parts those of the Workers’ and Employees’ League. It stressed the need for industrial adjustment, redistribution of income and “even discussed the alienation of work within the industrial mode of production” (Müller 1988:106). Meanwhile, the party unsuccessfully struggled with reforming its internal organization and leadership. In the process, the party failed to communicate a clear alternative to the economic policies of its competitors (Aiginger 1985).

Though the German CDU found its ‘anchor’ in the ordo-liberal social market economy, the ideological elements of the German Christian Democrats - conservative, liberal and socialist - were also not easy to reconcile in the 1970 party program²⁵. A more serious programmatic discussion emerged when the party was in opposition during the 1970s (Bösch 2004:63). The policy agenda of the German CDU - which began to emphasize a decreased role of the state during the 1980s - was complemented by the parameters of European economic integration. The CDU’s economic policy resulted in decrease of debt and inflation, and numerous cuts in social programs were introduced, but not with a long-term agenda. Other reforms, such as reforms in tax and health care, were only moderately successful and the unemployment rate remained high (Bösch 2004:64). While there was some expansion in the social policy realm (e.g. provision of free daycare based on Christian-democratic commitment to the family), the goal remained budget consolidation and lowering of social insurance. Social policy in the early 1980s was characterized by *cutbacks* (e.g. in the area of unemployment insurance, active labor market, etc) based on the reasoning that social insurance contribution have a negative effect on German firms’ international competitiveness (Seelieb-Kaiser 2003:158).

Unlike the ÖVP, the CDU has not maintained close relations with large trade unions. However, a group formed within the CDU to represent employees’ interest, the *Christlich-Demokratische Arbeitnehmerschaft* (Christian-Democratic Employees’ Organization), was relatively influential during the 1950s, 60s and 70s. This influence declined during the 1980s, however, after its leader criticized Kohl’s policies for being too liberal and was replaced. As a consequence, the organization’s influence as the social and left wing within the CDU was greatly diminished (Bösch 2004:73).

²⁵ And the programmatic diversity only increased after unification when the East German CDU differed slightly on both social policy (favoring greater spending) and on family policies (Bösch 2004:65)

On the European level, the Single European Act 1985, creating a single market, provided an opportunity to further the ordoliberal agenda by means of European integration. Dyson writes

Indeed the single European market program provided an external discipline that could be used by Germany ordoliberals to challenge domestic lobbies. By this means, even if belatedly, the *EC came to act as a catalyst for domestic liberalization*. Above all, it was through the ERM and the commitment to realize EMU in the Maastricht Treaty that the German ordoliberal model was accepted as the basis for convergence of EC economic policies (Dyson 1999:223).

Germany unification, after which social spending and social insurance contributions were increasing heavily (Seelieb-Kaiser 2003:149) interrupted the agenda of liberalization and prompted the CDU to embrace Keynesian policies (Bösch 2004:65). During the 1990s when Germany experienced a rapid increase in capital mobility, the policy response was one of increased flexibility - albeit only incrementally, lacking bold, proactive leadership. Instead, economic policy makers took up opportunist positions to ensure that firms, industries and their employees were not overwhelmed by externally induced change. Then, after the unification process was formally completed in 1992, social policy was retrenching again. For example, the Labor Promotion Reform Law of 1997 broadened the eligibility for jobs that are considered acceptable for the unemployed (Seelieb-Kaiser 2003:149).

The CDU's 1994 party program *Freiheit in Verantwortung* (Freedom in Responsibility) sparked considerably less intra-party debate than the 1970s program, and was met with criticism that it lacked innovation. It referred to the "ecological and social economy" (rather than "social economy"), but the references were increasingly liberal. The emphasis on justice, equality and community was decreased, and 'free development of personality' emphasized (Bösch 2004:66). Under chancellor Kohl's leadership, the party proposed social cuts in 1996 and 1997, raised the age for retirement and achieved some flexibility of labor law. From 1994 onward, the manufacturing industry began a process of restructuring to meet the challenges of globalization, Europeanization and the terms of German unification. By 1997, this restructuring included financial sectors as banks contemplated the implications of EMU. In light of stage three of European monetary union, the Bundesbank emphasized the importance of flexible labor markets and long-term fiscal consolidation. However, demands for radical reform were met by political inertia: measures of tax reform were blocked and proposals of pension reform watered down. As a consequence, the CDU government was not pursuing fiscal discipline to the degree that was

advocated in context of European integration (Dyson 1999:228). Structural barriers to more radical change remained high and are constitutionally anchored and supported by vested interests. This points to the importance of institutional characteristics in the welfare reform process as emphasized by Swank (2002) and constitutes an important hurdle to the reform efforts embraced by the CDU.

In Austria, the economic recession following the second oil crisis and membership in the European Union provided significant momentum for the Austrian People's Party's ideological direction. The party distanced itself from Keynesianism and moved distinctly to the right during the 1980s (Müller 1988:103). While Austria's economic performance worsened, the ÖVP strove to present itself as the superior choice in national macroeconomic management and began to argue that continuous state intervention had been partially responsible for the economic crisis (Chaloupek 1985). Its 1985 and 1986 electoral manifesto clearly called for increased privatization and lower income taxes (Müller et.al. 1996:95-6). The party shifted its focus away from nationalized industries and multinational corporations to smaller and mid-sized businesses. Advocating deregulation, spending cuts, privatization and tax reform, the ÖVP policy program of the mid 1980s contains neo-conservative themes reminiscent of (but more moderate than) their conservative counterparts in the US, Great Britain and Germany (Müller 1988:110-1). The ÖVP's strategy was successful inasmuch as the federal elections of 1983 resulted in an increase of its electoral share - 43.2 percent - for the first time since 1966. During this election, the SPÖ lost its majority and entered into a governing coalition with the Freedom Party (FPÖ). Steering toward neoliberalism (Müller 1988:111) the ÖVP made electoral gains in various elections held in Austria's provinces. In concert, this development *increased the difference* between the ÖVP and the SPÖ, which at the time, also began to move rightwards, but less decisively so. During this time, the EU Maastricht convergence criteria prompted consolidation of Austria's budget and sparked numerous reforms, as discussed in the previous section. When the election of Jörg Haider as FPÖ party Chairman ended the SPÖ -FPÖ coalition, the two SPÖ and the ÖVP entered into another grand coalition - once again with relatively similar platforms. While the parties' kept their distance vis-à-vis each other - avoiding convergence, I argue that the policy positions of SPÖ and ÖVP during 1990s provide clear example of a right-shifting policy paradigm.

4.2.2. *The ÖVP Government since 2000: Welfare State Reform*

After the election in 2000, the ÖVP entered a coalition with the Freedom Party (*Freiheitliche Partei Österreichs - FPÖ*) and the political dynamics of Austria politics entered a new phase. Under the chancellorship of Schüssel, the ÖVP pursued policies associated with welfare state retrenchment. For example, the parties embarked on a privatization program, and introduced higher taxation and cuts in welfare benefits (Luther 2001:10). The program issued by the government in 2000 (*Regierungsprogramm*) reflects an increased emphasis on the market and has paid less attention to the social partners (Guger 2001:78). Policies affecting social service provision included a transfer of competencies from the social ministry to the ministry of economy and labor in 2000, changes in labor laws involving less generous parameters and pension reforms in 2000, 2003 and 2004 (Guger 2001:78; Tálos 2005:85). The ÖVP continued its reform course of deregulation and structural changes after its reelection in 2002. The policy actors interviewed stressed *deregulation, privatization and liberalization, deficit reduction* as the party's policy priorities (Pichl 2005; Fasslabend 2005; interview by author). Importantly, most stated that the party policy course was due to *pragmatic* adjustments, indicative of *external constraints* imposed by the Maastricht criteria rather than of an ideological shift of the party. (Spindelegger 2005; Mitterlehner 2005; interviews by author).

The party's reform course is clearly motivated by international economic constraints. ÖVP legislator Ferdinand Maier considers the 2005 tax reform an important measure which reduces the tax burden of businesses as part of an effort to make Austria an attractive investment location (Maier 2005, interview by author). Similarly, Gerhard Hammerer believes that EU membership and opening of the East European market now show increasing effect and that the 2005 tax reform was sought in response to the pressures of globalization (Hammerer 2005, interview by author). In addition, the 2006 electoral program asserts, “[w]e pursue an eco-social market economy.... We give clear answers to the challenge of globalization.” (ÖVP Electoral Program 2006).

Both the FPÖ's participation in government and the market-oriented reforms led to a *decline of consensus* in Austrian politics. Social partnership has been weakened because of increasing deregulation and decentralization, allowing industrialists to push for increased flexibility in the labor market (Pollan 1997, cited in Guger 2001:77) and due to supranational governance many areas of economic policy have shifted to the central European level (which is characterized by more lobbying and less corporatism) (Lacina 2005, interview by author). The ÖVP further pushed to reduce the influence of the social partners: in 2000, the ÖVP's policy course had

strained relationship with those social partners associated with the SPÖ (Chamber of Labor and the union). The government suggested lowering tax-based contributions to the Chamber of Labor in 2000, which a member of the Chamber of Labor considered a “serious effort to intimidate” the Chamber of Labor (Chaloupek 2005, interview by author). In particular, the 2003 pension reform sparked conflict with the unions and illustrates both the limits of the social partners’ influence and the resilience of the institutional structure.²⁶ Meanwhile, business and entrepreneurs have benefited from lower taxation and reduced contribution to social security (Guger 2001:78) and the influence of the Austrian Federation of Industrialists²⁷ has risen (Chaloupek 2006, interview by author). Guger (2001) believes that these developments are indicative of an important institutional change and an attempt to confine social partnership to labor relations and incomes policy (Guger 2001:78).

4.2.3. *Intra-party Tensions in the ÖVP*

The chancellor’s ambitious reform plans also led to intra-party disagreements and conflict with the FPÖ coalition partner. Within the ÖVP, members of the ÖVP faction in parliament and head of the powerful Union of Public Employees, Fritz Neugebauer, and the president of the Economics Chamber and member of the ÖVP, Christoph Leitl, criticized the departure from decades of stability and Austria’s system of consensus with the social partners (Busemeyer 2005:580). In addition, some ÖVP members criticized the speed with which reform has been pursued (Hammerer 2005, interview by author). Furthermore, while the liberal wing of the party endorses deregulatory EU legislation such as the Public Service Directive (*EU Dienstrichtungslinie*), the socially oriented wing of the party views it with “considerable discomfort” (Baumgartner-Gabitzer 2005, interview by author).

²⁶ The unions mobilized large-scale street protests (with half to one million people attending) and two major strikes, which were significant considering Austria’s tradition of social peace (Busemeyer 2005:578). While the government is required to listen to the statements of the social partners (within the formal process of the “*Begutachtungsverfahren*” preceding the introduction of a bill), the constitutional powers of the government grant only “informal” veto power to the social partners. Referring to the guidelines *mehr privat, weniger Staat* (“more private enterprise, less state”) the Schüssel government was able to disregard the unions’ protests and to push through its reforms (Busemeyer 2005:579). The president of the ÖGB, Franz Verzetnitsch, while opposed to the pension reform, did not reject further negotiations with the government, thus informal talks between the government and the unions about further pension reforms continued. Busemeyer concludes, “[t]he Austrian system of consensual policy-making seems to be able to withstand periods of conflictual policy-making without sacrificing the whole system altogether” (2005:580).

²⁷ The Austrian Federation of Industrialists has approximately 4,000 members, employees, who represent a workforce of more than 400,000 (US Chamber of Commerce). Unlike the Chamber of Economy, the Federation of Industrialists represent predominantly large businesses. It is an independent association, not considered a “social partner.” (Christian Friesl 2005, interview by author).

To date, the ÖVP has moderated its position regarding social partnership and the 2002 program calls for a “strong social partnership”. ÖVP legislator and General Secretary of the Chamber of Economy Reinhold Mitterlehner explains that the party re-focused on the social partners because the Austrian electorate had begun to feel insecure. Nonetheless, the social partnership has lost some of its influence, which several members of the ÖVP as well as SPÖ legislators consider advantageous (e.g. Ferdinand Maier 2005, interview by author).

The CDU in Opposition 1998-2005

How did the CDU’s economic policy proposals evolve while in opposition? The ideological direction of the CDU in 1998 lacked a clear direction. A major finance and donation scandal significantly weakened the CDU and reduced its role as an effective opposition party (Bösch 2004:73). On an organizational level, the party was now less centralized than under Helmut Kohl’s leadership and began to pay greater attention to its programmatic profile.²⁸ However, in practice the base of the party was not actively involved in the program or in party leadership choices.

The parties’ program continue to lack appeal. Many of party leader Angela Merkel’s programs put forth in 2001 (such as the “we society”) did not resonate widely. Likewise, the party’s 2002 program, which emphasized a stronger social security system, lower taxes in the Eastern regions and reversal of cuts in health care did not enjoy wide appeal (Bösch 2004:67). Bösch argues it was not the CDU’s program, but the policies implemented by numerous prominent ministers, such as those of Bavarian CDU/CSU Minister Edmund Stoiber, that represented the CDU’s direction. In line with ordoliberalism, Stoiber favored privatization, but simultaneously regulation of industry and employment. Under leadership of parliamentary leader Friedrich Merz, the party considered to reintroduce conservative values to the party and emphasizing Christian culture as the *Leitkultur* (Bösch 2004:68).

These developments accounted for the parties’ shift rightwards. Markedly, the 2003 Leipzig program outlined new policy direction with *increased neoliberalism* (CDU legislator Fromme 2005, interview with author). CDU’s policy actors now place the parties’ economic policies in line with those of the Liberal party (Lueg 2005, interview with author). Reminiscent of their Austrian sister party’s agenda, a publication of the CDU party meeting 2004 strongly emphasizes

²⁸ Though the idea was develop the program by open debate, it ended being written by only a few members and seldom discussed.

the need growth and specifies that growth must be based on a 'lean' state. Blaming existing regulations for lack of growth and jobs based on international comparison, the program advocates deregulation (CDU Beschluss des 18. Parteitages). Importantly, in contrast to the program of the SPD, the CDU program calls for efforts to meet the Maastricht criteria. The CDU also presented a market-oriented course during the election campaign in 2005 during which it acknowledged the need for adjustment. For example, Angela Merkel emphasized that voters ought to accept "uncomfortable truths." In particular the choice of neoliberal Paul Kirchhof²⁹ - professor of economics and tax law expert - as future finance minister triggered electoral concerns and the CDU's drop in polls.

The relatively weak performance of the party in the 2005 elections - which policy actors called "a disaster which indicated that voters were not willing to follow us" has thus sparked another "sharp" debate within the CDU (Legislator Kues 2005, interview by author, own translation). Supporting hypothesis (1b), the party now questioning whether or not its reform course has gone too far and/or was not effectively communicated to the party's voters.

4.2.4. ÖVP's and CDU's Relationship with their Voters: Policy Actors' Assessments

Have international economic developments impacted the ÖVP's relationship with its voters? Most policy actors interviewed answered in the affirmative. As the case with the Social Democratic party, numerous ÖVP policy actors believe that voters expect more from Austria's parties than they might be able to deliver, not fully grasping the influence of supranational policies (Fasslabend 2005, interview by author). They believe that most citizens mostly see the risk, not the possibilities, associated with globalization, in particular the new competition which small and medium-sized business have to face. As a consequence, voters see globalization as posing a threat, overlooking the potential for growth. Furthermore, the relationship with the electorate towards European Union remains ambivalent. In the opinion of numerous legislators, both the feelings of insecurity and rising complexity of politics necessitate improved communication with the electorate (Baumgartner-Gabitzer 2005; Pichl 2005; interviews by author). In regards to market-oriented reforms, ÖVP policy actors acknowledge that the reform policies *create a dilemma*, as the electorate tends to perceive welfare reforms (such as privatization raising the retirement age) as negative (Hammerer 2005; Steibl 2005, interviews by author).

²⁹ Kirchhof advocated to adopt a flat tax of 25% for nearly all German citizens.

Concretely, this means that at times the ÖVP felt compelled to delay certain desired reforms, for example privatization of the postal service (Hammerer 2005, interviews by author).

The German CDU clearly perceived itself to face a dilemma. Reflecting on the last elections, Fromme state “we failed to convey to voters the necessity of change” and “frightening that people have a sense that changes are necessary, but refuse to face these changes” (CDU legislator Fromme 2005, interview by author). Similarly, legislator Kues criticizes that voters’ expectations on the party are “inconsistent” (CDU legislator Legislator Kues 2005, interview by author). This, as mentioned above, has also increased intra-party debate and conflict (Fritz 2005, interview by author).

4.2. 5. Conclusion - A Favorable Climate for Policy Change for Christian-Democratic/ Conservative Parties?

While some policy actors considered the effects of the globalizing economy as a positive development, most agreed that globalization poses a challenge (e.g. Ridi Steibl 2005, interview by author). In comparison, the effects of European integration are generally perceived as positive by the policy actors interviewed, and by the party at large³⁰. While the economic policies are presented as *pragmatic* adjustments to changing systemic conditions, several ÖVP legislators disagreed with the assumption that the party *changed* its ideological policy direction due to globalization. Instead, they emphasized that governing without the SPÖ for the first time in decades has *enabled the ÖVP to implement its long-held policy preferences* (such as decreasing the role of government in the economy, privatization and liberalization) (Baumgarnter-Gabitzer 2005 and Werner Fasslabend 2005, interviews by author). Hammerer emphasized the reform of the welfare state *is* a policy priority of the party but rebutted “neoliberal³¹” tendencies of ÖVP politics, considering the comparatively high expenditures associated with Austria’s social market economy and the comparatively highly regulatory climate (Gerhard Hammerer, ÖVP Vienna). The behavior of the ÖVP clearly left its mark on the Austrian political climate by reducing the power of the social partners and the potential for consensus.

CDU policy actors almost unanimously pointed to firms’ exist threats as the greatest challenge stemming from globalization (Lueg 2005, interview by author). The CDU embraced a

³⁰ Indeed, the Austrian Parliament ratified the European Union’s constitution. The document can be regarded a symbolism of support for increased European integration and emerged as a contested issue in numerous European countries, most notably in France

³¹ The interviews with policy actors (eg. Maier 2005; Pichl 2005; Spindelegger 2005) made apparent that the word “neoliberal” had a negative connotation and generally avoided. In comparison, “neoclassical” was more acceptable. **This paper employs the term “neoliberal” as used in the academic literature.**

liberalizing agenda beginning in the 1980s, was temporarily interrupted by unification, and then shifted rightwards. The dynamism and conviction of reform policies pushed by the CDU was stopped in its tracks by unfavorable elections results, sparking new doubts about the party's direction. Thus, the behavior of the CDU lends by and large support to the hypothesis that economic openness opens a window for conservative parties, but that this window is only as open as permitted by the electorate. Interestingly, both ÖVP and CDU policy elites see themselves facing a dilemma with respect to their voters.

4.3. Comparing the Policy Programs of the Major Parties and Inter-Party Relations: Neoliberal Convergence, Polarization or Neither?

In this section, I compare the policy positions of economic policies and those of social justice of the four parties by country. The policy positions are coded using data published by the Comparative Manifesto Project (CMP). Building on the CMP's encompassing left-right measure, I construct an encompassing left-right measure of parties' economic positions, which is drawn from policy domains "Economy," and "Welfare and Quality of Life."³² The central issue discussed in this section is the ideological similarity of the parties' economic policy proposals.

4.3.1. A. Comparing Party Positions of Austria's Parties

The graphs in Figure 3 show the SPÖ's and ÖVP's economic policy positions and positions on the European Union from the election in 1949 to 2002.

[Figure 1 about here]

Interpreting the programmatic fluctuations of the ÖVP, the graph in Figure 2 reveals that the party's policy shifts over time are frequent and significant: on the 200 point CMP scale, the party shifts from a point of at least 25 to the center nearly 6 times. In 1971 and 1979, the ÖVP takes centrist positions, in accord with Müller's (1988) argument that the economic policy program of the ÖVP was not clearly defined at the time. The ÖVP's most rightward positions are in 1957 (30), trumped slightly by the position in 1995 (32). In comparison, the SPÖ policy positions fluctuate less. The SPÖ reaches its most leftward position in 1971 at -22, and its most rightward position in 1995 where the party moves the party into the center-right, to 5/200. The graph

³² See Appendix 2 for details

matches the qualitative account of relative ideological stability of the party, the leftward shift during the Kreisky era in the early 1970s and the movement rightwards beginning in the 1980s, towards unprecedented rightward position in the mid 1990s. Importantly, the graphs reveal that the parties *generally keep their distance*³³, thereby contradicting predicting of (neoliberal) policy convergence and supporting arguments made by Volken (2004)³⁴. One idiosyncrasy concerns the ÖVP's move *leftwards* after 1997 and its center-left position in 2002. This leftward move contradicts the accounts of its market-oriented reform course and *must be considered an anomaly*.³⁵

What about the parties' position on social issues? Figure 3 depicts the comparison of the degree to which parties' have emphasized the concept "Social Justice."³⁶

[FIGURE 2 ABOUT HERE]

The graph reveals that the two party's emphasized the concept of social justice at comparable degrees until 1982. The ÖVP's decline of emphasis of the concept of social justice began in 1967, and has been on steady decline since 1979. The SPÖ's emphasis is relatively steady prior to 1994, with the exception of the electoral program of 1970, in which the concept was not mentioned at all. In 1997, social justice was heavily emphasized - *precisely at a time when the party's economic policy moved rightwards*. As a general trend, *polarization* can be observed since the 1967 programs.

4.3.2. Austria Inter-Party Relations: Policy Actors' Perceptions

How do Austrian policy actors perceive the relationship to their major opponent? The interviews with policy actors reveal that a majority indeed considered the policy distance of the two parties to have increased and that polarization has taken place. In respect to the effects of the perceived ideological polarization, a majority of the policy actors indicated they believe that economic internationalization has rendered politics more conflictual. ÖVP legislator Werner

³³ More clearly so compared to the parties general left-right position (including all policy domains) which is not picture here. The general left-right positions reveals that the People's Party crosses over into the left ideological spectrum during the early 1980s, "leapfrogging" the Social Democrats. The Social Democrats cross well into the right spectrum in the mid 1990s. Results available from author upon request.

³⁴ This holds also true when comparing the party's positions on all policy domains, though not as obvious and with one exception in the early 1980s when the People's Party crosses into the leftwing spectrum and "leapfrogs" to take a position more leftward than the Social Democratic party.

³⁵ Please see Appendix 3 for further detail

³⁶ Defined as "Concept of equality; need for fair treatment of all people; special protection for underprivileged; need for fair distribution of resources; removal of class barriers; end of discrimination such as racial or sexual discrimination, etc ." (Budge et.al. 2001)

Fasslabend believes that globalization and European integration have increased the importance of *ideology*, even on an international level.³⁷ Fasslabend believes this development further delineates two distinct ideological camps (2005, interview by author). Few policy actors, for example SPÖ legislator Manfred Lackner, believe the parties' programs are not very far apart. At the same time, Lackner believes the parties differ significantly on their view of tax reform and he feels that the ÖVP's current politics stray from their program.

4.3.3. *Comparing Party Positions of Germany's Parties*

The graphs in Figure 3 depict the SPD's and CDU's economic and EU policy positions from 1949 to 2002.

[FIGURE 3 ABOUT HERE]

The graphs reveal that both parties shifted their economic policy positions significantly over time, (especially when considering the early post-war period). The emergence of the ordo-liberal social market economic model in the 1950s pushes the CDU into the right ideological spectrum, but thereafter the CDU pursued very centrist economic policies. As to be expected, the position of the SPD also shift toward the center steadily until 1967, before taking office. Before the advent of Keynesianism, and the SPD's leftward shift, the parties' positions converge around the center, ushering in a period of Keynesianism. In contrast, polarization can be observed during the late 1970s and early 1980s, associated with the advent of the Single Market and the removal of capital controls in Germany polarization. During which the CDU reaches it most right-ward point (18/200). Thereafter, the parties shift in tandem and keep their distance vis-à-vis each other. The aftermath of unification marks a clear left-ward shift for both parties. The SPD moves toward the political center during the mid 1990s and Schröder's influence. After 1999, the party shifts back to the left - slightly, indicating that the party as whole did not support the chancellor's 'third ways.' In contrast, the CDU moves toward the market, reaching a plateau at a more moderate point than during the 1980s (10/200). In sum, in Germany, the period associated with rising economic internationalization is not marked by convergence around neoliberal policies.

³⁷ Fasslabend stresses that European, Latin American and Asian conservative/Christian democratic parties are increasingly interested in mutual exchange, for example at the IPU (Interparliamentary Union). While international labor movements have been active for a long time, this development for the conservative parties is relatively recent.

However, considering Schroeder's influence, the policy regime appears to have shifted to the right.

Briefly, considering the parties' have emphases of the concept "Social Justice", depicted in Figure 4, the dynamics look slightly different.

[FIGURE 4 ABOUT HERE]

The parties' emphases of 'social justice' converge during the 1970s, but then begin to drift apart. Interestingly, the SPD emphasized the concept highly during the late 1980s, which is not reflected in its more moderate economic policy position. The CDU's emphasis of social justice declined sharply until unification, after which it reappeared. Meanwhile, the SPD's emphasis of the concept declined after the mid 1990s.

4.3.4. Germany Inter-Party Relations: Policy Actors' Perceptions

How do Austrian policy actors perceive the relationship to their major opponent? The interviews with policy actors indicate that most policy actors perceive that economic globalization has increased the level of conflict in the political arena (e.g. Lueg 2005; Kues 2005; Heil 2005, interviews with author) and that the debate around economic policies have become "increasingly ideological" (Heil 2005, interview with author). Clearly, rising inter-party tension is also reflected in the changes to Germany's party system, which witnessed the emergence of the Left Party.

4.3.5. Conclusion

Factoring in the miscoding of the ÖVP position after 1999, the policy shifts of the Austrian parties in recent years suggest polarization of the SPÖ and ÖVP positions, rather than convergence. In Germany, recent shifts of SPD and CDU reveal that the parties have kept their distance from each other, while some polarization can be observed after 1998. This decrease in consensus in both countries has been further underpinned by changes to the both countries' party systems which has become more competitive.

3.4. Quantitative Results

[Please note: this section is not yet concluded, but results are available from author upon request]

Building on previously conducted cross-national analyses, I seek to assess the degree to which Austria's and Germany's parties' platforms are influenced by changes in economic openness. *Measurement of the dependent variable "party position"* is based on data provided by the Comparative Manifesto Research Project (CMP). Building on the CMP's encompassing left-right measure, I construct an encompassing left-right measure of parties' economic positions, which draws from policy domains "Economy," and "Welfare and Quality of Life." This measure is called "Left_Right Economy."³⁸ To measure economic openness, I utilize data provided by the World Bank (World Bank Development Indicator (WDI)). Volumes of trade (exports and imports, each as percentage of GDP), foreign direct investment (as percentage of GDP) and gross private capital flows (as percentage of GDP), serve as measures of economic openness.

Model Specifications:

Model 1: The following basic specification allows estimates the impact of the international economy on parties' policy shifts:

$$(1) \Delta P_{ALL} = b_1 + b_2 [\text{trade}] + b_3 [\text{capflows}] + b_4 [\text{fdi}] + b_5 [\text{previous shift}]$$

where

ΔP_{ALL} = Parties' ideological shifts from one election to the next

[trade] = volume of trade(as % of GDP)

[capflows] = volume of gross private capital flows (as % of GDP)

[fdi] = level of foreign direct investment (as % of GDP) from one election

[previous] = previous policy shift at $t_1 - t_2$

~Due questions which have emerged regarding the CMP data for Austria - this section is still to be completed ~

³⁸ See Appendix 2 for details

5. Conclusion

This paper presented an analysis of the effects of an internationalizing economy on Austria's and Germany's major parties' economic policy positions. Furthermore, the effects of systemic economic pressures on intra-party dynamics, inter-party dynamics and the relationships between the parties' and their voters were considered. Clearly, while many variables potentially influence parties' ideology and party behavior,³⁹ the analysis of Germany's and Austria's catch-all parties reveals that changes in economic openness are indeed critical to understanding parties' ideological positioning. As such, the results confirm the findings of a previously conducted cross-national quantitative analysis.

The effects of economic internationalization on parties' policy positions are particularly obvious in the case of Austria. While Austria's relatively small economy has traditionally adjusted well to open markets (Katzenstein 1985), the economic internationalization associated with membership in the European Union resulted in an upsurge in neoliberalism and a decline in consensus. European integration consolidated the ÖVP's conservative economic approach. Likewise, in light of EU membership, the SPÖ agreed to a stringent austerity plan, shifting sharply to the right. In the case of Germany, economic systemic pressures have also critically impacted the policy agenda of both parties. In particular the parameters of European economic and monetary integration have brought the issue of international competitiveness to the forefront of the programmatic debate and shaped the CDU's liberal policy direction. In comparison, under leadership of Chancellor Schröder, the SPD half-heartedly embraced 'third ways' since the mid 1990s.

Despite these neoliberal currents, I find support for my hypothesis that neoliberal policy convergence is *not* an inevitable outcome of economic openness. Comparing the parties' policy shifts over time, neither the ideological positions of the Austrian nor the German parties are converging around neoliberalism. Indeed, on economic issues, there is evidence for greater *polarization* between both countries' parties. How can this be explained? In the case of Austria, increasing economic internationalization and EU membership have *opened a window of opportunity*

³⁹ Researcher of political behavior focus on the effects of public opinion; the policy preferences of party activists (Aldrich 1983; McGann 1997, 2002; Miller and Schofield 2003); the voting system used to allocate seats in parliament (Cox 1990, 1997; Grofman 2001; Dow 2001; Powell, 2000); the number of political parties (Cox, 1990; Merrill and Adams, 2002); and party elites' expectations concerning post-election bargaining over the governing coalition (Schofield et al.1998; Austen-Smith and Banks 1988) (this list compiled by Adams et.al., 2004: 591).

for the conservative ÖVP to pursue market-oriented structural reforms and to embrace a liberal policy paradigm. The party pursued welfare retrenchment *despite* opposition from the SPÖ and the social partners. Only in light of opposition from the electorate (e.g. to the 2003 pension reforms) did the ÖVP moderate its positions (confirming Hypothesis 1b). Meanwhile, the Austrian SPÖ, after having embraced the market during the 1990s, reversed its position. Importantly, the party began to move leftwards while still in office, and contemplated but ultimately *rejected to loosen its organizational ties with the unions and to redefine its electoral appeal*. This choice lends support to the argument that social democratic parties are *less ideologically flexible* due to policy-seeking orientation and their organizational ties to union (hypothesis 1a). While in opposition, the party traditional social-democratic orientation became more firmly entrenched. The SPÖ's reorientation also lends support to the argument that social democratic parties' market-oriented shifts - common across Europe during the 1990s - are not signs of irreversible neoliberalism (Pennings 1999). Policy divergence in Austria, thus, stems from both parties moving in opposite directions. The increased polarization on economic issues is evident in a *decline of consensus-oriented politics*, magnified by an increasingly competitive party system in which smaller parties have begun to play a decisive role.

In comparison, the German CDU resorted to Keynesian-like policies only during the time of German unification, but has otherwise consistently pursued economic liberalization since the 1980s. The CDU's market-oriented economic policy course has been defined most clearly in its 2003 Leipzig program, and became one of the key issues during the election campaign in 2005. As hypothesized (hypothesis 1b), the public's unfavorable reaction to the CDU's reform course has the party second-guessing its direction. Since 1998, the SPD pursued market-oriented reforms, which resulted in intra-party conflict and conflict with the unions (again lending support to hypothesis 1a). Despite chancellor Schröder's pervasive influence, neoliberalism has not permeated the base of the party. It would therefore be premature to speak of the SPD as a social democratic party which succumbed to 'third ways.' In short, both parties have shifted rightwards but keep their distance vis-à-vis each other. Since 2002, the SPD shifted slightly back to the left and the parties' positions diverged. In short, both the Austrian and the German parties' ideological positions on economic policy have diverged, but to a different degree.

What explains the differences in degrees of ideological polarization? It is plausible that the social democratic dilemma identified by Heywood et.al. (2002) is lessened when parties are in opposition and need not "deliver" what they promise. A simple table, listing the four parties'

economic policy agendas along with their governing status, reveals that indeed the most common combination since the 1970s is “pursuit of market-oriented policies” and “being in government.”

[TABLE 1 ABOUT HERE]

Thus, I argue that the degree of divergence depends on whether or not social democracy is in opposition. This, in turn, moderates the argument about polarization in Austria and lends some support to arguments of right-leaning policy regimes.

Need we conclude that social democracy is in decline? Przeworski (2001:313) suggests that differences between social democracy and bourgeois parties at a given point in time ought to be compared to determine if social democracy can still influence other parties with their policy innovations, or the electorate and its preferences. Clearly, the SPÖ does *not* display a “lack of intellectual confidence” - to borrow Thompson’s term (2000:43), nor has the traditional wing of the SPD been rendered silent. In addition, popular demands for non-liberal policies are evident in the recent electoral success of the SPÖ, the relatively good electoral performance of the SPD and even the emergence of the Left party. Thus, I suggest that arguments about social democratic decline are exaggerated. How social democracy will evolve and perform during the 21st century, especially when *in office*, remains to be seen and will provide more conclusive answers.

To summarize, I offer three central findings. First, economic internationalization has *not* caused neoliberal policy convergence in Austria or Germany. Secondly, economic openness has increased economic policy *divergence*, as economic openness has opened a window of opportunity for conservative parties to pursue market-oriented structural reforms while social democratic parties remain reluctant to commit to ‘third ways.’ Along with divergence, economic openness has rendered domestic politics more conflict ridden, and a rise in both intra-party and inter-party tensions can be observed. Thirdly, the degree of polarization between the right-wing and left-wing catch-all parties is less if social democratic parties have been in office, lending *some* support to arguments about social democratic parties’ electoral dilemmas

With respect to the literature on political behavior, these results complement the assumptions of spatial modelers, who typically focus on the influence of public opinion when explaining parties’ policy positions. With respect to the international political economy literature, the findings invite a second look at arguments about (and conceptions of) policy convergence.

The case studies also point to numerous avenues for future research. The case of the ÖVP highlights that the behavior of right-wing parties constitutes a critical component in understanding national level responses to economic openness. Therefore, I suggest that the research agenda of the current globalization literature ought to be expanded to encompass the rightist parties. In addition, the question remains, ‘under which conditions, if at all, does economic openness lead to (neoliberal) policy convergence?’ Here, the influence of domestic political and political-economic institutions needs to be explored further.

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FIGURES AND TABLES

TABLE 1.
Comparison of Germany's and Austria's Party Economic Policy Choices Considering
their Governing Role and their Economic Policy Orientation

most frequent:

	Social Democracy	Christian Democracy/ Conservative
Austria	<p>1970s: in government, + Keynesianism</p> <p>1980-90s: in government, + market</p> <p>2000-2006: in opposition, - market, + Keynesianism</p>	<p>1970s: in opposition, + Keynesianism</p> <p>1980-1990s: in government: + market</p> <p>2000: in government, + market</p>
Germany	<p>1970s: in government, + Keynesianism then - Keynesianism</p> <p>1980-98: in opposition: disorientation, Keynesianism</p> <p>1998-2005: in government, + market</p>	<p>1970s: in opposition, social-market economy with some Keynesianism</p> <p>1982-1998: in government: + market (EU),</p> <p>1998-2005: in opposition, +market</p>

Figure 1: Comparison of Social Democrat's and People's Party Shifts on Economic Policy Proposals and Reference to the European Union

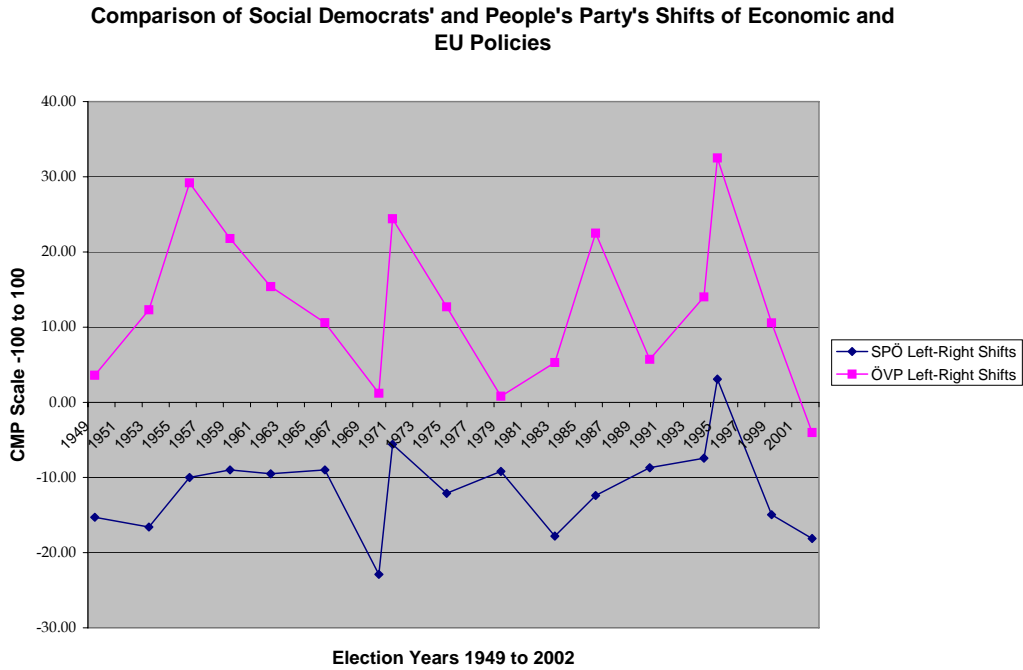


Figure 2: Comparison of Austrian Social Democrat's and People's Party References to Social Justice

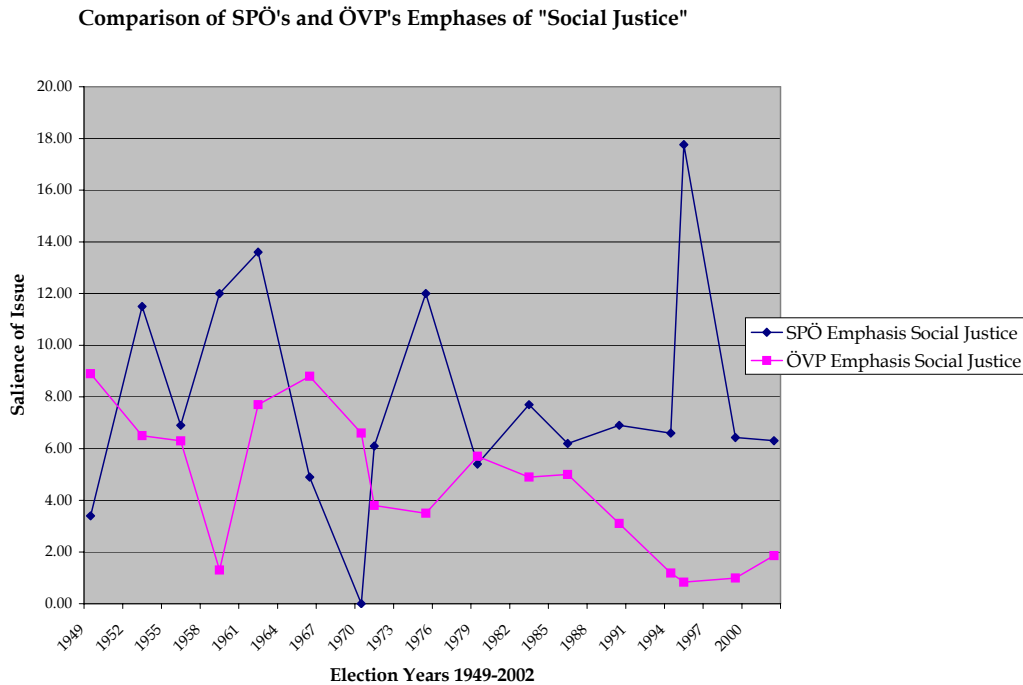


Figure 3: Comparison of Social Democrats' and Christian Democrats' Shift on Economic and EU Policy

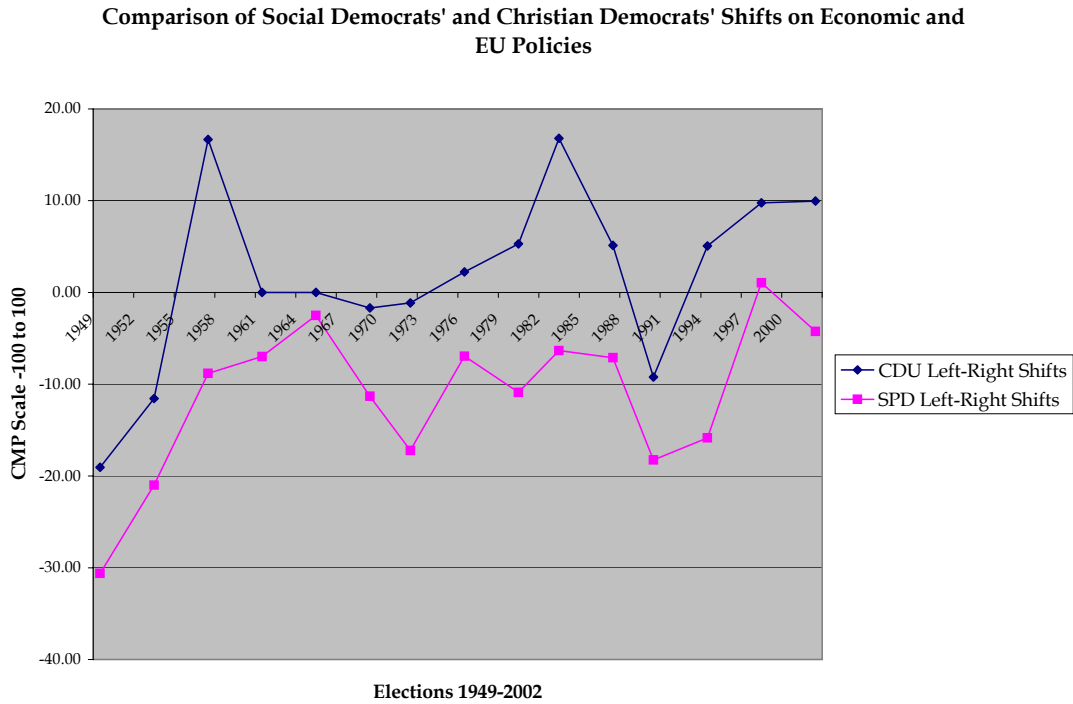
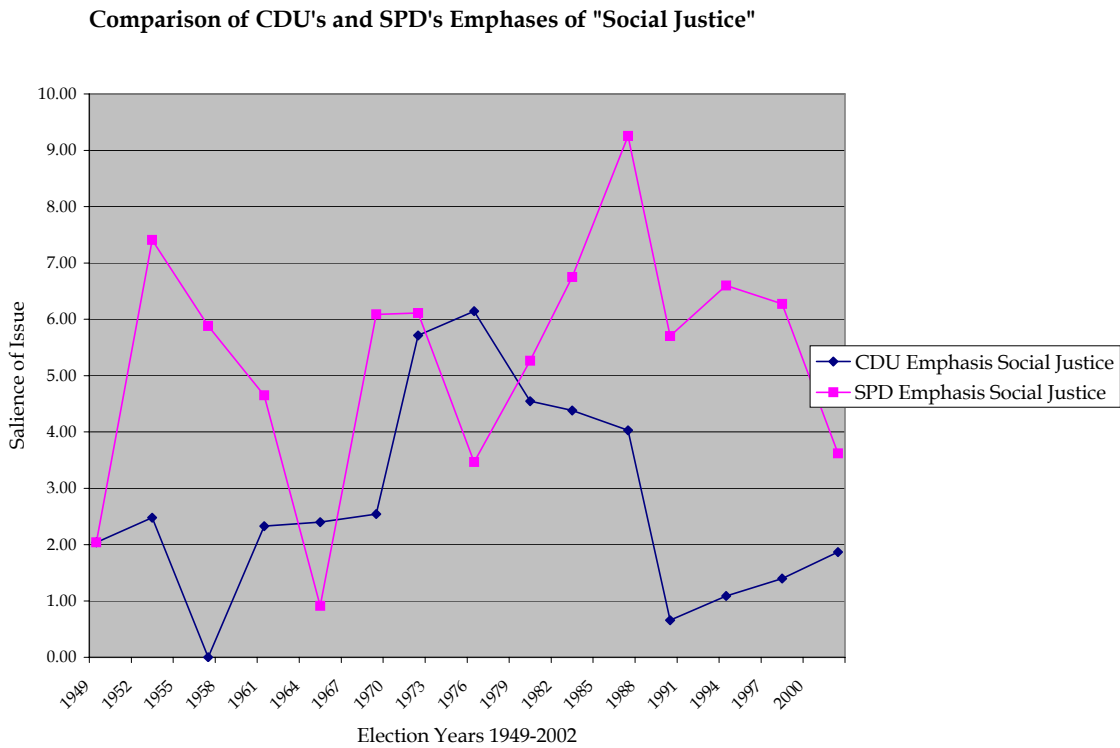


Figure 4: Comparison of Germany's Social Democrat's and Christian Democrats' References to Social Justice



APPENDIX I

Interviews Conducted During Fieldwork

(September/December 2005)

A. INTERVIEWS WITH POLICY ACTORS OF THE SOCIAL DEMOCRATIC PARTIES (SPÖ AND SPD), THE AUSTRIAN PEOPLES' PARTY (ÖVP), GERMAN CHRISTIAN DEMOCRATIC UNION (CDU) AND THE AUSTRIAN SOCIAL PARTNERS (ÖGB AND CHAMBERS)

Baumgarnter-Gabitzer, Ulrike. Dr.; ÖVP. Interview in Vienna, September 28, 2005. ÖVP Legislator to the Austrian National Assembly, XXII Legislative Period; Deputy Chairman Constitutional Committee; Member of Budgetary Committee, Standing Orders Committee, Committee on Human Rights, Judiciary Committee, Committee for National Affairs, Committee for Cultural Affairs, Constitutional Affairs, Economy Affairs Committee, etc.

Bauer, Hannes, Dipl.-Kfm. Dr.; SPÖ. Interview September 13, 2005, Vienna. SPÖ Legislator to the Austrian National Assembly, XXII Legislative Period; Chairman of Permanent Joint Committee; Secretary: Economy Affairs Committee; Member of Permanent Common Committee, Economy Affairs Committee, Finance Committee, Environmental Committee, etc.

Burkert Dottolo, Gerhard. Political Academy of the ÖVP; Interview September 15, 2005, Vienna. Lecturer at the University of Vienna (For Political Strategy and Media Politics); Director of the Political Academy (ÖVP think tank).

Chaloupek, Günther, Dr. ; Chamber of Labor. Interview September 2005, Vienna. Director of the Division of Economy and Statistics of the Chamber of Labor Vienna.

Csoergits, Renate. ÖGB/SPÖ. Vienna, September 5, 2005. SPÖ Legislator to the Austrian National Assembly, XXII Legislative Period; Vicepresident of the Austrian Federal Trade Union (*Oesterreichischer Gewerkschafts Bund*, ÖGB); Secretary of Privilege Committee, Health Committee, Human Rights Committee; Member of Privilege Committee, Health Committee, Human Rights Committee, Committee for Labor and Social Affairs, Equal Rights Committee; etc.

Duffek, Karl A. Mag. SPÖ. Renner Institute (of the Social Democratic Party). Interview December 15, 2005, Vienna; October 8, 2005 via telephone. Director of Renner Institute

Einem, Caspar, Dr. SPÖ. Interview September 19, 2005, Vienna.
SPÖ Legislator to the Austrian National Assembly, XXII Legislative Period.
Member of the SPÖ Executive. Speaker for European Affairs;
Former Secretary of State (1994-5), former Minister of the Interior 995-7), etc.
Deputy Chairman of the Permanent Committee for European Union Affairs;
Member of Main Committee, Foreign Affairs Committee, Industrial Affairs Committee,
Permanent Committee for European Union Affairs, etc.

Fasslabend, Werner, Dr.. ÖVP. Interview September 13, 2005, Vienna
ÖVP Legislator to the Austrian National Assembly in the XXII Legislative Period;
Federal Chairman of the ÖAAB 1997–2003; Member of the ÖVP Executive;
3rd President of the Austrian National Assembly 2000-2; Former Minister of Defense (1990-
2000);
Chairman of Permanent Subcommittee of European Union Affairs;
Member of Main Committee, Permanent Subcommittee of Main Committee, Committee of Labor
and Social Affairs, Finance Committee, Permanent Subcommittee of the Budgetary Committee,
Permanent Subcommittee of European Union Affairs, etc.

Fritz, Dr. CDU. Interview October 11, 2005. Berlin
Legislator to the German Bundestag

Fromme, Jochen Konrad. CDU
Legislator to the Germany Bundestag

Hammerer, Gerhard Dr. ÖVP. Vienna, September 27, 2005
ÖVP District Party, Vienna, Mariahilf.

Heil, Hubertus. SPD. Interview October 11, 2005. Berlin
Legislator to the Germany Bundestag, SPD General Secretary

Heinisch-Hosek, Gabriele. SPÖ. Interview September 16, 2005, Vienna.
SPÖ Legislator to the Austrian National Assembly, XXII Legislative Period;
Chairwoman of Equal Rights Committee;
Deputy Chairman of Committee on Education;
Secretary of Committee for Labor and Social Affairs;
Member of Committee for Petitions and Civil Initiatives, Committee for Labor and Social
Affairs, Family Committee, Committee on Education, Equal Rights Committee

Holnsteiner, Erich, Mag. SPÖ. Interview September 8, 2005, Vienna
SPÖ Party Secretary for Budget, Finance and Economy.

Kues, Hermann. CDU. Interview October 10, 2005. Berlin
Legislator to the Germany Bundestag

Lacina, Ferdinand. SPÖ. December 17, 2005. Vienna.

1980 Head of the Cabinet of Federal Chancellor Bruno Kreisky, since November 1982 Secretary of State in the Federal Chancellery. 1984 Federal Minister for Transport and Public Economy in the Government of Fred Sinowatz;
Federal Minister of Finance (86-95)
May 2001 consultant of Bank Austria Creditanstalt AG

Lackner, Manfred SPÖ. September 20, 2005. Vienna
SPÖ Legislator to the Austrian National Assembly, XXII Legislative Period;
Deputy Chairman of Health Committee;
Member of Budgetary Committee, Health Committee, Committee for Labor and Social Affairs, Committee for Defense, etc.

Lueg, Heiner. CDU. Interview October 5, 2005. Berlin
CDU

[more information to be added]

Maier, Ferdinand. ÖVP. Interview September 22, 2005, Vienna.
ÖVP Legislator to the Austrian National Assembly, XXII Legislative Period;
General Secretary of the Österreichischen Raiffeisenverbandes since 1994, etc.;
Secretary of Committee on Industry;
Member of Budgetary Committee, Committee on Industry, Permanent Subcommittee of the Budgetary Committee, Economy Committee, Main Committee, Finance Committee, etc.

Mitterlehner, Reinhold, Dr.; ÖVP/Economy Chamber. Interview via email, October 3, 2005
ÖVP Legislator to the Austrian National Assembly, XXII Legislative Period;
General Secretary of the Chamber Economy;
Deputy General Secretary of the Economy Chamber since 2000;
Chairman of Economy Committee;
Member of Committee on Labor and Social Affairs, Finance Committee, Justice Committee, Justice Committee, Cultural Affairs Committee, Economy Committee.

Moser, Johann. SPÖ. Vienna September 8, 2005 and September 28, 2006
SPÖ Legislator to the Austrian National Assembly, XXII Legislative Period;
Speaker for Economy Affairs;
Deputy Chairman Economy Committee;
Member of Budgetary Committee, Committee for Science and Research, Finance Committee, Industry Committee, Permanent Subcommittee to the Budgetary Committee, Economy Committee, etc.

Pichl, Elmar. ÖVP. Vienna, September 22, 2005
ÖVP Head of Department for Politics, responsible for policy analysis, support of OeVP program, opposition research

Silhavy, Heidrun. SPÖ. Interview September 28, 2005, Vienna.
SPÖ Legislator to the Austrian National Assembly, XXII Legislative Period;
Member of the SPÖ Executive;

Chairwoman of Committee for Labor and Social Affairs;
Deputy Chairwoman of Health Committee;
Member of Health Committee, Committee for Labor and Social Affairs, Family Committee, etc.

Spindelegger, Michael, Dr. ÖVP. Interview September 12, 2005, Vienna.
ÖVP Legislator to the Austrian National Assembly, XXII Legislative Period;
Chairman of Rules of Procedure Committee, Permanent Subcommittee of the Committee for National Affairs;
Deputy Chairman of Committee for Labor and Social Affairs, Committee for Foreign Policy;
Secretary of Main Committee, Permanent Subcommittee of the Main Committee;
Member of Main Committee, Permanent Subcommittee of the Main Committee, Budgetary Committee, Rules of Procedure Committee, Committee for Labor and Social Affairs, Financial Committee, etc.

Steibl, Ridi. ÖVP. **Vienna, September 28, 2005**
ÖVP Legislator to the Austrian National Assembly, XXII Legislative Period;
Chairwoman of Family Committee;
Secretary of Equal Treatment Committee;
Member of Health Committee, Committee for Labor and Social Affairs, Family Committee, Equal Treatment Committee, Economy Committee, Main Committee, etc.

Tüchler, Ernst. ÖGB. Interview September 19, 2005, Vienna.
Assistant Director of the Economy Division of the Austrian Federal Trade Union (*Österreichischer Gewerkschafts Bund, ÖGB*)

Wend, Rainer. SPD. Interview October 13, 2005. Berlin
Mitglied des Bundestages
Mitglied des Fraktionsvorstandes
MtgI des Ausschuss fuer Wirtschaft und Arbeit

B. Additional Interviews

Aiginger, Karl. Vienna, September 27, 2005
Professor of Economics, Director of WIFO (Austrian Institute for Economy Research)

Prof. Dr. Thilo Bodenstein
Jean Monnet Chair für Europäische Integration **Freie Universität Berlin**
Fachbereich Politische Wissenschaften

Friessl, Christian. Federation of Industrialists (Industriellenvereinigung). September 26, 2005, Vienna

Kogler, Werner, Mag. The Greens. Interview December 19, 2005, Vienna.
‘The Greens’ Legislator to the Austrian National Assembly, XXII Legislative Period
Member of the Party Executive.
Chairman of Audit Division Committee
Secretary of Economy Committee
Member of Budgetary Committee, Incompatibility Committee, Audit Division Committee,
Finance Committee, Industry Committee, Economy Committee, etc

Pelinka, Anton.
Professor of Political Science. Universität Innsbruck

Pirkhuber, Wolfgang, Dipl-Ing. Interview September 28, 2005, Vienna.
‘The Greens’ Legislator to the Austrian National Assembly, XXII Legislative Period
Member of The Green Party (Die Gruenen).
Speaker for Agricultural Affairs and for Consumer-goods Safety.
Deputy Chairman: Committee for Committee on Agriculture and Forestry
Member of Committee for Petitions and Citizens’ Initiatives, Committee for Agriculture and
Forestry, Main Committee, etc.

Tálos, Emmerich. Interview December 18, 2005, Vienna.
Professor of Political Science at the University Vienna.

Appendix II

CMP Measurement of Policy Positions

The Comparative Manifesto Project (CMP) has coded the empirical content of policy platforms over time for over 25 democracies during the post-war period. The CMP codes parties' election programs and assigns positions to parties along a variety of policy dimensions, making it possible to construct spatial maps of parties' policy movements over time. The percentages in each category are a measure of the party's position, enabling a researcher to compare policy emphasis of different parties' programmes to each other and the emphasis of a party's program during different election periods (Budge et al. 2001). The coding scheme consists of 7 domains and 57 categories, which measure a party's emphasis on a policy area. By summing the areas, researchers can determine a party's overall ideological position.

The Comparative Manifesto Project (CMP) offers a Right-Left index of the parties on all key policy issues on a scale that runs on a scale from -100 to 100. The index is created by subtracting the positions on categories associated with leftist positions from those associated with rightist positions. I created an alternate encompassing Left-Right measure, which emphasizes parties' position on economic matters and the European Union (and omits non-economic policy categories):⁴⁰

LEFT--RIGHT MEASURE FOR POSITION ON ECONOMY:

A. Rightist Position	B. Leftist Position	Right-Left Index Economy (A-B)
per108 EU Reference positive	Per110 EU Reference Negative	
per401 Free Enterprise	per403 Market Regulation	
per402 Incentives	per404 Economic Planning	
per407 Protection Negative	per 405 Corporatism	
per414 Econ Orthodoxy	per406 Protec Positive	
per505 Welfare Limitation	per409 Keynesian Demand Management	
	per412 Controlled Econ	
	per413 Nationalization	
	per 415 Marxist Analysis	
	per416 Anti Growth	
	per504 Welfare State Expansion	
per702 Labour Groups negative	per701 Labour Groups positive	
		Sum of Column B subtracted form sum of Column A = Left_Right Index for Economy

⁴⁰ To ensure that no redundant categories were included in the economy-based left-right measure, I compare the correlation matrixes for the categories which make up the left and right dimensions for each left-right measure. Neither the categories of the CMP's overall left-right measure, nor those of our economy-based left-right measure co-vary to a significant degree. Empirical are tests available from author upon request.

Appendix III

CMP Coding of ÖVP Position in 2002

Numerous studies confirm that CMP data have proven a valid and reliable measure of party policy positions (e.g. Klingeman 1994) and the above discussion reveals that the parties' positions and the qualitative account of parties' positions generally match well. Thus, what are possible explanations for the ÖVP's leftward shift of the after 1999, which does not seem to match its policies?

One explanation for the 2002 coding is to assume that the market-oriented policies pursued by the ÖVP in recent years are strongly influenced by its coalition partner, the FPÖ, but and do not reflect the programmatic preferences of the ÖVP. However, the economic policy shifts of the FPÖ - not printed here⁴¹ - reveal that the FPÖ did *not* position itself further rightwards than the ÖVP and, indeed, also radically shifted leftward after 1998. Hence, this explanation must be rejected. Secondly, Austria's leading political scientists (Pelinka 2005; Tálos 2005, interviews by author) emphasize that the parties' policy programs are only of limited value in explaining the developments of recent years, pointing to a *gap between rhetoric and policies*. This assertion is underpinned by the claim that the recent political dynamics have been unprecedented in Austria. Thirdly, a plausible answer is that the 2002 program was miscoded by the CMP coders or did not comprehensively represent the party's program at the time. Analyzing the 2002 CMP coding -by disaggregating the measure "Economic and EU position" into of the various policy dimensions - lends some explanatory power. The ÖVP's leftward move on the CMP scale is due to a rise in positive reference to labor groups⁴² and, most strikingly, to a pronounced *de-emphasis* of the concepts "economic orthodoxy", and "Free Enterprise"⁴³. These decreased emphases underline the idiosyncrasy with its policies. The most recent 2006 ÖVP program (not part of the CMP data set), supports the argument that the coding in 2002 constitutes an anomaly because it references the party's previous market-oriented reform course. For example, the 2006 program poses the questions "Should the internationally recognized reform course be continued and should the success of the past years be continued?" and mentions the goal "continuation of

⁴¹ Available from author upon request

⁴² Emphasis of 2.9 in 2002 compared to no reference in 1997 and 1999

⁴³ Emphasis of economic orthodoxy declined from 12 in 1995 to 0.9 in 1999 and 2002. Emphasis of "Free Enterprise" from 14 in 1995, 7.3 in 1999, and 2.6 in 2002

the successful policies of privatization” (ÖVP Electoral Program 2006). In short, there is strong reason to position the ÖVP further right in 2002 than reflected

SUPPLEMENTARY MATERIAL

Economic Openness Germany and Austria

Figure 1: Austria Economic Openness

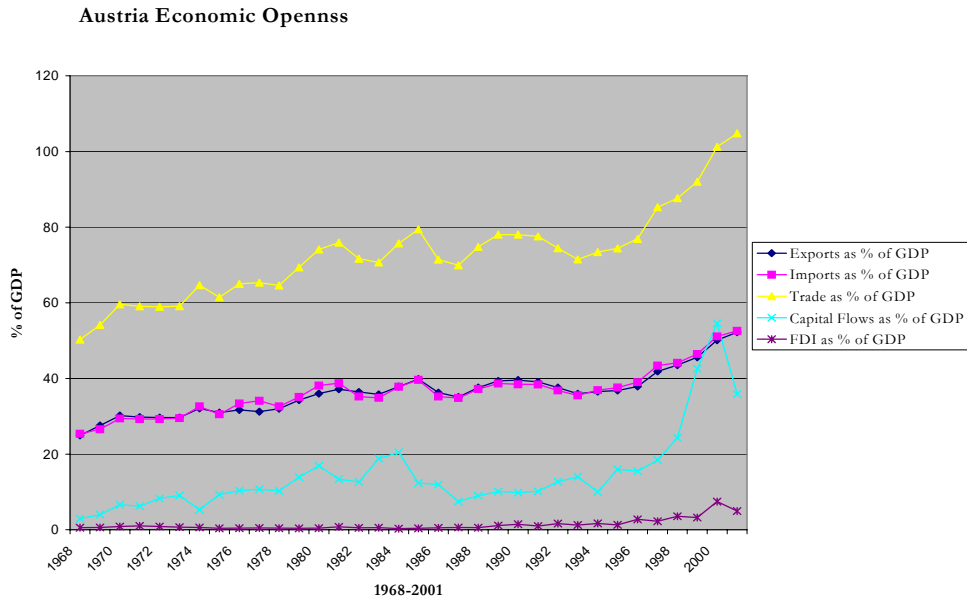


Figure 2: Germany Economic Openness

