Austria in Europe: Size, Smallness, Ambivalence

Manfred Prisching

First Draft, March 2006
1 Introduction
The fate of small states (SS) in the configuration of the European Union (EU) depends on the future shape of "New Europe" in general, but the future European design is all but certain. Optimists think that the European entity is the most promising and innovative vision in a globalized world. Pessimists maintain that the attempt has already failed.

Countries like Austria are pondering if their membership was, if we take it all together, favorable or unfavorable. The question can also be posed as the question of the optimal size of a political unit. Has Austria been too small? Is the European Union the appropriate size? Before or after some rounds of enlargement? What do optimality considerations tell us?

2 Theory of state size in the European context

2.1 Small States in the EU
Size as such is not a decisive factor in the proceedings and negotiations of the European Union member countries, and smallness is, obviously, a relative concept.

(1) SS are a heterogeneous group: from the Netherlands with 15 million people to Luxembourg with about 350,000. There are five really large countries with a population from 41 to 82 million, and 20 small countries. Among the small countries 3 may even be called microstates. There are former great powers among them: Austria, Netherlands, Portugal. Great Britain, as one of the central powers of the European Union, has, at the same time, a certain distance to the EU process. Spain is a middle power, but is, in the context of the union, treated as a large power.

(2) SS are not a coherent interest group, and in negotiations within the EU, partnerships are generally not composed along the criterion small versus large countries. Other cleavages seem to be more important: north-south, political ideologies, mediterranean vs northern countries. There are special interests, e.g. in agricultural policies, or concerns about the fate of welfare systems. The former socialist countries have some common experiences. There are payers vs takers. There are traditional groupings like the Benelux-countries or the Scandinavian countries, Euro-sceptical vs integrationist governments etc.

(3) Paradoxically, the number of small countries is growing at the same time when globalization and Europeanization take place. Obviously, democracy promotes smallness: After the breakdown of the socialist system, a couple of postsocialist countries have decided to divorce from their companions (Cechoslovakia, the Balkan countries, post-Soviet entities). There are more secessions than mergers. (Dictators suppress dissent, they are prone towards size because in most cases they have megalomaniacal traits; the peoples, on the other hand, want culturally homogeneous entities, smaller entities.)

(4) Globally, SS are generally weak states, with weak institutions. However, SS in the EU are generally strong: they are economically advanced and wealthy, they have an efficient administration and a legitimate political system. (They are only weak in military power). One might even suspect that SS have some advantages compared with the large European countries.

(5) SS have traditionally been treated well in European associations. Among the six founding members of the EG, the Benelux-countries could not threaten the interest of the large founding countries; therefore they got granted generous over-representation. This situation changed when more small countries became members of the EU thus having the combined possibility to force their will upon large countries. So the issue of size got new relevance in the course of the process of constitutional reform. The "transition period" when SS gained overrepresentation and special rights in the union is over; in the well-ordered union with numerous member states majority rules, new forms of representation and safeguards for the larger states will prevail. A new game is starting.

2.2 A general approach to state size
In Europe as well as all over the world, there are unbelievably different sizes of political units. Two questions arise. First: What determines their size? And second: What is the optimal size of a country?

Answers stretch from historical coincidence to a "natural" pattern of ethnic communities. Alesina and Spolaore (2003) have tried to give a general answer. There are forces pressing towards size and forces pressing towards fragmentation. On the one hand, larger size means: economies of scale
(increasing productivity, declining costs per head for public goods, more efficient use of military resources). Smallness has costs. On the other hand, people have preferences for cultural and political homogeneity. (They simply feel more comfortable when grouped together with people who are similar to themselves.) Therefore, size has costs. How does the trade-off between the costs of smallness and the costs of size look like?

2.3 Application to Austria and Europe

Applying the "size of nations"-approach to the relation of a country like Austria to the European Union we can ask the following questions.

First, has Austria - as a nation state - been too small? Are there strong arguments that the political unit should be larger? And is the European Union an adequate framework or is it too large? What is the optimal size?

Second, considering the opposite forces of economic advantages versus cultural costs it can be asked: Which economic and cultural peculiarities determine the ambivalent relation of Austrians towards the European process? Which additional factors may be important?

Third, the same forces should help to explain attitudes towards enlargement. Which steps of enlargement are economically and culturally unproblematic or problematic? And where is the optimal position of the new political unit called European Union?

I think that it would be necessary to add political considerations to the model, because the European Union has been not at least a project of a policy which aims at peace, conflict avoidance, and military control of the European countries; an understandable reaction after the experiences of the past century. But time limits confine me to adding some qualifications to the two essential arguments of the Alesina-Spolaore-model. However, some doubts about the costs and utilities of the Union that concern the Austrian population will become clear.

3 The argument for size: Economies of scale

3.1 The economic argument

Economic and technological forces are pushing towards a unified European economic area because size is an economic advantage. It lowers a couple of costs. Therefore, the elimination of barriers and the creation of large economic areas are rewarded with growth, productivity gains and a stronger competitive position in the world economy.

In the Austrian case, as in other cases, expectations about favorable results of EU membership were not wrong. However, short-run expectations of considerable growth triggered by the creation of the Single Market were exaggerated. (Breuss 2001; 2004); there was no strong fall of consumer prices, except in agricultural products (a special problem of adaptation); but there was a pressure on many prices because of the opening of former regulated sectors, and therefore more competition.

3.2 Some qualifications

3.2.1 Globalization versus Europeanization

While Europeanization is generally considered part of the globalization process, globalization - at the same time - reduces the advantages of size, because economies of scale are no longer constrained to the borders of the nation state. This argument would lead to the strange conclusion that the process of Europeanization - a very strong version of regional association and cooperation, establishing a larger size of an economic area - is taking place exactly at the wrong time: It has never been less important than now. But Europeanization has another function: It serves as a vehicle of internal reform for the continental countries.

In the process of globalization, a small state like Austria can overcome its disadvantages of smallness by opening its borders and connecting its economic units to networks all over the world. Economies of scale are no longer restricted to nation-states, because they are no longer the important units of economic processes. Europeanization seems to be superfluous when a strong process of globalization takes place.

I would like to solve the puzzle by emphasizing the challenges of adaptation in the process of globalization which demands a new political-economic regime. (Bornschier 2005) There are three
types of capitalist countries in Europe. The Anglo-Saxon model, represented by the bridgehead Great Britain, was able to overcome rigidities and establish libertarian structures; there is a majority electoral system, there are strong elements of the American Dream alive. The postsocialist world has experienced a complete breakdown and, in the vacuum, was able to start a radical process of transformation. The majority of the European countries, however, are characterized by ligatures, reliabilities, corporatist structures; it is the model of a negotiated capitalism with strong quality of life aspects. As single countries, they would not have been able to adapt their structures sufficiently. The European Union, a new political entity, provides the way out. It is able to do what the single governments - with their corporatist elements - could not do.

Therefore, it not only the size aspect that is helpful in economic terms, but especially the reform and adaptation aspect that makes Europe - for better or for worse - ready for the globalized world.1

3.2.2 Austria's no choice-situation

In the discussion about EU membership, arguments about the economic advantages of size were supplemented by arguments about the disadvantages of exclusion. However, being forced into membership, whether it is advantageous or not, is in any case not an inspiring experience, but nourishes ambiguous feelings.

Austria's entrance into the EU was not a one-step decision; it was a small step but the final step in a long-term process of rising integration. In the discussion about the membership application, economic arguments took a certain shape: not so much the advantages, but the unavoidability2 was in the foreground. SS know that they have to adapt anyhow, and therefore they prefer a "seat at the table" to passive adaptation without any influence.3

3.2.3 Farewell to Austria's corporatist model

Austria's corporatist model was successful, and it has established a comprehensive social security system which Austrians are unwilling to renounce. Economic advantages of size do not compensate for the loss of pensions, health care and other transfers which do not seem to be secured in the long run.

Europe is more heterogeneous, even in economic terms, than advocates of global economic liberalism might be ready to concede. There are different models of capitalism, and Austria has always been considered one of the neo-corporatist ideal types: an example of the strong cooperation and consociation of interest groups and government. In the 70s, Austria has mastered the economic crises with excellent outcomes, and several studies have mentioned the social partnership system as one of the reasons of success. During the last twenty years, this configuration has disappeared.

Austria has also been considered one of the best-established welfare states in the world, and processes for reducing the welfare system are on the way. Therefore, economies of scale gained by the size of New Europe may be balanced by unpleasant experiences in other dimensions than growth and productivity. It may sound strange for a neoliberal perspective, but Austrians have strong preferences for secured pensions and a comprehensive health care system. There is a difference to the United States: It is no persuasive message for Austrians when politicians tell them that they have to do without their health insurance for the sake of some diffuse economic dynamics and flexibility, and

1 There are countries with different attitudes towards the further development of the European Union, but there are also different groups with different opinions within the countries.

2 On the level of countries: In spite of the economic advantages of participating countries, donor countries (in the process of European redistribution) are more skeptical towards deepening and widening the European Union than recipient countries. Poorer regions have more intensive interest in redistribution.

3 On the level of groups: Open markets favor citizens with relatively high income, education, and occupational skills, but obviously not all citizens. New Europe was, from the beginning, an elite project (a project of politicians, managers and professionals); unskilled workers are Euro-skeptics. And subjective economic evaluations are important: People who feel confident about the future are supportive, while people who are fearful lean towards skepticism.

2 According to Vinerian integration theory, building an economic community results in trade creation and trade diversion. Trade creation means there is more trade between the members; and trade diversion means there is a shift away from trade with third countries towards trade with member countries. For a small open economy there is no way to stay out.

3 Switzerland may be mentioned as a counter example. But by now, the country has special contracts with the EU and is in the process of adapting to EU rules; and Switzerland is in a better position than Austria: first because of its financial role in the world economy, second because of the existence of some large (global) corporations. In Austria there are no large corporations - in the sense of global players - left.
Austrians do not consider privatization of old age or health insurance a liberation from administrative coercives.

Therefore, arguments of economic advantage by Europeanization are not convincing when the day-to-day experience is loss of security and transfers - a situation quite different to the USA where deteriorations of the economic and social situation of the majority of the population are accepted quietly and peacefully.

### 3.2.4 Challenges of solidarity for Austria

*In the process of European redistribution, wealthy countries are net payers, and Austria is one of the largest net payers. The further process of enlargement will aggravate the asymmetric situation. The larger Europe, the heavier the burden. Therefore Austrians are not quite sure about the economic advantages of size.*

The EU is a solidarity community: Rich countries shall help poorer countries to obtain the general level of wealth. But rich and poor is not correlated with small and large.

Furthering the process of convergence means, that rich countries are net payers. The largest net payers are Germany, Austria, the Netherlands and Sweden. This is always a delicate situation for these governments: They must explain their citizens that they have to pay more and get less. And in economic terms, they must explain that the hidden advantages of size are larger than the visible disadvantages of being a net-payer.

The negative feelings are enhanced by the continuing process of enlargement. Which countries ever might be added in future rounds, they will not be rich, thereby aggravating the situation.⁴

### 3.2.5 Austrian doubts about advantages of economic integration

*The excellent economic indicators of Austria during the last decades are a miracle, because Austria was situated at the European periphery, partially surrounded by the "iron curtain". The process of adaptation to open borders is tough for some groups, and the existence of low wage-areas within the own borders will effect further turbulences. Austrians are not sure if integration and enlargement are finally really favorable for income and jobs.*

Austria experiences a time of economic turbulences. Economic structures were adapted to the situation of "dead borders" towards the east and south, Austria was situated in the "European corner".

Admittedly, there was a certain loosening up of the iron curtain, but after the breakdown of the communist empire, a re-arrangement of all relations towards the neighboring countries took place. Austria is profiting from its stronger (historical and economic) ties to these countries. Import and export activities with the post-socialist neighbours have increased much more than in relation to EU countries. Nevertheless, the re-arrangement needs some time, and there are winners and losers.

Visible is new competition. There is not only process of globalization, in which large corporations wander to the Far East, but there are low wage countries within the own borders. Labor costs per hour are 23 € in the EU 15 countries and 5 € in the new member countries. Small and medium sized firms transfer parts of their activities beyond the border, to Hungary, Slovakia, Slovenia - it is only 50 or 100 miles, no distance, and they can cut their wages down to 20 or 30% of the domestic wages. Mobility of the labor force is limited, but if persons do not migrate, firms do it. Persons do not migrate if they expect an improvement of the situation in their own countries, an expectation that is justified in Slovakia, Slovenia, Hungary and so on. But it is more difficult to assess in countries like Roumania and Bulgaria. At the moment, investment capital is much more mobile; the new member countries offer attractive locations, they have low taxes. In further rounds of enlargement, low income countries will always be available within the own borders in the next 50 years.

When the new international configuration produces winners and losers, most political economists would straightly proceed to the solution that losers could be compensated and therefore won to join the club of advocates for a generally favorable solution. However, with a rising neoliberal mentality, the losers are no longer compensated. It is the market, stupid, and the market has nothing to do with justice, as Friedrich von Hayek has told us. It is not a surprise that possible losers - unqualified workers and threatened small business owners - are groups which are not euphoric about the development.

---

⁴ Considerations about future steps of enlargement do not include optimal size considerations, but emphasize a repertory of arguments from European historical identity to Islamic fundamentalism.
At the moment, Austrian firms are profiting because of the traditional connections with these countries. But the transfer of jobs to the south-east is obvious, and also increased competition of products which can be produced with simple and median technologies. Austrians are not sure if the new configuration is really favorable for them in the long-run. Under these circumstances, does larger size really mean secured jobs?

3.2.6 Summary
There is a clear argument in the Alesina-Spolaore-model: Size is good. There are economic advantages of size. Europe is economically better than Austria. But Austrians are not sure about this proposition, and people in some other small states in Europe share the doubts or the distrust.

4 The argument for smallness: Preferences for homogeneity

4.1 The cultural argument
People have preferences for living in a culturally homogeneous environment, together with people who are similar to themselves. Living in a larger, more heterogeneous community generates costs which have to be balanced with advantages of size.

Ethnic fragmentation is not only a matter of prejudice and misunderstanding. It means that talking, joking, working and dealing with people with whom the interaction has more nuances and subtleties, more depth, an easier understanding of gestures and body language, may be less demanding, more pleasant, and more effective. Anyway, whatever the reasons, people do have preferences for living together with culturally close people.

The argument against European unification is: There are certain social clusters or geographic areas where people are more similar; this may have different roots, not the most unimportant are the conscious efforts of nation states to produce a feeling of community and commonality. These feelings push towards smallness, because heterogeneity is costly for the people.\(^5\) Furthermore, the argument for smallness can also be applied to the Union in the present shape versus an enlarged European empire.

4.2 Some qualifications

4.2.1 European fragmentation
The political landscape of Europe is characterized by nation-states, which have successfully implemented their mutual separation; territories which can trace their special history 1000 years or longer into the past. There are questions of identity and particularity. Therefore, if unification means a certain pressure towards convergence, the cultural costs of the larger European unity are huge.

It is a surprise that the animosities of the 19th and 20th century have been surpassed so fast. But the process of European integration cannot be compared to the nation building process of the United States, where new, "unestablished" territories agreed to combine. There is a difference between Arkansas and Oklahoma on the one hand and France and Germany on the other hand. France, for instance, does not feel it could easily "dissolve" itself into a greater community, as long as only several competences remain in the Gallic area.

Europe may be too heterogeneous to build a well-established union at all; but if building the union demands a certain conformity, concerns grow that regional specialties might be endangered. Small countries like Austria have even more the feeling that, because of their smallness, they are even more endangered by the process of convergence and homogenization; and that the process of European unification could end in nivellization. Even consensual principles, like the implementation of economic freedom of competition, could end up by the elimination of regional peculiarities. Actually, we are discussing the problem of (personal and social) identity. The stronger identities, the higher costs of size.

---

\(^5\) Different individuals have different policy preferences, and the more diverse the population is the more they have to compromise. (In the USA, there is also a connection to racial composition.) (Alesina et. al. 2004)
4.2.2 The weakness of the European Dream

The driving force towards Europeanization is the economy, but Europe gains its shape by culture: common roots and common goals. However, there is no strong "European Dream", comparable to the "American Dream". In Europe, there is no strong emotional basis for the living together of different peoples. The negative motivation that a return of bloody fights in the next century shall be avoided does not seem to be convincing.

Common roots provide the basis for community and determine the borders of Europe, the insiders and outsiders. Common goals are presented as a picture of peace, wealth and harmony, in contrast to the bloody experiences of the 20th century.

Europe has the highest standard of living of all areas in the world. But that seems to be not enough. There is a weak European Dream. (Rifkin 2005) The strong American Dream emphasizes negative liberty, it is close to a neo-liberal, libertarian, anti-etatistic vision. The weak European Dream is community-oriented; skeptical towards the autonomous strength of the individual; including moments of outcome equality. It is attached to categories like quality of life, sustainability, and global cooperation. The perspective is more shaped by enlightenment, secularized; and there is less belief in modernity and progress. But the weak European Dream does not compensate for shortcomings which peoples experience in the process of unification.

4.2.3 Shifting attention for costs

Size may be economically favorable. But if countries with more and more different stages of development are combined, solidarity and redistribution are stretched over a long period of transition in which wealthy members have to pay; and it is not sure whether a win-win- situation will ever come into existence. Advantages are diffuse and uncertain, but disadvantages can be experienced, and therefore they get higher attention.

The marginal advantages of further enlargement towards countries which are underdeveloped and culturally more distant may be decreasing, and with decreasing economic marginal advantages, the costs of cultural heterogeneity get more attention. These costs are rising when more dimensions of life are different: personal behavior, family values, job performance, religion, world view, perspectives on politics.

One may argue that there are also utilities derived from diversity: experience of exotism, enrichment of horizon, etc. But these arguments are convictions held by the economic, political and intellectual elites, while most people would restrict these life-enriching impulses to well-fenced events, because they find them uncomfortable and burdening in everyday life.

4.2.4 Austria's problem of identity

In the case of Austria, national identity is a special problem. There are heavy loads from the 20th century: the breakdown of the empire, experiences of totalitarianism. National identity started consolidating in the 70s and 80s; and suddenly the European Union abandons this process; it means a basically new orientation: away from national identity, away from neutrality. This mental re-orientation will take some time.

Austria was a super power, an empire, less than 100 years ago, and after World War I, its political weight has shrunk to insignificance. This fact alone should be enough for a century of identity problems. But there were also the World Wars and the experience of totalitarianism; and after that a few decades of reorientation. Just in the years when empirical studies showed a significant consolidation of national identity, emotional ligature, and group loyalty, this precarious identity is again challenged and changed radically in the New Europe.

President Wilson emphasized nationality. Austria and other European countries have learned the lesson: the principle of international order is nationality, in an ethnic and cultural sense. And now they are told that nationality is an out-dated idea, Wilson is dead, and one has to embrace diversity and cosmopolitanism...

---

6 Europe has the advantage not to have a lot of third-world settlements as the USA, no wide-spread homelessness, and urban areas are secure. Europe has cities and public places, an interweaving of different functional spaces. It has a high quality of services, there are residues of style. It has a higher efficiency of energy use and a better environmental policy. Criminal behavior is low, therefore costs for the systems of protection, law and punishment are low too. It has a useful system of education and a well-established health care system. Europe has a more equal distribution of income and wealth and lower rates of poverty.
An important part of Austrian identity after World War II was neutrality. It was a kind of a surrogate identity, a new myth of foundation: But when children painted their flags in red- white-red in school, they also got told the story of the Austrian state treaty and of neutrality.

In the perspective of many Austrians, the European Union means: forget nationality and forget neutrality; and they do not like the idea because they cannot imagine what they put at that place instead.\(^7\)

### 4.2.5 Austria’s problems with enlargement

The European Union contends that widening and deepening of the community goes hand in hand. Austrians are not convinced, because they are nearer to the less developed countries that may become members, and as a small country the feelings of vulnerability are stronger.

Some eastern post-socialist countries are in discussion about membership. But it is Turkey that especially strains Austria as a possible member. Maybe, Turkey touches some elements of long-run Austrian identity: the defense of Europe by the Austrian empire against the attacking Muslim world. These are historical stories told to the children.

But there are also serious questions: Turkey is a huge country, with a distant culture, a less developed country. Liberal economists may argue that it is always an advantage to get a new territory, especially a huge future market, into the union, but, at the moment, the United States do not consider opening the border to Mexico completely - and even more, putting Mexican representatives in the US government. At best, it will be a long transition period, several decades, until the membership of Turkey would pay back to the European countries.

Turkey membership is not an immediate economic success for Europe, but perhaps a political necessity, in the sense of "egoistic support": stabilizing a country in order to avoid getting occupied with its aggravating problems. (Vobruba 1992) But if the advantages of size are doubtful, the disadvantages of cultural heterogeneity seem to be undoubted for most Austrians, social elites excluded.

The American government recommends to adopt Turkey into the EU, but some people think the advice is motivated by two strategic reasons: first, stabilizing an important military partner in an uncertain region of the world, and second, occupying the EU with a difficult task so that it is not able to gain the strength and the potential to become a rival to the United States in world politics during the next decades. However, the latter problem is not Austria’s: Small countries have no interests in interfering in world politics, and this is especially true for Austria which, after the 20th century, is prone to being left peaceful and quiet.

### 4.2.6 Summary

There is a clear argument in the Alesina-Spolaore-model: Preferences for homogeneity push towards smallness. Austria (or a subunit of Europe larger than Austria and smaller than the Union, or the Union in its present size without further enlargements) may be preferred by the people. There are many countries where people are concerned about their regional and national identity, especially when considering further prospects of enlargement; and their calculation about economic advantages and cultural disadvantages of size are uncertain. Austrians are loyal to the European Union, but they are absolutely not euphoric about the dawning “United States of Europe”. The main attitude is ambivalence, and Austria is not alone with this attitude.

### 5 LIT


\(^7\) Austrians are not convinced of the economies of scale of New Europe because they experience the decline of famous Austrian corporations. The Single Market generates more foreign direct investment, additional to the general globalization process, and Austria is an attractive location for FDIs. But the process of international mergers, acquisitions, networks means that Austria is, in many visible cases, on the passive side (in spite of FDIs by Austrian firms in southern and eastern countries). There are only a couple of corporations that are visible in the public, as "our large corporations", and most of them have been bought by foreign investors. This is not necessarily bad for the firms in economic terms, but in the public perception it means that "we" have to sell all our assets. Example: largest banks, large residues of the socialized iron and steel-sector etc. Names that were in the heads: Creditanstalt Bankverein (sold to a German bank, and further sold to an Italian bank - even an Italian bank). Partly privatization of nationalized industries: iron and steel; banks; telecommunications, energy...


Hooghe, Liesbet/Marks, Gary 2004: Does Identity or Economic Rationality Drive Public Opinion on European Integration? PS Political Science and Politics 37, 415- 420.


