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Austria between West and East

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Austria is located in the heart of Europe. Historically, this was both an advantage and a disadvantage. At times, it was an advantage since Austria could serve as a gate between West and East. At times, it suffered from the political tensions stemming from the important geo-political position. There has been a tension between a geo-economic orientation towards Western and Eastern Central Europe that has been a constant of her recent history.

It seems to us that Austria's geo-economic and geo-political strategies have some interesting features to the Korean public since it was at the border between East and West in the era of the cold war. However, it is necessary to delve deeper into the past in order to understand the post-war policies. During the last days of the Habsburg Empire, Austria was economically clearly looking to the East. It struck the shaky World War I alliance with her Western neighbour, Germany in order to preserve her influence in Eastern Europe. The break-up of the Empire was quite dramatic for Austria. The ruling circles had to adapt economically and politically to the policies of a small state. Economically, Austria tried to maintain a zone of influence in the East. Politically, the ruling circles incessantly discussed the pros and cons of a Danubian Federation with the successor states to the empire and a closer alliance with Germany. Both options were aimed at preserving economic influence in the East European neighbouring states. From 1938 to 1945, Austria was merged with Nazi Germany. This merger was effected forcibly, but German Nazism had a mass following in Austria so that resistance to the merger was minimal. Due to this, Austria regained her sovereignty only in 1955. This was conditional on a declaration of political and military neutrality in the East-West conflict. At times, Austrian governments translated Austria into a political bridge between West and East while seeking greater economic integration with Western Europe, mainly Germany. With the end of the cold war, economic integration was followed by political integration into the European Union. At the same time, new economic possibilities emerged in the East. Austrian companies were quick to (re-)establish themselves in Eastern Europe. Politically, the Austrian government is, however, hesitating between functioning as a gate or a bulwark of the West towards the East. These phases of the Austria's geo-economic and geo-political strategies will be discussed in the article. At the end, we shall discuss the policy options for the future.

Austria at the Heart of the Habsburg Empire (1867-1918)

The Habsburg Empire of Austria-Hungary was one of the great European Empires. Like the Russian and Ottoman Empire, it lasted into the 20th century. However, there were symptoms of being out of date already in the mid-19th century. The aborted bourgeois revolution of 1848 opened the eyes of the ruling circles of the empire to the out-modedness of the state apparatus. They initiated a thorough reform and uniformisation of the state. This posed the question of the relationship between the two halves of the Empire, the Austrian and the Hungarian one. In 1867, they found a complicated compromise that entailed inter alia a customs union and a monetary union that had to be renegotiated every decade.

This Austro-Hungarian settlement laid the foundation to a complementary division of labour in the empire. Vienna was its uncontested financial centre and important industrial location which was specialised in the production of luxury goods for Eastern Europe, of transport equipment, and, later, of electro-technical equipment. In the years after the financial krach of 1873, Viennese banks primarily lent to the Austrian and Hungarian state. The Hungarian state used these funds not in the least to foster industrial development, esp. in the agro-based industries. From the 1890s, Viennese banks began to commit themselves increasingly in a

direct way in industrial development. They provided funds and took up shareholdings in the new, more large-scale industries, esp. in the Czech lands. A complementary division of labour between the industrial centres of the Czech lands, Eastern Austria and Hungary emerged (Otruba 1975). Austria's then economic heartland around Vienna was clearly orientated to the Eastern (Hungarian) and Northern (Czech) parts of the Empire which was economically developed in an extremely uneven way.

The uneven development translated into political tensions. Supra-locally orientated businesses, high nobility and central bureaucracy were eager to preserve the supranational economic space and political order. They were confronted by national or even more particularist movements which recruited their members among intellectuals, small businessmen that were exposed to the competition of big business, and lower nobility. The centrifugal forces gradually gained strength (Karník 1998, Hye 1998).

In 1914, the dominant forces sought refuge in attack and jointly with Germany started the First World War. Germany had been the main economic partner though at the same time a competitor in the Balkan. The decision to enter the war back-fired. The war provided a new impetus to the national movements in the empire which radicalised their demands to the attainment of independence. These demands coincided with the interests of the West European powers which decisively promoted the break-up of the Empire at the end of the war. Thus, the war sealed the fate of the Empire and the Habsburg dynasty.

A Small State in Permanent Crisis (1918-1938)

The newly constituted Republic of Austria represented 12.9% of the pre-war population and 23.7% of the pre-war GDP of the Austro-Hungarian empire (1913 data, Bachinger/Lacina 1996: 52, Tab. 1). All successor states to the Habsburg Empire suffered a crisis of economic restructuring as a result of the fracturing of the economic space (Hallon 1995, Bachinger/Lacina 1996). Austria was particularly hard hit, it displayed the probably worst economic performance among the European states in the inter-war years (Maddison 1995: 62, Tab. 3-2).

The Viennese banks were severely weakened by the post-war hyperinflation. Some West European banks exploited the cheap Austrian currency to buy into the Viennese financial centre. They hoped to exploit the regional network of the Viennese banks in East Central Europe. However, the Viennese banks had to give up a part of their industrial holdings in the successor states for political reasons. Nevertheless, they staked their future on business in the region.

Austrian manufacturing encountered similar problems. Instead of unimpeded market access, it faced high tariffs in its traditional markets. Like other Austrian economic actors, industrialists encountered heightened western, esp. French and British, competition (Teichová 1988). The share of the successor states in Austria's exports fell from 58.6% in 1920 to 31.7% in 1937 (Weber 1995: 32, Tab. 6). However, Austrian manufacturing was not very competitive in other markets, and high interest rates made modernisation an extremely expensive undertaking. The share of final industrial products in commodity exports fell from 83% in 1923 to 70% in 1932 signalling a re-primitivisation of foreign trade (ibid.: 32). Export income did not cover import expenditure. Food was one of the most important import items.

Immediately after the war, Austria suffered from an acute food shortage. A permanent deficit of the trade balance proved to be a strong external constraint on development. Socio-political factors blocked a decisive turn to import substitution. Thus, economic development was highly extraverted. This extraversion was of a double character. Western countries (and to a certain extent Czechoslovakia) held a large part of Austrian debt conditioning her development and had some direct investment in the country. Austrian business, now partly owned by Western companies, was orientated towards the East.

This constellation led to a permanent questioning of the Austrian nation-state. There were continuous discussions about linking up to Germany or forming a new Danubian Confederation. The former option was initially favoured by the labour movement desiring a more rapid industrialisation, the latter by certain financial interest groups. However, the two options were not mutually exclusive. Both strategies implied the attempt to conserve the central position of Vienna: either directly through links with the Danubian states or, if these would resist politically, backed by the German Empire (Stiefel 1988: 336). There were obstacles to both options. On the one hand, the victorious powers blocked an integration into Germany for a long time. On the other hand, Danubian states were unwilling to return under the tutelage of Vienna.

After 1929, the economic instability turned into a deep economic crisis. Social and political conflicts escalated. The governing right-wing party staged a creeping auto-coup which resulted in the establishment of an Austro-fascist regime in 1934. Its socially regressive strategy to cope with crisis alienated it from large parts of its social basis. German Nazism encountered an increasingly favourable response in the Austrian population. At the same time, the Austrian government became increasingly isolated internationally. Its main international ally was fascist Italy. This did not prove to be a reliable counter-weight to the expansionary designs of Nazi Germany. In 1938, Austria was easily swallowed by the German Empire. Nazi Germany, like Japan, tried to solve the crisis of the extraverted regime of accumulation by territorial expansionism. The occupation of Austria was the first step.

Part of the Third Reich (1938-1945)

Austria became an integral part of Nazi Germany, the Austrian state ceased to exist. The existing state apparatus was restructured and integrated into the German state. Austrian Nazis were not only deployed in the former territory of Austria, but in other parts of the expanding Nazi empire. They were particularly prominent in the apparatus of repression. Because of the past Austrian experience in the Balkan area, military personnel of Austrian origin played a high-profile role in the occupation of Yugoslavia. Austria's economy was immediately integrated into the German war economy. New war-related heavy industries were established, esp. in the more Western parts of the country. Many established Austrian firms changed into German hands. German banks took over what had remained of Viennese banks using them as a conduit in the newly occupied countries in Eastern Europe.

Non-EU Austria Looking West (1945-1986)

The Austrian state was restored in 1945. However, it was on probation for the next decade since Nazism had struck deep roots in Austrian society and resistance to Nazism had been weak. It was only in 1955 that Austrian sovereignty was restored. This was conditional on the solemn and legally binding declaration of ever-lasting „neutrality“ demanded by the Soviet Union, one of the four occupation powers.

The immediate post-war constellation had a lasting impact both on domestic socio-economic and socio-political development and on geo-economic and geo-political strategies. In view of the a decade-long precarious status of Austria, the two hitherto hostile political camps, conservatives and social democrats, forged a compromise to keep external leverage at a minimum. The compromise was eventually institutionalised in a conflict-minimising neo-corporatist style of governance integrating business associations and trade unions which provided an ideal framework for long-term economic strategies. The huge nationalised sector which emerged out of the formerly „German industry“ provided an important pillar for economic strategizing. Its potential could, however, not be fully exploited since the two governing parties held diverging views on its role in the economy. On instigation of the conservatives, the nationalised industries were barred from entering the production of final

goods and basically confined to providing cheap inputs to domestic industry in the 1950s and 1960s (Scherb/Morawetz 1986).

Like in other post-fascist states, as Germany, Italy and Japan, Austrian fordism displayed a rather strong export-orientation built on cheap and disciplined labour. Basic industries provided the mainstay of industrial development and were strongly export oriented. Small scale, traditional consumer good industries continued to be rather important. They were stabilised by a moderate growth and considerable spread of wages. Petty commodity production was gradually and painlessly phased out, the domestic market was deepened. The external balance was more or less balanced out by a booming mass tourism.

In spite of the prominent role of the Soviet Union in post-war Austria, the country was permitted to participate in Western economic organisations, though not in military ones. Thus, Austria received Marshall Funds. These were mainly channelled to the Western occupation zones, thus cementing the west-ward move of industrial development within the Austrian borders (Moser 1996). In 1948, Austria joined the Organisation of European Economic Co-operation (OEEC, later transformed into OECD) which, with strong U.S. backing, inter alia promoted greater economic integration in Western Europe. The OEEC idea to promote a large free trade area in Western Europe finally faltered. The integration process bifurcated. At its core, there emerged the European Economic Community (EEC, today's European Union) and its fore-runner organisations. Austria found herself outside this core. She formed the European Free Trade Association (EFTA) jointly with other West European states. However, Austria's trade relations with EFTA states were of considerably less importance than those with EEC states, in particular with Germany.

The position of the Austrian government vis-à-vis EEC reflected both ambiguous economic interests and the constraint of neutrality. Export-orientated Austrian firms favoured a close relationship with EEC. Those branches of business that lagged behind and primarily felt the heat of EEC competition rather wanted to keep EEC at a distance. Some elements of Austrian industrial policy, like the double price system for basic inputs subsidising domestic industry, were clearly incompatible with EEC rules. It was the former interests that put an association agreement with EEC on the agenda. However, the Soviet Union objected to this in 1961 on grounds that this would violate Austria's neutrality. The Soviet objection forced the Austrian government to modify its negotiation mandate. The Austrian attempts to establish an association agreement jointly with other EFTA countries or to forge a special relationship with the EEC did not succeed in the 1960s. As a consequence of EEC tariff discrimination, the EEC share in Austria's exports fell from 50.4% in 1960 to 39.4% in 1970 whereas the EFTA share increased. However, import dependence on EEC remained very high.

Economically, the special relationship with the Soviet Union began to pay off. After hitting a low of a 9.9% share in Austria's exports in 1955, the export to European members of the Council of Mutual Economic Assistance (CMEA) picked up in subsequent years reaching a share of 13.7% in 1960 and 17% in 1975 (Atzenhofer 1988).

Beginning in the late 1960s, there were some modifications to accumulation strategies, to Austria's domestic and international orientation and to the international environment. In 1968, Austria's export coefficient began to surge. German companies started to re-assert the position in Austria in the 1960s. They began to re-locate the production of components to Austria on a significant scale in the 1970s. The social democratic government which emerged from the 1970 general elections, promoted economic modernisation. It was the nationalised industries which provided a central plank of that strategy. Their company structure was rationalised, they could branch out into final goods production (Scherb/Morawetz 1986). Thus, nationalised industry and foreign investment complemented each other in the modernisation of the economy. Wage demands were disciplined by the exchange rate policy. The government rewarded the trade union's wage discipline by expansive fiscal policies

aimed at keeping full employment. This was the basic compromise of „Austro-keynesianism“ (Weber/Venus 1993).

The social democrat government, headed by Chancellor Bruno Kreisky, had to contend with a changed international environment. The Bretton Woods institutional set-up began to crumble in 1967. The regime of fixed exchange rates collapsed what clearly affected international economic relations. The break-down of the old international regime was partly related with the temporary weakening of U.S. hegemonic power. This provided new political space for policies of distension between West and East in Europe, and for a surge of Third World demands in international fora.

Taking into account the modified accumulation strategies and the domestic and international climate of reform, the Kreisky government developed active and ingenious international policies.

In line with economic rapprochement with the Federal Republic of Germany (FRG), the Austrian government sought a closer relationship with the EEC which would at the same time preserve some room for autonomous modernisation policies. Individually and jointly with the other EFTA members, it negotiated free trade agreement with the EEC which were signed in 1972. However, some sensitive products, like steel and agricultural products, were excluded from free trade (Kunnert 1993: 31 et seq., Atzenhofer 1988). It was the exchange rate policy adopted after the abandonment of the Bretton Woods system that was at least as important as the free trade agreement in fomenting closer economic relations with the EEC, esp. Germany. The exchange rate of the Austrian Schilling was first tied to a basket of West European currencies, then to the Deutsche Mark. By adopting a high exchange rate in 1979/1981 and a henceforth stable exchange rate vis-à-vis the Deutsche Mark, the government provided a stable currency framework for doing business with the most important trading partner and put at the same time pressure on business to increase productivity and on trade unions to keep wage increases low (Schubert/Theurl 1995: 52 et seq.). By stopping short of full entry into EEC, the Austrian government preserved some room for autonomous development strategies aimed at catching up with most advanced EEC countries. Nevertheless, trade with EEC countries, most notably West Germany, increased significantly. Exports to a nine-member EEC increased from a share of 47.8% in 1970 to a 61.3% in 1990. The increase can almost wholly be explained by the surge of exports to the FRG which was the destination of 23.1% of Austria's exports in 1970 and of 37.4% of her exports two decades later. Austria received more than 60% of the imports from the EEC with more than 40% of the total imports originating from West Germany (WIFO 1995: Tab. 11 & 12). Likewise almost 40% of FDI originated from the FRG (Rammer 1996: 8). Thus, closer relations with the EEC de facto boiled down to closer integration into the German productive system. In the longer run, such a close economic relationship with the FRG could not be without consequences for the political autonomy of the Austrian state.

However, Austria pursued an active „Ostpolitik“ (Eastern policy), too. International distension was favourable both for closer economic relations with Eastern Europe and a more active policy of neutrality. The Kreisky government was eager and able to exploit the new potential in both directions. It was especially the state-owned steel industry which gained from trade treaties with Eastern Europe. It faced export restrictions from the EEC. States of the Council of Mutual Economic Assistance (CMEA) provided an alternative outlet. Thus, VOEST-Alpine, Austria's main steel producer, almost doubled the European CMEA countries share in its exports from 23% in 1973 to 42% in 1984 (Atzenhofer 1988: 90). However, the overall share of CMEA states in Austria's export slowly declined (WIFO 1995: Tab. 14). The decline was particularly steep in the case of Poland and Romania in the 1980s. In their case, the decline probably can be ascribed to their debt crisis.

Temporarily, the Austrian government was actively involved in promoting distension in Europe and peace in the Middle East. Both was in line with the then social democrat thinking

of peaceful conflict management and prevention. Because of her neutral status, Austria had special room for manoeuvre, esp. in the negotiations between West and East. Austria's then active international policy was rewarded by the location of some international organisations in Vienna, e.g. UNIDO, OSCE.

Aspiring EU-entry and looking East (1986-?)

Extraverted accumulation continued up to today. However, two external events led to the modification of accumulations strategies. One was the formation of the European Single Market, announced in 1985 and realised the 1st of January, 1993. It enticed Austrian firms to significantly increase their foreign direct investment in Western Europe from 1986 (Bellak 1995). German capital increased its stake in Austrian commerce and banking. The other event was the collapse of state socialism. „The ‚opening‘ of Eastern Europe in 1989 brought about one of the strongest shocks caused by the external environment for Austria since WWII. New chances and threats emerged and paralleled Austria's West European integration process, thus putting heavy restructuring pressure on Austrian firms“ (Bellak 1995: 25). They reacted extremely swiftly by investing heavily in neighbouring East Europe states. The share of the four most important recipient countries in Eastern Europe (Hungary, Czech Republic, Slovenia and Slovakia) in Austria's outward FDI stock increased from 2.7% in 1985 to 31.2% in 1996 (OeNB 1996: 10, Tab. 2.1, OeNB 1998: 12, Tab. 2.1). FDI was not confined to manufacturing, but service sectors, like banking and commerce, were highly active in this field. FDI in Eastern Europe was geared towards market expansion rather than towards the relocation of production in order to exploit the huge wage differentials. In spite of the prevalence of SME in Austria, Austrian firms held a significant share of FDI in the four countries. However, they faced increasing competition from financially more potent companies from other European countries (Altzinger/Winklhofer 1998, Stankovsky 1996). There are tendencies that Austria might partially turn into a subordinate intermediary of Western, mostly German, capital and the East. Likewise, trade with East European (except for CIS) countries expanded significantly. Their share in Austria's exports increased from 8.3% in 1990 to 15.1% in 1998, their share in Austria's imports from 5.0% to 9.7% (WIFO 1995: Tab. 14, Statistische Nachrichten 6/1999: 499, Tab. 1). Increasing business with Eastern Europe provided especially a boost to the Eastern part of Austria. However, there have been losers as well. Austria's traditional consumer good industries could not stand the increased competition and declined steeply.

„These international developments did not only exert economic restructuring pressure on Austrian firms, but politically strengthened business interests which demanded lower wage costs in order to increase profitability and desired to open up new fields to private capital“ (Becker/Novy 1996: 19). The coalition government of social democrats and conservatives formed after the general elections of 1986 took up these demands by switching to a much more conservative fiscal policy (tax reform plus more cautious deficit spending), launching a more vigorous privatisation policy etc.

The same forces pushing for domestic neoliberal change began to urge for a full entry into the European Union (EU) after the formation of a Single Market had been announced. The reasons were essentially two-fold. On the one hand, EU discrimination against other countries including EFTA states increased with the Single Market project. Thus, Austrian exporters viewed an EU entry with new urgency. Generally, a significant part of business located in Austria were eager to exploit the possible competitive advantages of the Single Market. On the other hand, entry into the EU would cement the neo-liberal turn of politics. Since the mid-1980s, EU has taken an increasingly neo-liberal stand. Neo-liberal forces are much better organised at the supranational level than their adversaries in trade unions and new social movements. The decision-making structure of the EU is biased in their favour since executive structures are much stronger than parliamentary structures. Usually, executive structures are

more open to small lobby groups whereas parliament used to be particularly important for the labour movement and some new social movements. In the case of the EU, the European Commission as the executive branch has the prerogative to initiate legislation, too. Thus, the division of powers is blurred in favour of the executive (Puntscher-Riekmann 1998).

The first to come out in favour of an entry into EU were representatives of the conservative party originating from the Western part of Austria which is most intimately linked with Germany. The social democrats followed suit. In civil society, the Association of Austrian Industrialists representing large-scale business was the first to demand entry into EU. Groupings representing rather SMEs and agriculture were more hesitant since parts of small business, esp. in agriculture, would suffer from increased competition. The labour side finally sided with the position of social democracy. It was essentially the Greens and parts of the new social movements which remained critical to EU entry. At a rather late stage, they were joined by an important party of the populist right. Thus the EU entry represented „a broadly-based elite consensus“ (Schaller 1996: 19, cf. also Karlhofer/Tálos 1996) favouring the export-orientated interests over the hitherto „protected sectors“.

In the running up to the referendum on the EU entry which was legally mandatory, the partisans of an EU membership claimed that this step was without alternative (or that Austria would have to apply for membership jointly with poor Albania in a couple of years – an argument that appealed to racist sentiments in the Austrian population). Besides, they stressed the presumed economic advantages and the possible Austrian influence on European influences. The future more neo-liberal political direction of politics was camouflaged by talking about „modernisation“. In contrast to past debates, „neutrality“ was only a minor issue though the EU Common Foreign and Security Policy would obviously impinge on neutrality. With the demise of the state socialist camp and the Soviet Union, „neutrality“ lost its traditional meaning. It had not acquired a different meaning, like a non-militarist foreign policy, in the public imagination. The Soviet Union and its successor states were not in a position anymore to influence the Austrian debate.

Entry into the EU was supported by a two thirds majority in the 1994 referendum with a particularly strong favourable vote by the more well-off citizens (Schaller 1996: 26). Austria joined the European Economic Space as a transitional step at the beginning of 1994, and the European Union at the beginning of 1995. The entry into the EU has stabilised trade with EU at an exceptionally high level with about 70% of Austria's exports originating in EU countries and about 65% of Austria's exports going there (Statistische Nachrichten 6/1999: 499, Tab. 1). Likewise, FDI from EU countries continued to be high, the German share in Austria's inward FDI stock even surpassed the 40% mark in 1996 (OeNB 1998: 13, Tab. 2.2.). Neo-liberal policies and discourse have become considerable more entrenched in Austria since 1995.

EU's Eastern enlargement is high on Austria's foreign policy agenda, and, in Eastern Europe, the Austrian government is perceived as a central interlocutor in the admission talks.

However, it has not yet decided whether to be a „gateway or a fortress“ (Gyárfásová 1998). Its discourse is double-tongued. In statements for an external audience, it takes a favourable stand towards enlargement. Thus, it brings Austria's position as bridge into play. In fact, it is the states with close economic relations to Eastern Europe - Germany, Austria and Finland – that take the most active interest in an eastward enlargement of the EU. Germany and Austria are quite important for the infrastructural lines of communication (railways, roads etc.) between Western and Eastern Europe. But concerning TENs (Trans European Nets), the huge transport infrastructure project of the European Union, Austria and especially Vienna are not fully satisfied with the current Ten development plans of the European commission. In the plans for the main transport axis Vienna is not considered in a substantial way. In reaction to this neglect Vienna is seeking on her own a closer co-operation and strategic alliances with some of its nearby neighbours in Eastern Europe.

However, market enlargement is only one facet of Austria's view on Eastern Europe. The other side of the coin is fear of the poor neighbours. Thus, in statements for domestic consumption, Austrian politicians are much more hesitant and stress the need to protect Austrian workers and business by transitional arrangements. The far-right FPÖ has openly fanned anti-East European resentments in the Austrian population and campaigned against closer relations with Eastern Europe. They claimed that East Europeans threaten Austrian wealth and security. This campaign struck a chord with the large xenophobic segment in the Austrian population. The governing social democrat and conservative parties acquiesced to some extent to this campaign. They rather develop an image of Austria as a bulwark (Gyárfásová 1999, Palata 1999).

The shift to the right in the elections on 3rd October 1999 is likely to affect Austria's stance on EU enlargement. In an article representative of East European perceptions, Lubos Palata (1999) predicted that Vienna would harden its position and upping the conditions for entry into EU in the case of a surge of FPÖ votes. In the case of a FPÖ participation in a new government, Austria would become a real obstacle to EU eastward enlargement. At the moment of writing this article, it is, however, not clear which parties will form the new government.

The perspective of integration into EU was one of the factors accelerating the internal dynamics of the disintegration of Yugoslavia. The two richest Yugoslavian republics, Slovenia and Croatia, hoped to gain easier accession to EU without the poorer brothers and sisters in the south. Apart from the Vatican, it was two worldly European governments which gave particular stimulus to their secession by an early recognition of their independence – Germany and Austria. Whereas the German government wanted to assert Germany's position as a „normal“ big power, the conservative wing of the Austrian government which prevailed in that issue stuck to the stereotypes of Pre-World War I. Thus, Austria contributed to an escalation of conflict in South-Eastern Europe. At a later stage, Austrian career diplomats of the Kreisky era with a more differentiated view played an important role in negotiations related to Yugoslavia. However, the Austrian government did not depart from an ethnic-based view of the conflict and did not turn its support to the non-nationalist democratic forces in (Ex-)Yugoslavia. Nor did it formulate alternatives to military intervention in Yugoslavia. Relations with the non-European Third World have been put on a backburner.

Thus, the last decade has seen a major departure from the post-war foreign policies, esp. those of the 1970s.

The new geopolitical and geo-economic setting of Austria (EU entry, transformations in Eastern Europe and the former Yugoslavia) at the end of the 20th century meant also severe changes and challenges for Austria's capital, Vienna. Vienna itself, as the politically and economically decision making centre of Austria, has been affected by national and global restructuring, although the city government reacted at first hesitantly to the ongoing changes: In 1986, when the Austrian Keynesian policies came to an end at the national level, Vienna was able to avoid any major ruptures for a decade. Vienna's policy at that time can be considered as defensively deviant from the national and international pattern of neo-liberalism (cf. Becker/Novy 1999: 139).

But Vienna's inward oriented development path and the inward-oriented legitimisation of the ruling power block could not be easily accommodated to a new European topography of a new economic and political power field. With Austria's integration into the European Union and the opening up of the Eastern European countries Vienna's former policies came under pressure. Vienna faced increasing competition from the other EU members as well as from the nearby Eastern European cities (Budapest, Prague). During the last years a repositioning of Vienna in a new international urban context became - in the eyes of many local politicians,

planners and entrepreneurs - an urgent necessity. Political legitimisation was no longer only aspired from local population but also from - vaguely defined - international interest groups (international businesses, developers, tourists, ...).

With the beginning of the 1990s the search for a new "Leitmotiv" for Vienna started. Which local advantages and competencies of Vienna should be emphasised in order not only to strengthen the growth performance, but also to attract international investors which should give new stimulus to Vienna's economy? Quantitatively, however, it performed comparatively better than many other European cities with a relatively good growth performance over the last decade(s) (especially from 1989 to 1993). But at the same time Vienna's economy underwent severe transitions, e.g. a process of industrial restructuring, a downgrading of Vienna as the national economic decision making centre, industrial relocation to the city's suburban region, etc.

Startlingly, no major assessment of the Viennese economic structure had been carried out during the 1980s (DIFU 1995: 4). This may be due to the already mentioned inward oriented policy of Vienna as the national headquarter city and its former geographical location at Europe's periphery. For a long time Vienna "played no significant role for the investment strategies of international developers... Many development projects had been 'handknitted' without paying much attention to the experience of international actors" (DIFU 1995: 4 et seq., our translation).

Only two attributes with an international component had been accorded to Vienna:

- Vienna's role as a headquarter of major international organisations (UNO, OSCE, ...) and therefore its role as a place for international meetings and congresses.
- The tourist attractiveness of Vienna. With 7,26 million overnight stays (1997) Vienna is just slightly outstripped by Berlin (7,99 million) and quite in front of several other European cities (Görg 1999: 4), thereby contributing strongly to income from tourism being a significant part of the Austrian economy.

Both attributes correspond also with Vienna's image in the international arena that is rather based on cultural and historical aspects than on economic ones. "Soft factors" were and are much more significant for Vienna's outward appearance than "hard factors". Local politicians, planners and entrepreneurs realised quickly that soft factors can not fully compensate hard location advantages. A rather unsatisfactory business and investment climate is often lamented. Local politicians responded to the ongoing claims for a better business environment at the beginning of the 90ies.

The trend towards an entrepreneurial rhetoric increased after the last elections in Vienna in 1996 when the new government was formed as a coalition between social democrats and conservatives. The latter continuously stress their business and management abilities capable of making "Enterprise Vienna" work, while social democracy continuously refrains from its former policy of "social compromise" (between labour/capital) turning nowadays more and more towards a representation of the "middle class" and policies in favour of this strata.

In the last decade a number of ideas about Vienna's future role have been raised not sparing any gadget of the present international discourse on city competition (Redak 1998). It is a commonly shared opinion by both of the two Viennese government parties (Social democrats, Conservatives) to promote the business friendly environment of Vienna in a more aggressive manner via emphasising Vienna's location advantages: its location in the Euro zone - a guarantee for a strong currency -, the low inflation rate of Austria (currently 0,9 %), high productivity of the workforce, and last but not least fiscal advantages for companies which are worth labelling Vienna a "tax heaven" (*Der Standard*, 19.4.1999). Most of the advantages owe, however, their existence to national policies.

In this process of repositioning Vienna in a new Austrian and European setting, Vienna has joined - with some delay - other European cities in their way of becoming "entrepreneurial cities" (Hall/Hubbard 1998). "The notion of entrepreneurialism, which evocatively captures

the sense in which cities are being run in a more businesslike manner, is now a widely cited concept, regularly employed in the rhetoric of local politicians and public administrators who increasingly posit the adoption of an entrepreneurial stance as the key to creating conditions conducive to capital accumulation within a city's boundaries. Such discourses of entrepreneurship thus argue that the only way that cities can compete in an increasingly unpredictable and globalised economy is by pursuing specific proactive strategies designed to secure competitive advantages over their perceived competitors".

Austria into the 21st Century: Good-bye to All That?

At the beginning of 20th century, Austria experienced the transition from big power politics to the more circumscribed though still autonomous politics of a small state. The beginning of the 21st century might see Austria's transition from the autonomous external policy of a small state to the subaltern part of a West European (or German) power bloc. It hinges on a number of key decisions whether this transition will finally be accomplished.

The first key decision concerns the property structure of business in Austria. The share of foreign business is already very high, in some key sectors totally dominant. However, the banking sector and the rump of nationalised industries are still in Austrian hands. If they were privatised, almost all key decisions on investment would be taken outside Austria. This would clearly circumscribe the political autonomy of the Austrian state.

Austrian nation-state has ceded a lot of prerogatives to the EU. The EU is more than a mere international organisation. It is a state in an embryonic form, displaying key features of a states like own law and an own currency. It is, however, not clear whether the EU can consolidate its incipient statehood.

The second key decision concerns the future institutional set-up of the EU. It is beyond question that the present institutional set-up would not be viable in a further enlarged EU. One central question is whether the EU will be democratised in the wake of institutional reform. This might give hitherto rather marginalised social forces more of a voice in European affairs. The Austrian Greens have developed a rather high profile on that issue, but they are not a very strong force. Generally, a thorough democratisation seems rather unlikely whereas a somewhat higher profile of the European Parliament is possible. For example, it seems quite unlikely that democratic control of the European Central Bank will be enhanced. The other central question is the weighing of voting power of the member states in EU institution, esp. in the Council of Minister which is up to now the prime law-making instance. At present, voting power is not directly proportional to the population of the member states, but biased in favour of the small states. This is questioned by the big states, like Germany. A revision of the weighing might be to the detriment of small states like Austria.

The third key decision concerns the balance between deepening and enlargement of the European Union. Even today, there has emerged something like a multi-tier EU. Some member countries need not implement all parts of the Maastricht treaty. Most notably, not all members participate in the monetary union. There might emerge a rather hybrid type of institutional structure in the wake of enlargement with different levels of integration.

The fourth set of key decisions concerns the procedures of enlargement. It is the states bordering on Eastern Europe, i.e. Germany, Austria and Finland, that have the greatest economic interests in enlargement. At the same time, they are states which would be most directly hit by a grave crisis in Central East European states. Thus, they are more willing to prop up the integration process with some funds. However, the Austrian government has bowed to the strong xenophobic current and has adopted a more reserved stance on enlargement. In the case of a growing influence of the far right, this might turn into a position of open hostility (Palata 1999). The perspective of less developed South European countries is different the Central European and Scandinavian countries. For them, the East European states are rather competitors for funds and some markets rather than possible outlets. These

different perspectives can be expected to clash in the process of enlargement. EU member states basically agree that Central East European states should follow neo-liberal policies. It is one of the ironies of history that the economic policies demanded by the EU might deepen the economic crisis already visible in many East European states. It cannot be excluded that, in some states, there might occur a major financial collapse following the pattern of Latin American states in the last years. This might question the whole integration process and entail major political conflicts. Furthermore, the EU decided to grade East European countries according to their supposed maturity for entry into the EU. Thus, six countries (Hungary, Poland, Czech Republic, Slovenia and Estonia plus Cyprus) have been selected for priority accession talks. This procedure might entail further inter-state and ethnic conflicts. For example, Hungary has been selected for the first round, her neighbouring states where there live significant Hungarian minorities have not been selected. Hungary will be forced to impose a more rigid border regime with these states, thus sealing off the Hungarian minorities even more. In other aspects as well, these borders might acquire new significance.

The fifth set of questions concerns the way how to deal with grave (socio-)political and socio-economic conflicts. At the EU summit in Cologne in 1999, the EU came out in favour of a more militarist form of foreign policy. Strong currents in France and Germany want a stronger European military arm whereas the British government is in favour of strengthening the transatlantic alliance. This conflict is not yet resolved. Anyway, it seems clear that European foreign policy takes a more military interventionist stand. This is clearly in conflict with the hitherto Austrian policies of „neutrality“. The conservative Austrian People's Party favours joining NATO. The social democrats object to this. However, they do not develop any fundamental alternatives. It can be foreseen that Austria will integrate herself into military structures in the not too distant future. It is less clear whether a future government will rather opt for a European or a transatlantic option. This might depend on the German decision. The days of „neutrality“ are over.

Already over the past years, Austria has increasingly abdicated from an own foreign policy. Only been in a few fields – Eastern Europe, fierce anti-immigration policies – Austria has developed a distinct profile in EU foreign policies. It seems quite likely that Austria will continue with this extremely low-profile policy and increasingly align herself with her big neighbour in the West, i.e. Germany. In the case of a continuing strengthening of the far-right FPÖ, there might, however, develop one important bone of contention with Germany: Eastward enlargement of the EU. It seems likely that Austria might increasingly turn herself into a bulwark against Eastern Europe.

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