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**THE AUSTRIAN MODEL
OF ITS
NATIONALIZED INDUSTRIAL SECTOR ***

by

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This title seems perhaps presumptuous for a small, land-locked country which does not play an important role inside the world-wide trade and for somebody who knows the Austrian character tending to modesty, self-criticism and compromises. However just another "model", that of the instituted Social Partnership starts now to be imitated in some Western countries; it consists of permanent consultation and cooperation between trade unions, public authorities and employers associations on various levels of activity.

Anticipating the following explanations it can be stated that the development result: of the nationalized industries as integrated part of the Austrian economy is absolutely positive in a country, which has been considered as "not economically viable" before the second world war and which had suffered during more than 30 years due to two wars, a long crisis and occupation and which is ranging now among the countries with the highest development rates and at the same time with lowest inflation and unemployment figures. It has to be added that the nationalization of Austrian key industries met great initial difficulties, whilst their firms were handicaped by insufficient share capital and frequent confrontation with local, regional or political influences.

Before describing the evolution and organization of the nationalized industrial sector, its contribution to the industrial development in Austria and its perspectives it has to be stated that the (rather large) nationalization of industries in Austria is at present not under discussion (but not uncriticised) even by conservative groups whilst on the other hand socialist groups generally do not think to enlargen public engagement; and that even in a period where recession and important infrastructure, energy and environment problems tend to intensify state interventions.

1. Development and organization of the nationalized industrial sector in Austria.

The transfer of important sectors of basic industries, of banking and of electricity supply and distribution into public ownership was formally carried out by means of the two nationalization laws, passed in 1946 and 1947.

Decisive for this action was the not determined legal position of Austrian enterprises which became German property after 1938 and of the industrial foundations during the war in Austria. In July, 1946, the first nationalization law passed Parliament and affected seventy enterprises of different branches, three commercial banks (including the two largest, which control many enterprises in the manufacturing and service

industries, building companies, and the most important provincial banks), the entire production of iron ore, 99 percent of crude iron, 95 percent of crude steel, 94 percent of lignite mining, 70 percent of aluminum production, and important enterprises in the machine building, electrical equipment, chemical and petroleum industries.

The total consequence of this law has become effective only in 1955 after the signing of the State treaty when enterprises in the Russian occupied zone have been transferred to Austrian authorities, especially oil fields, refineries, machine-building and electrical equipment industries.

The second nationalization law concerned the reorganization of the electrical supply and its distribution between federal and provincial authorities inside the public sector. This was also the beginning of a very important development in the energy power field, especially by means of hydro-electric scheme construction.

The scope of nationalizing industries was explained in the nationalization bill of 1946:

"The ownership transfer of certain enterprises to the State finds its objective motivation in the fact that these industries have to be subject to a profound reorganization

and comprehensive planning, so that they may overcome their fatal propensity to crisis and breakdown. This aim can only be met by measures which are incapable of realization under conditions of private property. This bill is the first important step to the creation of a sound economic order, free from crisis, which is capable of guaranteeing full employment. It thus places Austria in the mainstream of general European development".

This official declaration reflects insufficiently the urgent economic necessity of nationalization at the time. Many of the leading managers of plants and offices had fled, and ownership of several enterprises was in doubt. Plants newly built during the German occupation had to be switched from wartime to peacetime production, and new market outlets had to be found. Private capital was lacking for the restructuring of production and the repair of war damages.

Concerning the administration of the owner rights of the state, changes occurred in the first year after the nationalization according to internal Austrian policy fluctuations.

Since 1949, the nationalized banks under the supervision of the Ministry of Treasury have a comparatively autonomous status. The same applies to the position of the industrial enterprises in their sphere of influence.

Another ministry was responsible for the coordination of the nationalized enterprises and founded for that purpose three holding companies (for mining, coal, and iron and steel). At the same time, plans for important sectors of the nationalized industries were drawn up: in 1947, a medium (5 years) and a long-term (15 years) production plan for coal; in 1948, a plan for iron and steel (5 years) and for non-ferrous metals.

In 1949, the central administration for the nationalized enterprises was reorganized. The commercial banks were attached to the Ministry of Treasury, while manufacturing and electricity supply became the responsibility of a newly created authority, the Ministry for Transport and Nationalized Enterprises. Until 1956, the above mentioned model of organization was maintained. The number of nationalized enterprises was enlarged; after the closure of the State treaty, production of crude oil and natural gas, refineries, and marketing facilities came under the disposal of the Austrian authorities.

In 1966, due to political changes the nationalized industries were again attached to the Ministry for Transport and Nationalized Enterprises.

The newly established holding company, ÖIG, (Österreichische Industrieverwaltungs-Ges.m.b.H. - Austrian Industry Administration Co.), became active in 1967. The ÖIG, it was expressly stated, was to function like the Italian state holding, IRI.

In January, 1970, a final compromise between the political parties led to an organizational solution namely ÖIAG (Österreichische Industrieverwaltungs-Aktiengesellschaft) as a genuine holding company for the nationalized industries.

The ÖIAG is a joint stock-company; its total shares are owned by the state. In general, the ÖIAG has to follow the rules of company law, but there are some exceptions. For instance, the supervisory board is not elected by the annual meeting of shareholders but is regulated by special rules: nineteen members are nominated by the political parties according to their representation in Parliament (two of them being worker's representatives of ÖIAG's subsidiaries), and two members are nominated by government.

The ÖIAG was obliged by law "to exert the property rights in accordance with the best interests of companies, employees, and the national economy as a whole. In particular, it has to observe the principle of profitability and the need for coordination. It should promote research activities of its subsidiaries. An important aim should be to merge its subsidiaries working in the same field of production within a period of four years".

The control and coordinating function of ÖIAG is exercised on four levels:

- at the annual general meeting ÖIAG approves the annual report and the accounts, elects the members of the supervisory board and the auditors.
- financing by means of equity increase and grant guarantees
- consentment to acquisition of participation and to the establishment of new subsidiaries.
- as already mentioned, by working out the Five Year Plan covering marketing, investment and finance projections and by setting up joint committees for analyzing particular problems.
- The management of the ÖIAG firms is in their day-to-day operations quite autonomous just as other Austrian companies; prices, competition conditions and tax policies are treated in the same way as private companies.

It is evident that the ÖIAG organization as relatively young group adapted itself during its operation according economic necessities.

These modifications were very slight inside the proper holding company which comprises about 90 employees with 29 top specialists in economic, financial, legal and technical fields. There are four managers as executive board headed by a chairman and every of these managers is leading two departments. Besides a proper press division the following departments exist: planning and cooperation - financial planning - research and development - coordination and legal affairs - auditing - marketing and statistics - personnel department. An integrated planning for marketing, investment and financing for a five year period has been instituted and new methods and systems have been introduced for all ÖIAG firms as a uniformly guideline for cost, investment and balance computations.

2. The contribution of the national industrial sector to the economic, social and political development of Austria.

It is very difficult, of course, to isolate the effects of nationalization on economic, social, and political issues and also, little research work has so far been done in Austria in this field.

Public expectations with regard to the nationalized industries were summed up at one point by the previous Director of the Austrian Institute of Economic Research, Franz Nemschak, in the following words:

"Besides the general task of showing a good performance on the market, special economic or social requirements are to be met by the nationalized industries. These tasks often cannot be deduced from the declared aims of the enterprise and sometimes they come into conflict with commercial goals. One example is the demand that nationalized enterprises should not exploit monopolistic positions but should help to stabilize prices by particularly responsible pricing policies for key products and public services. In the field of structural policy nationalized enterprises are expected to avoid the macroeconomic costs of imperfect competition by coordinating the volume and pattern of production, by exchanging technical know-how, and by joining in their research and development efforts. Moreover, they are expected to support the Government's stabilization policy, inter alia, drawing up long-term investment programs and by pursuing an anticyclical investment policy themselves. Last, but not least, the nationalized industries should create a good working climate and solve social problems. They are expected to concern themselves with human relations at the plant level and to promote the professional advancement of their employees."

One of the most important economic advantages of nationalization can be illustrated by its pricing policy during the period of reconstruction. Steel prices before World War II in Austria were about 30 percent higher than, for example, in Germany. After 1945, on the contrary, inland prices for steel were 10 to 20 percent below the German price level up to 1950, and 5 to 15 percent below German prices up to 1960. Even in the early seventies, inland prices were held below European Community level and had to be increased step by step to Austria's free trade arrangements with the EEC. By pursuing that pricing policy (which also could be illustrated by the examples of coal and electricity), nationalized industry "subsidized" the manufacturing sector, especially during the years of the Korea boom, and thus promoted development of mostly privately owned enterprises. Of course this contribution to overall economic development was at the expense of the financial reserves of nationalized enterprises and - in some cases - of urgently needed modernization of plants.

Full employment in Austria was reached at the end of the fifties. In this period, employment in the nationalized industries rose rather quickly and fluctuated much less than in the manufacturing sector as a whole. For example, in 1952 overall employment in industry went down by 12.3 percent, and in the nationalized enterprises by only 0.3 percent. The corresponding

figures for 1958 are 1.4 percent and 0.7 percent. After 1960, unemployment never exceeded 3 percent. The share of nationalized industries in the total industrial work force went down substantially (1955, 22 percent; 1965 20 percent; 1977, 17 percent). This decline (from 131.850 employees in 1961 to 115.000 in 1977) was primarily due to the denationalization of the Siemens plants and to the close-down of unprofitable coal mines.

But nationalized industries still play an important part in supporting the government's economic policy. In the recent recession, the nationalized sector, by carrying out its longterm investment program, increased its share in total industrial investment from about a quarter to more than a third, whilst only one sixth of the total Austrian industrial work force is employed in ÖIAG firms. This policy implies orientation on more long-term profitability of the nationalized enterprises.

Of course, in some cases, substantial losses are caused by maintaining production. With respect to some lignite mines especially, it could be proved that the losses exceed by far the social costs arising from a shutdown.

As to the significance of nationalized enterprise in technological development, some very important innovations could be mentioned. The most famous is the "basic oxygen process", invented by the nationalized steel mills VÖEST-Alpine (and named LD-technique after the sites of two plants - Linz and Donawitz). This invention was quite important to the development of machinery production and steel construction by this firm (today accounting for about 20 percent of total sales). Since 1952, when the first LD-furnace went into production, the export of complete equipment for steel mills increased very rapidly.

As an example of rapid diversification in the chemical industry, the Chemie Linz AG should be mentioned. Established during the war for the production of explosives, its production was switched to fertilizers in 1945. In 1950 it produced fertilizers worth 377 million Austrian shillings, which accounted for 90 percent of total sales. In 1975, fertilizers worth 2,900 millions Austrian shillings were produced, which accounted for only 39 percent. The share of synthetics, which have been produced since 1955, went up to 24 percent, and the share of basic chemicals went from 5 to 19 percent. Other products, accounting in 1950 for 2 percent of total sales, went up to a percentage of 13.

Research and development expenses of the nationalized sector come with 1,500 million Austrian shillings to 2.1 percent of total sales thus being under the international average but higher than in Austrian enterprises as a whole (1.4 percent) only research expenses are not distributed equally, the chemical sector is most favored.

It is almost impossible to evaluate the contribution of nationalized industry to the fairly rapid growth of the Austrian economy after World War II. The years from 1948 to 1952 have been called a "second take-off period".

After the fast expansion of production in the decade after the war, the growth rate slowed down in the sixties. Besides other, structural reasons, one major explanation can be found: nationalized industries did not expand their production into new fields, especially consumer goods, many leaving it to private enterprises.

With regard to economic planning, initiatives were taken only immediately after the war (coal plan, steel plan), as mentioned above. Integrating these efforts into a general economic plan was never tried; today only medium term projections are drawn up. By exchanging views on the investment programs with its subsidiaries, ÖIAG can - to a certain degree - coordinate projections and objectives in the various fields of production.

Nationalized firms are more export oriented than the average Austrian industry. About one-third of the total production of the ÖIAG-subsidiaries is exported, the share of these shipments in the total export being about 21 percent. More than half of the exports are destined for Western Europe, more than a fourth to the communist countries, and nearly 20 percent to countries overseas. Exports of the nationalized industries show a more balanced regional distribution than exports as a whole. Some key figures of the ÖIAG group are summarized below.

in 1000 million Austrian Shillings

		1973	1974	1975	1976	1977
Total turnover of enterprises	AS	57.0	80.2	81.1	96.8	100.0
Exports	AS	17.3	27.1	29.8	36.0	36.2
Percentage of exports in turnover	%	30.4	33.7	36.7	37.2	36.3
Turnover per employee	in AS 1000	498	676	696	833.	869
Investment in physical assets	AS	8.8	7.3	6.9	7.8	6.4
Cash flow	AS	5.7	9.1	5.4	6.5	5.4
Balance sheet grand total	AS	75.7	89.4	97.7	108.4	113.0
Number of employees at end of year		114,572	118,731	116,717	116,224	115,006

In their wage policies, the Austrian trade unions have never tried to exert greater pressure on the nationalized industries than on the other sectors of the economy. On the contrary, a trade union official wrote in 1958: " The purpose of nationalization is not to create a narrow class of workers' aristocracy, neglecting solidarity with other workers, because its social problems have been solved already".

That seems to be true with respect to the trade unions' wage policies, but the shop stewards in some plants have been very successful in gaining a relatively high level of fringe benefits. Most of this difference seems to be due to the structure of production, i.e., the great weight in nationalized industries of branches in which the wage level is traditionally high.

While nationalized industries are not regarded by the trade unions as pacesetters with respect to wages, they are so regarded with respect to codetermination (Mitbestimmung). Strikes and other social conflicts have been rather rare in post-war Austria. The last wage-conflict that affected nationalized industry was a metal workers' strike in 1962 that lasted four days. Since that time, only a few smaller social conflicts have occurred in plants of nationalized enterprises. Many observers state that

"with respect to codetermination the nationalized industries are one step in front of other sectors of the economy". Two years ago, a new legislation on codetermination at plant level was introduced (Arbeitsverfassungsgesetz). Under the provisions of this law, two-thirds of the members of the supervisory board are elected by the shareholders, and one-third of the members are shop stewards. Before these general regulations were passed, this pattern of codetermination was introduced in the nationalized steelworks and in the nonferrous metals industry.

3. Social actions and effects of nationalized industrial activities.

According to the law the ÖIAG has pluralistic objectives, i.e. beyond its administrative and financial function, the assignment to apply for all investment and operation decisions to purely economic criterias, economic and social criterias in the interest of the whole Austrian economy have to be taken into account. It has to be explained how it is possible to combine these two apparently incompatible requirements, however, it has to be stated that ÖIAG will not act as "welfare enterprise". The question is now, in what consist actions which will not follow apparently-strictly economic criterias and can therefore be designed as "social effects". Under this designation it will not be understood

here - as normally - effects induced due to ordinary operational activities but joint investment and operational actions knowingly undertaken for a social scope; the ÖIAG group acts in this case as instrument for the global economic governmental policy.

Social actions and effects can be enumerated as follows:

- Maintenance of employment

one of the main tasks with which the government is mostly concerned and which troubles the Austrian population is the maintenance of the employment level, threatened by accelerated structural evolution and changes in techniques and technology in all industrial fields and as consequence of harder competitive conditions.

The main measurements for the consolidation of working places consist in a planned transfer of lines of production considered as not viable at medium or long term to other lines of production corresponding better to future market requirements. This means that ÖIAG acts here to a certain extent as regulator in the macro-economic field and as catalyst in creation of new industrial plants where the private industry will not seize the initiative by reasons whatsoever.

Maintenance of employment consolidation implies also the maintenance of workers for a certain period in cases

where a justification according to strictly economic criterias is lacking and also implies the occupation of manpower through professional training. This last action can be criticized, it can induce a bad spirit amongst the other workers, falsify financial situations by means of ÖIAG internal "cross subsidizing" and damage the reputation of the firm; it has been applied with one ÖIAG firm temporarily and for a relatively small portion of the personnel.

- Investments in favor of low industrialized areas

Beyond the setting up of new industrial plants in replacement of existing ones to be closed, the ÖIAG, in collaboration with regional authorities, undertakes efforts to industrialize low developed areas, These are areas where manpower is underemployed or where the development and income rate is low with regard to the national average. But also by realizing these projects economic criterias have to be applied.

- Professional training for apprentices and non skilled workers.

Emphasis has been laid in ÖIAG firms on professional training for apprentices, non skilled workers and also post graduate courses courses are organized for managers and staff.

In 1977 6500 apprentices have been trained, from 1956 on more than 40,000 in all ÖIAG firms. The 3 years lasting courses require costs of 300,000 Austrian shillings for one apprentice, the whole group spent in 1977 for this scope about 650 million Austrian shillings, corresponding to about 0.7 percent of the total turnover. The most frequented courses affected the fields electricity and machine tool mechanics.

- Supplementary social services in ÖIAG firms.

Beyond the well developed legal social services in Austria, all ÖIAG firms offer complementary services of different nature in social fields which contribute indirectly to better living conditions and improve the working spirit.

- Complementary health assistance
- Sport and leisure facilities
- Subsidies to worker's kitchen
- Contribution to worker's dwellings
- Family assistance
- Contribution to distressed retired persons

It is certain that this actions have contributed to the existing good working climate, characteristic of ÖIAG firms.

4. Relations of ÖIAG firms with developing countries.

Beyond the traditional trade relations by means of exchanging raw materials, semi-finished and finished products, particular links with developing countries have been set up by the following actions of ÖIAG firms.

- Contribution to industrialization

ÖIAG firms built an important number of integrated industrial plants in developing countries not only as turn-key contractor but also by organizing intensive training centers in these countries and in Austria and giving operational assistance for a longer period; in order to meet better the local requirements Austrian contractors now offer beyond high technological proceedings those adapted to local conditions, for example labour-intensive projects as alternatives.

VÖEST erected in 14 developing countries integrated industrial plants in sectors like steel and metallurgic installations, cement, fertilizers and cellulose plants at a total cost of about 15,000 million Austrian shillings alone in 1977; Elin and Siemens Austria furnished electrical equipment supply for power plants, Chemie-Linz transferred its know-how for chemical plants. VEW, our allied steel industry for fermentation and food sector plants, SGP exported world-wide rolling materials and steam boilers.

- Services in the frame work of Austrian Technical Assistance.

Feasibility studies and industrial project designs have been furnished by ÖIAG firms through the financial contribution of the Austrian Technical Assistance, but also by individual initiatives.

- Independent training courses in the industrial field.

Beyond the training of personnel for plants furnished and erected in developing countries, ÖIAG firms installed-independently of any industrial supply - training work shops with adequate equipment.

As example may be the foreseen engagement of VÖEST in training courses in Nigeria; in the first period 11 Austrian instructors and 30 Nigerian teachers instructed by Austrians will train 900 non skilled Nigerian workers in a technical school for which all equipment will be furnished by VÖEST.

5. Perspectives of the nationalized industrial sector

As national economics - and particularely in small countries as in Austria - are involved to an increasing extent in the world-wide economic conditions it might be indicated to analyze succinctly the situation of the nationalized industries in other countries.

It is evident that in most western countries the public share in the economy has expanded quickly in the last

years. Several causes can be mentioned for this development. The modern state is confronted with urgent requirements in several fields as health, education, transport, environment and energy and many of these activities belong to the service sector of the economy whose productivity is less rising than in manufacturing industry. On the other hand many enterprises could not withstand the recession period or have not followed in time structural changes and have to be subsidized or taken over by the state; this happened to a large extent in Italy, where even a state holding (GEPI) has been founded as "Absorbing Company" for distressed firms. Also the activities of state holding companies in Sweden, the United Kingdom, Belgium and Spain are increasing and the recent state intervention in the French steel industry goes in the same direction. These few examples may give an illustration of recent development in public enterprises in Western Europe. It could be feared that this situation would accentuate open or latent conflicts between public and private economic sectors with problems of social aims, economic growth and quality of life; nevertheless the Austrian example shows that the nationalized industrial sector is well incorporated in the national economy and that there exist many examples of good collaboration between public and private companies. This is particularly valid in case of the above mentioned important integrated industrial

projects where the assigned ÖIAG-firms subcontract private firms to a considerable portion.

But what about the future development of the Austrian industrial sector?

This is a turbulent period where energy and raw material problems, increasing competition from low-wages countries, new techniques and technologies require a quick reacting market and production adaptation. The ÖIAG group cannot meet this situation with a defensive attitude. Main care and efforts have to be taken to overcome this structural crisis.

An important step has already been made by the establishment of the Five Years Plan 1977 - 1981 which treats the necessary measures and needs of ÖIAG's industrial subsidiaries. The provided investment of more than 40,000 million Austrian shillings for the five year planning period would correspond to about one third of the total industrial investment in Austria. From the 40,000 millions 60 to 70 per cent will be furnished by internal cash flow sources.

Besides financing, two main requirements are indispensable for the maintenance, modernisation and improvement of ÖIAG firms: Firstly the stressing and intensifying of research, development and innovation fields; secondly increasing industrial export goods. This second requirement is to a large extent a consequence of the first one. It has already been mentioned that the amount spent for research and development in ÖIAG firms exceed percentally that

of private firms. It also is a very good result that in 1978 the international patent and licence balance of ÖIAG firms has become positive. Nevertheless it would be difficult to attain the research level of some Western countries where the well equipped laboratories often benefit from armament research assignments. Beginning exchanges of know-how of ÖIAG firms with foreign firms by means of cooperation agreements are intended to be intensified. In the innovation field Austria holds a strong position, still more important incentives have to be given.

It could be imagined that a specially created staff will encourage and analyze the inventions with regard to their technical and economic feasibility and their marketing and commercialization possibilities.

Efforts to increase and improve industrial exports are of equally essential importance. These efforts tend not only towards an increase of export volumen but also in improving marketing, acquisition, promotion and selling actions and besides all structural change of the Austrian industrial export products.

Due to unfavourable basic factors, for example the lack of sea ports and sea transports as well as the fact that industries have been engaged with the reconstruction of the country for a long period, Austrian exports have

stayed behind highly industrialized countries regarding marketing policy and product distributions. This is illustrated by a predomination of raw material and semi-finished product exports in comparison with final products and capital goods. The change to production and export towards higher value added and more "intelligent" products can be considered as one of the essential tasks of the Austrian nationalized (and also private) industrial sector. Here enters the importance of research and innovation inside a global prospective conception.

In short terms the essential problems which consequently have to be solved by the ÖIAG group in the future and which concern also the whole Austrian economy will be:

- to analyze the market saturation phenomenon in certain industrial sectors and to execute a diversification strategy.
- to stress research & development, modern processing and innovation towards more know-how intensive and higher qualified products
- to intensify exports by more intensive market analysis and by adopting a larger cooperation and joint venture policy.

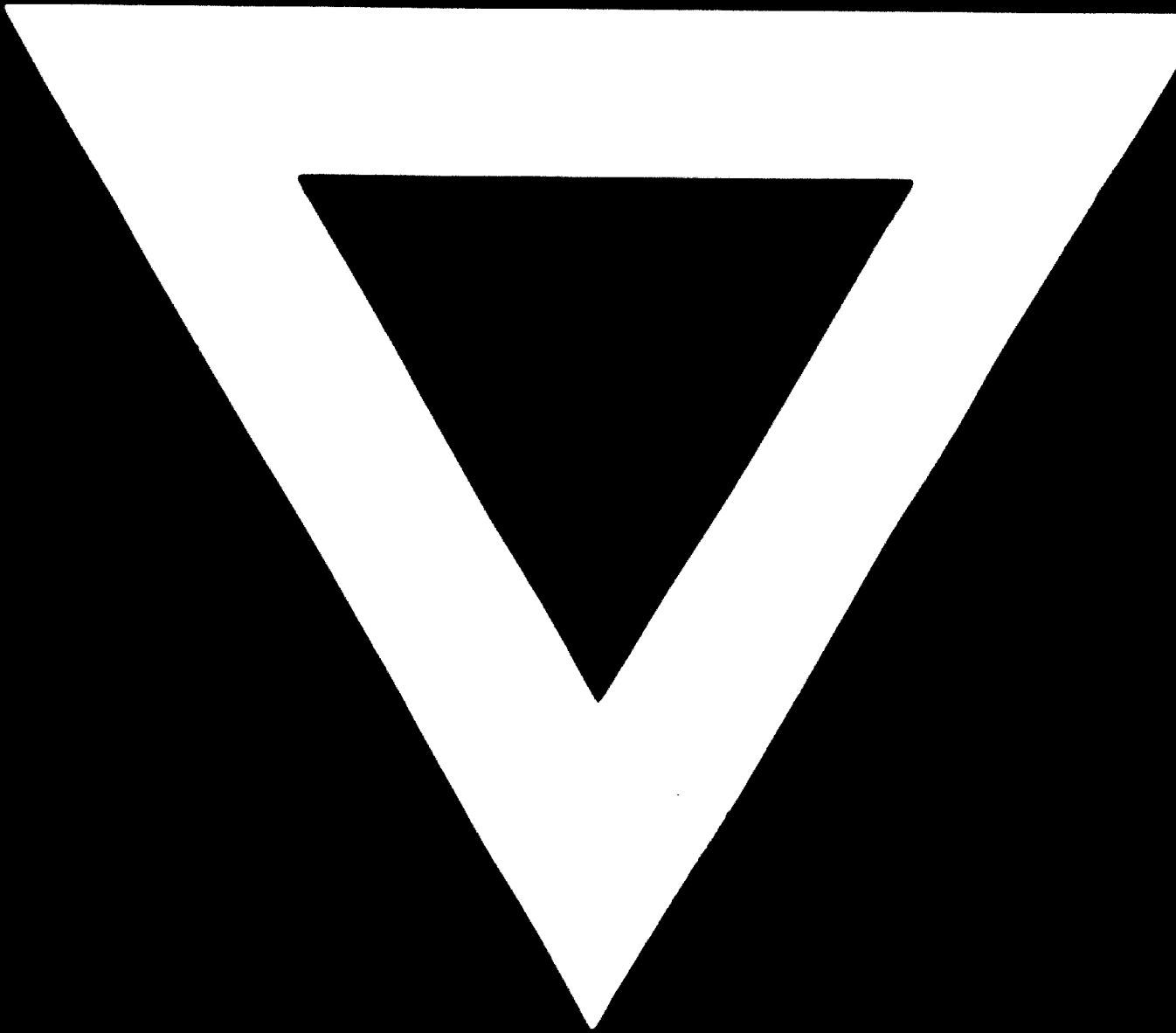
- to secure the steady flow of raw material and energy supply

to attain such financial results assuring high cash flow figures, necessary for new investments.

This wide range of objectives requires a perfect transmission of information, an overall coordination function and effective control for investments. It can be assumed that these activities can be achieved inside the existing ÖIAG law, nevertheless, if future economic necessities will involve modifications in ÖIAG's organization it can be expected that it would be done according the traditional "Austrian compromise spirit".



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