

The Marshall Plan *Editors* in Austria

Günter Bischof

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Volume 8

Contemporary Austrian Studies

The Marshall Plan in Austria

Contemporary Austrian Studies

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Table of Contents

Introduction	1
I. ECONOMIC LEGACIES	
Ferdinand Lacina, <i>The Marshall Plan—A Contribution to the Austrian Economy in Transition</i>	11
Hans Fußenegger / Kurt Löffler, <i>The Activities of the ERP Fund from 1962 to 1998</i>	15
II. POLITICS, IDENTITY, PROPAGANDA	
Ingrid Fraberger / Dieter Stiefel, “ <i>Enemy Images</i> ”: <i>The Meaning of “Anti-Communism” and its Importance for the Political and Economic Reconstruction in Austria after 1945</i>	56
Andrea Komlosy, <i>The Marshall Plan and the Making of the “Iron Curtain” in Austria</i>	98
Jill Lewis, <i>Dancing on a Tight-rope: The Beginning of the Marshall Plan and the Cold War in Austria</i>	138
Matthew Paul Berg, “ <i>Caught Between Iwan and the Weihnachtsmann</i> ”: <i>Occupation, the Marshall Plan, and Austrian Identity</i>	156
Siegfried Beer, <i>The CIA in Austria in the Marshall Plan Era, 1947-1953</i>	185
Hans-Jürgen Schröder, <i>Marshall Plan Propaganda in Austria and Western Germany</i>	212

III. MACRO- AND MICROECONOMIC IMPACTS

- Hans Seidel, *Austria's Economic Policy and the Marshall Plan* 247
- Kurt Tweraser, *The Marshall Plan and the Reconstruction of the Austrian Steel Industry 1945-1953* 290
- Georg Rigele, *The Marshall Plan and Austria's Hydroelectric Industry: Kaprun* 323
- Günter Bischof, "Conquering the Foreigner": *The Marshall Plan and the Revival of Postwar Austrian Tourism* 357
- Wilhelm Kohler, *Fifty Years Later: A New Marshall Plan for Eastern Europe?* 402

NON-TOPICAL ESSAYS

- Alexander N. Lassner, *The Invasion of Austria in March 1938: Blitzkrieg or Pfusch?* 447
- Martin Kofler, "Neutral," Host, and "Mediator": *Austria and the Vienna Summit of 1961* 487
- Markus M. L. Crepaz / Hans-Georg Betz, *Postindustrial Cleavages and Electoral Change in an Advanced Capitalist Democracy: The Austrian Case* 506

BOOK REVIEWS

- Stephen Beller, *Brigitte Hamann: Hitler's Wien: Lehrjahre eines Diktators (Munich: R. Piper, 1996)* 533
- Lonnie Johnson, *Peter Katzenstein, ed., Mitteleuropa: Between Europe and Germany (New York: Berghahn Books, 1997)* 544
- Volker R. Berghahn, *Günther Nenning: 'Forum.' Die berühmtesten Beiträge zur Zukunft von einst von Arrabal bis Zuckmayer (Vienna: Amalthea, 1998)* 561
- Peter Thaler, *Rigele Georg: Die Großglockner-Hochalpenstraße: Zur Geschichte eines österreichischen Monuments (Vienna: WUV-Universitätsverlag, 1998)* 566

Kurt Tweraser, <i>Anton Pelinka: Austria. Out of the Shadow of the Past</i> (Boulder: Westview, 1998)	569
Petra Goedde, Ingrid Bauer: "Welcome Ami Go Home" <i>Die Amerikanische Besatzung in Salzburg 1945-1955. Erinnerungslandschaften aus einem Oral History Projekt</i> (Salzburg: Verlag Anton Pustet, 1998)	575
ANNUAL REVIEW	
Reinhold Gärtner, <i>Survey of Austrian Politics Austria 1998</i>	580
LIST OF AUTHORS	587



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Introduction

Günter Bischof

The American elite journal *Foreign Affairs* termed the Marshall Plan “perhaps the most important foreign policy success of the postwar period.”¹ In both the American and Western European publics, where the memory of the Marshall Plan has been carefully cultivated over the past half a century, such extravagant praise for the European Recovery Program does not appear to be overstated. In Austria the historical memory of the significance of the Marshall Plan for the country’s postwar economic reconstruction as a basis for broad prosperity seems largely ignored by the political class and forgotten among the younger generation. Only the contemporaries of the postwar occupation, who lived through the difficult times of postwar want and destitution, seem to remember that the trajectory of Austrian postwar prosperity could hardly have been imaginable without the largesse of the European Recovery Program. It is clear that without Marshall Plan aid Austria would have needed much longer to recover from physical destruction and mental dejection after World War II. This seems strange for a nation that received almost one billion dollars in Marshall aid (1,5 billion if all the American aid programs from 1945 to 1952 are added up). With 132 dollars, Austria was among the top per capita recipients of Marshall Plan aid and arguably profited more than any other country participating in the ERP.²

Why this oblivion? Did the wartime generation want to pretend their extraordinary effort in reconstructing had come without any outside aid injection? Did the post-occupation political elite in the grand coalition governments, which led neutral Austria onto its extraordinary trajectory of peace and prosperity, not want to acknowledge how heavily Austria was indebted to this extraordinary American generosity during the occupation decade — a time, it should be noted, when the Soviet Union extracted at least as much in reparations from

its Eastern Austrian zone of occupation as the United States poured into the three Western zones with its various postwar aid programs? Does a well-educated, self-centered and often affluent younger generation, with its short historical memory and its neutralist “island-of-the blessed” mentality, no longer care to know about the genesis of their current prosperity and the American contribution to it during extraordinary years of Cold War tensions in Austria’s vital geostrategic location? Why have Austrian governments failed to commemorate the recent 50th anniversary of General Marshall’s speech at Harvard University³, which initiated the Marshall Plan, in official ceremonies as did most of the other ERP beneficiaries?⁴ Might it be a Cold War legacy in Austria that showing gratitude to the U.S. is an attitude unbecoming to a neutral country? Why is official Austria obsessed with cultivating the memory of the Anschluss in 1938, when the Alpine Republic was a victim of the international system, yet fails to remember the Marshall Plan, when the country happened to be a beneficiary? Why has Austrian contemporary and economic history scholarship been so lag-gard for so long to produce serious in-depth studies of the Marshall Plan’s macro- and microeconomic importance for Austria’s postwar reconstruction, when Marshall Plan scholarship in Western Europe and American academia has been a vibrant area of Cold War research? Questions abound crying out to be answered.

Why are so few people aware of the fact that the Marshall Plan is still at work in Austria? How so? In 1962 the U.S. government transferred more than 11 billion Austrian Schillings from its Marshall Plan counterpart accounts to the newly established ERP-Fund (*ERP-Fonds*). This federal government agency was set up in the Federal Chancellery to continue giving low interest loans to state-owned businesses and small and middle-seized private businesses. Over the past 35 years more than 210 billion Austrian Schillings in low-interest loans have been poured into the capital-starved Austrian economy.⁵ It is hardly known that the Marshall Plan has had unique longevity in Austria and is still at work today. Only the West German *Kreditanstalt für Wiederaufbau*, initially also seeded with ERP-counterpart dollars, is a comparable financial investment institution with a similar record of long-term- economic importance in the history of its nation as the *ERP-Fonds* has been having for Austria.⁶

The Center for Austrian Culture and Commerce at the University of New Orleans (CenterAustria) organized a scholarly conference in early May 1998 in New Orleans to answer some of these questions.

This meeting aimed at commemorating the “golden” anniversary of the Marshall Plan in Austria as well as surveying the state of current Austrian Marshall Plan scholarship and identifying important research lacunae in a comparative Western European perspective.⁷ The model were previous conferences on Germany and France in a comparative Western European perspective, which explored both the macro- and microeconomic impact of the Marshall Plan.⁸ While the political context of the Marshall Plan in Austria and the most important macroeconomic issues had been addressed by previous Austrian Marshall Plan research, sectoral case studies of important branches of the Austrian economy benefitting from the Marshall Plan have been sorely missing. Some sectors like the paper and chemical industry, and individual case studies of well-known Austrian private businesses like the *Fischer* ski company in Upper Austria, or numerous hotels and ski resorts around Western Austria, getting started or taking off with ERP-counterparts, could not be covered in this meeting. In a similar vein, the *Americanization* of Austrian business practices through American management training courses or by entrepreneurs visiting the U.S. on inspection tours, are important lacunae in Marshall Plan research.⁹ Similarly, the effects of the American enforced trade embargoes on Austria’s traditional East-West trading patterns needs to be studied.¹⁰

The volume starts out with the **economic legacy** of the Marshall Plan. Ferdinand *Lacina*’s keynote address leaves no doubt about the crucial importance of the Marshall Plan for postwar Austrian economic reconstruction. Lacina has distinguished himself by holding many top-level positions in the Austrian government (at one point overseeing the *ERP-Fonds*) and serving as Austrian finance minister longer than anyone in the postwar Second Republic. Kurt *Löffler* and Hans *Fußnegger* present a detailed history of the contributions of the *ERP-Fonds* in Vienna since the ERP-counterparts were transferred to the Austrian government in 1962. They provide a vital statistical service to Austrian Marshall Plan research by updating the ERP-funds invested into the Austrian economy until 1998.

The two main sections of the volume cover the **political** and the **economic** aspects of the Marshall Plan in Austria. The **political** section starts with two essays that show the difficulties of implementing the ERP in Austria, with the Soviets participating in the quadripartite occupation, and the highly precarious geopolitical location at the iron curtain. Dieter *Stiefel*’s and Ingrid *Fraberger*’s contribution subtly analyzes the Austrian perception of the Soviet Union as “enemy” in

the context of the postwar Austrian politics of rabid anti-communism. They also summarize the huge Soviet economic exploitation and the reparations taken from postwar Austria. The Austrian shock and surprise about Soviet rapacity is the important counterpart to the great mass appeal of America and U.S. generosity at this time.¹¹ Andrea Komlosy shows how the Iron Curtain painfully sundered apart old Austrian-Czechoslovak border regions that had interacted and traded for centuries. This is a rare case study of the negative effects of the Marshall Plan on specific East-West border regions. The Marshall Plan completed the division of Europe which the Soviets had started with building their security zone in East Central Europe. Jill *Lewis* and Matthew Paul *Berg* look at the repercussions of the Marshall Plan on Austrian politics and identity. Siegfried *Beer's* essay begins to answer some of the questions about the secret involvement of the CIA in funding labor unions to protect them from and fortify them against Communist influence. Hans-Jürgen *Schröder's* analysis of the intensity of Marshall Plan publicity and propaganda demonstrates that the battle for the "hearts and minds (and stomachs)" of the Western Europeans was a vital aspect of the American politics of anti-communism in the early 1950s. The Marshall Plan recipients were constantly reminded that the growing productivity of their economies and increasing prosperity of their citizens were direct results of American Marshall Plan largesse. Schröder also for the first time ventures a brief summary of the Austrian historical memory of the Marshall Plan.¹²

Hans *Seidel* begins the **economic** section with his sweeping survey of the economic impact of the ERP on the postwar political economy and the constant struggle of Austrian economic planners and policy makers to meet the American expectations.¹³ Seidel uniquely informed analysis benefits from his insider's expertise — as a young economist he worked in the Austrian Marshall Plan administration himself; he later joined the prestigious *Institut für Österreichische Wirtschaftsforschung*, and in the Kreisky 1970s was involved in setting Austrian economic policy as a State Secretary in the Finance Ministry. Kurt *Tweraser*, Georg *Rigele* and Günter *Bischof* complement Seidel's macroeconomic perspective with sectoral case studies on the over-seized state-owned electrical power and steel sectors, as well as the private tourist industry. Rigele fascinating portrait of the completion of the gigantic Kaprun power plant with ERP-counterparts demonstrates how the Marshall Planners made Kaprun into the TVA of Austria — the symbol of **modernization through electrification** of all

branches of the Austrian economy (including agriculture).¹⁴ Tweraser's analysis of postwar bureaucratic jockeying over whether to salvage the huge Nazi-built Linz steel complex with ERP counterpart funds also suggests the intense postwar debates about which direction the Austrian economy should take — focus on state-owned heavy industry, or the traditional private luxury/consumer industries? The complex Austro-American decision-making process about what sectors in the capital-starved Austrian economy should benefit from the bulk of ERP-counterpart funds, would determine the future long-term direction of the Austrian economy. Like the steel sector, the tourist industry's battle for inclusion in the bounty of counterpart investment funds represents another case study of these postwar bureaucratic battles, often tinged by intense partisanship, in the Vienna power centers. In an uphill battle, the conservative People's Party (ÖVP) favored the private sector in its jockeying for Marshall Plan funds, while the Socialist Party (SPÖ) preferred enhancing the state sector, which would become one of its postwar power bases. The intensity of these battles was usually directly proportionate to this partisan political posturing within the all-powerful postwar Austrian coalition government.¹⁵

At the end of this section, Wilhelm *Kohler*, empirically rich econometric analysis, compares the American aid transfers to Europe in the Marshall Plan era to the projected costs of EU-budgetary transfers to the potential newcomers from East-Central Europe ready to join the European Union in the next round of *enlargement*. Kohler demonstrates that the broad political resistance against such enlargement in Austria and elsewhere due to the expected financial costs is much exaggerated. The *per capita* costs of EU-Eastern enlargement would be much less than what the Americans poured into postwar Western Europe. Such well-informed comparisons of the past with the present can indeed teach valuable lessons.

This volume also features **non-topical essays** by younger scholars who are completing dissertations that will make valuable contributions to the respective historiographical debates. Alexander *Lassner*, a young American with Austrian parentage, revisits the Anschluss era, one of the most contested terrains of Austrian historiography. He adds new documentation to the age-old debate about Austria's military preparedness and strength in March 1938 at the time of the Nazi-invasion. An abbreviated version of Martin *Kofler's* University of New Orleans M.A. thesis is also published here. Kofler looks at the fall 1960 Austro-Soviet Vienna Summit and shows how Khrushchev tried to

utilize Austrian diplomatic mediation in East-West tensions over Berlin. Review essays, book reviews and the annual survey of Austrian politics complete this volume.

It should be noted that most of the original Marshall Plan conference essays in this volume were first published in a German conference volume appearing only half a year after the New Orleans meeting.¹⁶ This English version however is not entirely identical with the original German one. The essays by Berg and Beer—both delivered at the conference—are published for the first time here and were not included in the German volume. Oliver Rathkolb and Anton Pelinka contributed their conference essays to the German volume and are not reprinted in this volume.¹⁷ The Stiefel/Fraberger essay here is considerably expanded with its first section on the traditional Austrian “enemy image” of the Soviet Union, while other essays like Bischof’s and Schröder’s are only slightly altered and updated.

At the end the pleasant duty remains to thank a number of people and institutions for helping to make the conference an intellectual treat and a memorable success and to shepherd this big volume towards publication. First and foremost the generosity of the *ERP-Fonds* in Vienna must be gratefully acknowledged. Its directors Kurt Löffler and Hans Fußenegger not only recognized the necessity to celebrate the 50th Anniversary of the Marshall Plan with a ceremony in Vienna in 1997—the only official Marshall Plan remembrance in Austria. They also saw the need to assess the importance of the ERP and the *ERP-Fonds* with a scholarly conference. They both graced the meeting in New Orleans with their presence. Hansjörg Gruber was a constant source of help and inspiration at the *ERP-Fonds* and Mr. Penninger was kind enough to help establish the initial contacts there. We are also grateful to the Schumpeter Society in Vienna and the Austrian Cultural Institute in New York for their financial support of the conference. Peter Mikl was our congenial partner at the Cultural Institute. Metro College of the University of New Orleans and the University of Innsbruck kindly supported the meeting out of their annual UNO-Innsbruck symposium budget. Dean Robert Dupont and Gordon “Nick” Mueller, the Director of CenterAustria, as well as Franz Mathis, the coordinator of the UNO friendship treaty in Innsbruck, were instrumental in helping to make the conference a success.

The meeting in New Orleans would not have happened without the tremendous hard work of Martin Kofler and Sabine Schaffer, two Innsbruck graduate students at UNO in 1997/98. Their precision

planning and enthusiasm infected all conference participants. Anne O'Herren Jacob of UNO Metro College Conference Services was helpful as always. Gertraud Griessner's savvy management of Center Austria has been invaluable in preparing the conference and completing this volume. She has quickly become indispensable to the well-being of CenterAustria. We are also grateful to David Ellwood (Bologna) for presenting the opening lecture at the New Orleans conference. Franz Mathis (Innsbruck), Herbert Matis (Vienna), David Good (Minneapolis/MN), and Reinhold Wagnleitner (New Orleans/Salzburg) took time out from their busy academic schedules to attend the conference as expert commentators, adding immeasurably to the scholarly integrity of the meeting. Our distinguished colleagues Radoimir Luza and Hermann Freudenberger, both professors emeriti from Tulane University, chaired sessions and added their wisdom in all things Austrian. The conference speakers, whose essays are published here, deserve our most sincere appreciation for their scholarly efforts and discipline in submitting their essays on time.

During the time of the conference Günter Bischof was a guest professor at the University of Salzburg. He would like to thank his students there for the warm welcome. Marianne Dirnhammer not only went out of her way to help track down rare books and provide secretarial support in completing his essay in this volume, she also adopted his entire family. Josef Ehmer, Sylvia Hahn, Fritz Gottas, Christian Dirninger and Robert Hoffmann warmly welcomed him as a colleague.

This volume has severely strained our resources that go into the making of the *CAS* series. Its seize would not have been feasible without the financial contribution of the *ERP-Fonds* in Vienna and the enthusiastic help of *Messieurs* Löffler, Fußenegger and Gruber. Anton Fink has shown again that old friendship can go beyond the call of duty. His help in securing the financial support of the Bank Gutmann Nfg. AG in Vienna is sincerely appreciated. Our experienced production team worked incredibly long and hard to complete this volume. In New Orleans Jennifer's Shimek's high standard in carefully copy-editing more than 20 manuscripts kept us going. The 1998/99 graduate students from Innsbruck Günther Walder (who had already helped with volume 5 of *CAS*) and Daniela Kundmann spent countless hours re-typing and correcting manuscripts, tracking their completion and helping with proof-reading. In Innsbruck Ellen Palli did the lion's share of staying atop of the organizational work, correcting manu-

scripts, and type-setting the final version of this volume. Her heroic efforts in the end prevailed against all odds.

Authors, sponsors and the production team are all proud to have gone to such length to “build” this scholarly “monument” as a fitting tribute to the memory of the Marshall Plan in Austria and as an Austrian token of gratitude to the people of the United States. Each and every American contributed 80 dollars to the European Recovery Program in those memorable postwar years. Such extraordinary generosity, it should not be forgotten, is extremely rare in the annals of humankind.

Larose, Louisiana, May 1999

While correcting the proofs of this volume, word of the sudden death of my colleague, mentor and friend Joe Logsdon shattered the tranquility of my parents’ home in Mellau/Vorarlberg. As chairman of the UNO History Department during part of the 1980s, Joe Logsdon was one of the early protagonists who shaped student and faculty exchanges with the University of Innsbruck. In the spirit of the Marshall Plan he was a visionary of European-American academic exchanges and dialogue. He attended the conference in New Orleans and would have been pleased to see this volume in print, which is dedicated to this memory.

Notes

1. See the special commemorative session “The Marshall Plan and its Legacy,” *Foreign Affairs* 76 (1997): 159-221. For similarly extravagant praise, see the section on the historical memory of the Marshall Plan in the Schröder essay of this volume.
2. Wilfried Mähr, *Der Marshall Plan in Österreich* (Graz: Styria, 1989); Günter Bischof, *Austria in the First Cold War 1945-55: The Leverage of the Weak* (Basingstoke: Macmillan 1999), 78-103.
3. Next to the *ERP-Fonds* (see below), the notable exception was Austrian public radio, which did not forget. The brainy channel *Ö-1* played a four-part documentary on the Marshall Plan in late May 1997, researched by the young Salzburg historian Ewald Hiebl. The Vienna cultural historian Wolfgang Kos, with the expert advice of Georg Rigele, produced a two-hour special in the “*Diagonal*” program on 31 May 1997.
4. See, for example, the publications emanating from such commemorative conferences in the Netherlands and Germany: Hans H.J. Labohm, ed., *The Fiftieth Anniversary of the Marshall Plan in Retrospect and in Prospect: Report of the Seminar organised by The Clingendael Institute in cooperation with the*

Netherlands' Atlantic Commission, The Hague, 15-16 May 1997; Haus der Geschichte der Bundesrepublik Deutschland, ed., *50 Jahre Marshall-Plan* (Berlin: Argon 1997). In November 1997 Oslo University in Norway organized a conference on the small nations participating in the Marshall Plan; to date no conference volume has appeared. For the fiftieth anniversary of Marshall's speech at Harvard the prominent *Süddeutsche Zeitung* in Munich published a series of essays on the significance of the Marshall Plan by prominent politicians, entrepreneurs and historians, which are now conveniently published in Hans-Herbert Holzamer and Marc Hoch, eds., *Der Marshall-Plan: Geschichte und Zukunft* (SZ-Aktuell) (Landsberg/Lech: Olzog, 1997).

5. For background, see ERP-Fonds, ed., *25 Jahre ERP-Fonds 1962-1987* (Vienna, 1987). For the 210 billion Schillings in investment loans, see the Löffler/Fußenegger essay in this volume, which updates the statistics of this commemorative volume.
6. Heinrich Harries, *Wiederaufbau, Welt und Wende: Die KfW—eine Bank mit Öffentlichem Auftrag* (Frankfurt am Main: Fritz Knapp Verlag, 1998)
7. The state of Austrian Marshall Plan scholarship and the specific lacunae are discussed in Günter Bischof, "Der Marshallplan in Österreich," *Zeitgeschichte* 17 (1990), 463-74, and now updated in *idem*, "Zum internationalen Stand der Marshallplan-Forschung: Die Forschungsdesiderata für Österreich," in *Zeitgeschichte im Wandel: 3. Österreichischer Zeitgeschichtetag 1997*, ed. Gertraud Diendorfer, Gerhard Jagschitz and Oliver Rathkolb (Innsbruck: StudienVerlag, 1998), 61-72. For an essay on the comparative Western European perspective see *idem*, "50 Jahre Marshall-Plan in Europa 1947-1952," *Aus Politik und Zeitgeschichte* B22-23 (23 May 1997): 3-17.
8. Charles S. Maier and Günter Bischof, eds., *Deutschland und der Marshallplan* (Baden-Baden: Nomos, 1992); Comité pour l'Histoire Economique et Financière de la France, eds., *Le Plan Marshall et le relèvement économique de l'Europe* (Paris, 1996); see also Hans-Jürgen Schröder, ed., *Marshallplan und Westdeutscher Wiederaufstieg: Positionen - Kontroversen* (Stuttgart: Franz Steiner, 1990), and Gerd Hardach, *Der Marshall Plan: Auslandshilfe und Wiederaufbau in Westdeutschland 1948-1952* (Munich: dtv, 1994). For additional country case studies, see also Richard T. Griffiths, ed., *Explorations in OEEC History* (OECD Historical Series) (Paris: OECD, 1997).
9. Andre Pfoertner is completing a PhD dissertation in this area with Professor Stiefel at the University of Vienna. For the Americanization of West Germany business, see Volker R. Berghahn, *The Americanization of West German Industry, 1945-1973* (Oxford: Berg, 1987); *idem*, "West German Reconstruction and American Industrial Culture, 1945-1960," in: *The American Impact on Postwar Germany*, ed. Reiner Pommerin (rev. ed. Providence, RI: Berghahn Books, 1997), 65-81.
10. For a beginning, see Arno Einwitschläger, *Amerikanische Wirtschaftspolitik in Österreich 1945-1949* (Vienna: Böhlau, 1986).
11. For the irresistible American mass appeal in postwar Austria, see Reinhold Wagnleitner, *Coca-Colonization and the Cold War: The Cultural Mission of the United States in Austria after the Second World War*, transl. Diana Wolf (Chapel Hill: North Carolina University Press, 1994).

12. On the memory of the Marshall Plan in Germany, see also Hans-Jürgen Schröder, "50 Jahre Marshall Plan in Deutschland," *Aus Politik und Zeitgeschichte* B22-23 (23 May 1997): 18-29; on Marshall Plan propaganda in Austria, see also Christiane Rainer, "Der Marshall Plan: Ein Werbefeldzug? Über den Umgang mit Filmquellen in der Zeitgeschichte," M.A. Thesis, Univ. of Vienna, 1999, also available as a "working paper" on the CenterAustria Homepage Centeraustria.uno.edu.
13. See also Hans Seidel, "Österreichische Stabilisierungspolitik 1951/53," in: *Von der Theorie zur Wirtschaftspolitik - ein österreichischer Weg: Festschrift zum 65. Geburtstag von Erich W. Streissler*, ed. Franz Baltzarek, Felix Butschek and Gunther Tichy (Stuttgart: Lucius & Lucius 1998), 267-300. Hans Seidel is working on a larger study of postwar Austrian economic reconstruction.
14. See also Georg Rigele, "Kaprun: Das Kraftwerk des österreichischen Wiederaufbaus," in *Inventur 45/55: Österreich im ersten Jahrzehnt der Zweiten Republik*, ed. Wolfgang Kos and Georg Rigele (Vienna: Sonderzahl, 1996).
15. Kurt Tweraser has been a pioneer in applying the bureaucratic approach to Marshall Plan politics in Austria, see his "The Politics of Productivity and Corporatism: The Late Marshall Plan in Austria, 1950-54," *Contemporary Austrian Studies* III (1995): 91-115.
16. With prefaces by Austrian Chancellor Victor Klima and the American Ambassador to Austria Kathryn Walt Hall, see "*80 Dollar*": *50 Jahre ERP-Fonds und Marshall-Plan in Österreich 1948-1998*, ed. Günter Bischof and Dieter Stiefel (Vienna: Ueberreuter 1999).
17. Oliver Rathkolb, "Der ERP-Fonds und Optionen zur Transformation der österreichischen Wirtschaft nach 1953," and Anton Pelinka, "Der Marshall Plan und die österreichische politische Kultur," *ibid.*, 103-10, 249-60.

I. ECONOMIC LEGACIES

The Marshall Plan—A Contribution to the Austrian Economy in Transition

*Ferdinand Lacina**

One of the aims of the New Orleans Conference on Austria and the Marshall Plan was to gather and disseminate information on the impact the Marshall Plan had on the economic, social and political performance of Austria, a topic hitherto rather neglected by historians. I wondered whether I would be able to make a valuable contribution to this discussion, as I am neither an eye-witness to the implementation of the European Recovery Program, nor am I a historian. Rather I am a former politician with some background in economics.

I would like to provide evidence of the long-lasting influence the Marshall Plan exerted in two areas. On the one hand there is the structural development of the Austrian economy, especially its drive for productivity. On the other hand, the Marshall Plan inspired Austrian discussions on development cooperation and the economic and social development in Europe itself.

In its first year (in 1948/49) the Marshall Plan contributed 14 percent to the Austrian national income. According to OECD statistics, the direct aid under this scheme reached an amount of almost \$ 100 *per capita* in Austria. Only Iceland and the Netherlands benefitted from higher *per capita* transfers.

The Marshall Plan employed a recovery strategy which was comprised of three stages. Initially in 1948/49 the Marshall Plan offered direct aid; almost half of the deliveries in the first year consisted of food, a quarter was raw materials. The second stage of the

* This contribution was the keynote address in the New Orleans Marshall Plan conference.

Plan in 1950/51 was devoted to the reconstruction and adaptation of basic industries, such as steel, chemicals, pulp and paper, non-ferrous metals, and electric energy. In the third stage, 1952/53, manufacturers of finished products and export goods, as well as the tourism industry were the main recipients of aid.

There is almost no sector of the Austrian economy which has not been positively affected by Marshall Plan aid. The rebuilding of railways, bus systems, streets and bridges, agriculture, and housing programs were key ingredients of infrastructure reconstruction.

Doubtless, the economic impact of the Marshall-Plan on postwar Austria was significant, but one should not forget about the political and the social consequences of this program. Austria was a special case in the context of the European Recovery Program (ERP). It was the only recipient country which was partly occupied by Soviet troops. The Soviets controlled a large part of the capital Vienna, and the eastern part of the country. The Soviet zone was confronted with two handicaps: one was the reluctance of private firms to invest in this region; the second was the fact, that the Soviets controlled a large part of manufacturing and oil production in their zone, former "German Property" according to the Potsdam treaty.

This division of Austria into the occupation zones of the Western allies and the Soviet zone was, therefore, not just a threat to the political integrity of Austria. These two economic handicaps could easily have led to a social partition of the country, so it was of utmost importance that the Soviet-controlled part of Austria was not excluded from direct aid. Ironically, U.S. taxpayer's money was thus invested in a region controlled by Soviet troops, and this in the hottest phase of the Cold War.

The fascinating idea of a revolving "counterpart" fund to support economic growth and to improve productivity is, of course, to produce a lasting impact of a once accomplished capital transfer. Up to the present time, the Marshall Plan funds play an important role in Austria's capital formation process. During the last years, between 15 and 20 percent of investment in manufacturing industries were credits financed by funds from the *ERP-Fonds*. Moreover, there exists no skiing resort in Austria which has not been supported by credits either for ski lifts or hotels; there are few farmers who have not received loan at low interest rates.

The concept of the Marshall Plan aid influenced the political debate in Austria in many ways. Bruno Kreisky, Austria's Federal

Chancellor from 1970 to 1983, proposed a Marshall Plan for the developing countries as early as 1958. He spoke before an international seminar for diplomats

“about the urgent problem which has to be tackled during the next decade, granting aid to developing countries. We have the task of offering aid to the many, many millions of people in Asia and Africa, living below the minimum standards of nutrition. We have to take into account that such an extensive aid program, vividly discussed in many circles of the population, cannot be accomplished without the will and consent of our people. We will need a lot of persuasive power to make the people in the democratic countries understand that they should sacrifice part of their wealth in favor of those people who still are not in the position to buy the goods they are in urgent need of. This is the significance and uniqueness of the Marshall Plan, that the American people in 1948 were determined to make such a gigantic sacrifice.”

The idea of the Marshall Plan as an instrument to initiate economic growth and increase productivity in Third World countries was one of the major concepts of Bruno Kreisky pursued throughout his political life. In an attempt to bring about a North-South dialogue on the highest level, he organized—together with President Echeveria from Mexico—the summit of Cancun in 1981, a remarkable gathering of heads of state and governments from the North and the South, among them the newly-elected U.S. President Ronald Reagan. Unfortunately, Chancellor Kreisky could not be present at the meeting himself because of a severe illness. It is useless to speculate what could have been the outcome of such a meeting if he had been able to participate, whether the concept of the Marshall Plan in the North-South context might ever have been realistic scheme. Kreisky himself wrote five years later, “I did not find many friends for this ‘Marshall Plan for the Third World,’” but he remained optimistic, still believing the “European Recovery Program had some mechanisms which are quite useful to think about even today. Of course they have to be adapted to the conditions of each country.” Despite Kreisky’s views, the discussion of development theory and especially development policy looked for new models; the so-called “tigers” of Southeast Asia became more and more the paradigm of successful development. Maybe, now that the Southeast Asia bubble has burst, economists will

look for new models again. One of these “new” models celebrated its fiftieth anniversary in 1998.

The Marshall Plan played a certain role in the discussion of the transition from centrally planned to market economies. The former German chancellor Helmut Schmidt firmly advocated a common European and U.S. initiative along the lines of the European Recovery Program. Albeit in this case, too, an unadulterated market doctrine has prevailed over a more gradual approach supplemented by substantial capital transfers, following the pattern of the Marshall Plan.

In the end, the effect of the Marshall Plan on the development of Western Europe needs to be pointed out, which has almost been forgotten in Austria. It was again the former Austrian chancellor Bruno Kreisky who, in a speech before Labor Union functionaries in 1959, pointed to the fact

that it was the whip of the dollar which we all in Europe needed, the whip which drove us back from the jungle of bilateralism to multilateralism. It was the pressure of the Americans in the OEEC, an organisation created by them, the organisation for the economic cooperation among the Marshall Plan countries, which induced the countries benefitting from Marshall Plan-funds to cooperate systematically in the economic field.

There is no doubt that Western European multilateralism, initiated by the European Payments Union and continued in the OECD, paved the way towards European integration. What we now see in Europe—the formation of a European economic and monetary union—was initiated by some farsighted politicians in the United States and in Europe and was supported by the American taxpayer. Today we look with gratitude at the impressive results of an idea, born in the United States, more than fifty years ago.

The Activities of the ERP Fund from 1962 to 1998

*Kurt Löffler and Hans Fußenegger**

The Founding of the ERP Fund

General Remarks

The years 1961 and 1962 marked a decisive turning point in connection with Marshall Plan aid for Austria—due to the conveyance of sole power of disposal over ERP funds from the American to the Austrian government, and as a result of the creation of the ERP Fund. The definitive founding of the ERP Fund occurred in 1962 with the passage of the ERP Fund Act. Before this legislation could be put into law, however, the power of disposal over ERP funds, which had been held by the American government since the initiation of Marshall Plan aid to Austria in 1948, had to be conveyed to the Austrian government. This took place within the framework of the ERP Counterpart Settlement in 1961, signed on March 29, 1961 in Vienna by Austrian Chancellor Julius Raab and US Ambassador Freeman Matthews. This Counterpart Agreement was preceded by an exchange of notes between the US and Austria, which was considered a supplementary understanding of the two governments and took effect simultaneously with the ERP Counterpart Settlement.

This agreement established that the Counterpart funds were to be managed as a legally independent, extra-budgetary fund, and were to continue to be used to support economic development in Austria.

This ERP Counterpart Settlement of 1961 (including the supplementary exchange of notes) thus constituted the precondition for and, at the same time, the basis of the ERP Fund Act (BGBl. Nr.

* Translated from the original German by Mel Greenwald

207/1962), which was passed by the Austrian government on June 13, 1962 and became law on July 1, 1962.

The Implementation of the ERP Fund Act in 1962

During the months subsequent to this law having gone into effect, the funds to which the ERP Fund thus became legally entitled were transferred to its accounts at the Austrian National Bank. After this transfer was completed, the assets which the ERP Fund had at its disposal totaled approximately 11.2 billion Austrian Schillings (öS). These funds were divided into two separate endowments: one of about öS 5.66 billion managed by the ERP Fund itself and a second one of about öS 5.55 billion administered by the Austrian National Bank and over which the ERP Fund retained power of disposal.

In July 1962, in accordance with the provisions of the ERP Fund Act, the federal government approved the first ERP annual program, and named the members of both the ERP Credit Commission and the individual expert commissions. Moreover, the fiscal provisions which were to apply to the ERP Fund were established, as specified in the Act, by agreement with the Bureau of Audits and the Ministry of Finance, and the ERP Fund's system of accounting was instituted, whereby the Fund's financial assets and liabilities were set up in accordance with the principles of double-entry bookkeeping. The trustee agreements called for by the Act were also concluded with the authorized credit institutions over the next few months.

The Most Important Provisions of the ERP Fund Act

The legal provisions in the ERP Fund Act make it quite clear that the most important aspects of the ERP Fund's mission include implementing its credit policy in a way that supports state economic policies, as well as insuring the preservation of its capital through prudent management of the Fund's assets.

The tasks and responsibilities of the ERP Fund are set forth in Paragraph 1 of the Act. According to § 1, Sec. 2, the ERP Fund's mission is "... to further the expansion, increased efficiency, and greater productivity of the Austrian economy, especially by supporting and stimulating production and commerce, and also thereby to promote full employment and increasing GNP, though with full cognizance of the importance of maintaining a stable currency."

In keeping with these provisions, the ERP management has until April of each year to produce an annual program including basic principles underlying its guidelines governing individual ERP programs for the upcoming fiscal year, and to present this to the federal government (also see § 10).

According to § 4, Sec. 1 and 2, the ERP Fund is obliged to "... manage its assets in accordance with sound economic principles" and, aside from certain express exceptions enumerated in the Act, is "... forbidden to expend funds or to engage in activities which would continually diminish the Fund's assets." Furthermore, according to § 4, Sec. 3, the ERP Fund is forbidden to turn over funds to regional or local authorities, and the fund has to be managed separately from the general budget (§ 4, Sec. 4). As a result of these last two provisions, which had already been stipulated in the Counterpart Agreement, ERP funds could no longer be dispensed to regional and local authorities or paid out as supplementary cash subsidies, which had been possible previously.

The way in which the ERP Fund was to go about fulfilling these tasks is likewise stipulated in the Act. In concrete terms, the types of loans which the ERP Fund is permitted to make are exhaustively described in § 5. According to § 5, Sec. 1, the ERP Fund may grant "... only medium and long-term, interest-bearing investment credits secured by collateral." These investment credits can be granted in three categories: large (öS 500,000 and up), middle-sized (öS 100,000 - 500,000) and small (öS 10,000 - 100,000). In addition, the ERP Fund may make so-called "miscellaneous outlays" (e.g. economic grants-in-aid to developing countries to facilitate Austrian exports to them), whereby the conditions enumerated in § 4 must be taken into consideration; these are governed by § 5, Sec. 2.

The few small credits that have been granted since the establishment of the ERP Fund were, above all, those made to farming operations in the 1950s. The number of middle-denomination credits has also declined over the years; at present, such loans are made only on rare occasions and exclusively in the non-industrial sector of the economy (agriculture and forestry, tourism, and transport). In the industrial, commercial, trade and energy sectors, ERP middle-sized credits were still relatively significant funding sources during the early years; the number of such credits declined constantly in the 1970s and especially in the 1980s. For this reason, middle-denomination credits were ultimately done away with completely for this sector of the

economy in the context of the ERP Fund reform in mid-1985. Since then, only large loans have been made to industrial and commercial enterprises.

The ERP Fund Act also contains special provisions stipulating the organizational structure of the fund (in §§ 6-9), the process of granting credits (in §§ 14-19), as well as the details of pay-out, pay-back and the control procedures (in §§ 20-21).

The personnel of the ERP Fund consists of its administrators who represent the Fund and carry on its business, and the members of the ERP Credit Commission who decide on loan applications submitted to the Fund. It had already been established in § 8, Sec. 2 of the ERP Fund Act that the decision on applications "... in the tourism, agriculture, and forestry sectors as well as in the transport sector ... would be delegated ... to a separate commission of experts." Thus, there are a total of three commissions—an ERP Credit Commission and two expert commissions—legally authorized to decide on the issuance of ERP credits. The federal government appoints the members of these commissions, including 12 members of the ERP Credit Commission and six members of each expert commission (a representative of the ERP Fund as well as a representative of the federal ministry with jurisdiction in the particular sector also sit on each expert commission). The federal government is responsible for overseeing the fund; its affairs and financial condition are subject to examination by the federal Bureau of Audits.

In connection with the process of granting ERP credits, so-called "authorized credit institutions," also known as trustee banks, play a central role. To some extent, the Fund makes use of banking institutions to fulfill its responsibilities and to complete credit transactions. The various parties' rights and obligations are clearly spelled out in the so-called trustee agreements. For the services rendered, the trustee banks receive fees as established by contract.

Basically, any Austrian bank with a certain minimum size and clientele—and, since Austria became an EU member, any such bank headquartered in an EU-member state—can apply for trustee bank status.

According to §§ 14-19 of the ERP Fund Act, all applications for an ERP credit are to be submitted through a trustee bank, with the exception of credit applications from the transport sector which are to be submitted directly to the Ministry of Science and Transport. The trustee bank's job is to review the application and to forward it along

with all supporting documentation and its evaluation to the ERP Fund with the request for a determination within the framework of a specific ERP program. In the case of applications that lay within the purview of the ERP Credit Commission (i.e. the industrial/commercial sector), the next step is a comprehensive examination of the submitted investment project by the ERP management staff in conformity with the guidelines in effect for the particular ERP program—in concrete terms, there is an assessment of the project's economic impact, business prospects, and financial feasibility, the latter in a joint investigative committee including representatives of the Austrian National Bank and the Ministry of Finance. In the case of applications that lay within the field of activity of an expert commission (i.e. the tourism, agriculture, and forestry sector, and the transport sector), the assessment of the project's economic impact, business prospects and financial feasibility is the responsibility of the appropriate ministry. The result of this investigation is a proposal to grant an ERP credit (or to deny it), which is then submitted to either the ERP Credit Commission or the appropriate expert commission for a decision. Thus, the law grants the ERP Credit Commission or the particular expert commission authority in reaching a final verdict on an application.

The ERP credit agreement does not directly involve the ERP Fund, but rather is consummated by the trustee bank and the borrower. The basis of this ERP credit agreement is the so-called credit approval declaration which is conveyed by the ERP Fund to the trustee bank which submitted the application. Actually dispensing funds in conjunction with an ERP credit takes place in step-by step-fashion as the credit recipient substantiates having made the approved investment (substantiation of use).

The pay-out of the ERP credit is made through the trustee bank in accordance with general provisions in the trustee agreement as well as specific provisions in the credit approval declaration.

Notwithstanding the oversight duties of the trustee banks, the ERP Fund itself is also entitled to conduct on-the-spot checks of the use of ERP credit funds, as well as of the recipient's compliance with the conditions imposed by the ERP credit agreement.

Activities of the Fund from its Inception to the ERP Fund Reform in 1985

General Remarks

In all major industrial states over recent decades, the furtherance of private investment activities with the objective of exerting an effect on their level and structure has assumed—alongside public sector infrastructure investments—a central role within the framework of a state's economic policies.

In this connection, Austria possesses a highly developed system to promote investment including both direct and indirect mechanisms. Among the indirect means of furthering investment are various forms of preferential tax treatment; the direct means include providing supplementary outlays, offering loans or credits at below-market interest rates, as well as officially guaranteeing repayment.

Within the context of the direct promotion of investment, a further differentiation can be made with regard to the types of policies used, which essentially can have either an offensive or a defensive structure. An offensive policy structure is understood primarily as the attempt to accelerate the structural transformation of an economy, particularly through support of innovation and diffusion of technology. With the exception of the early 1970s, there have hardly been instances of the use of policies to promote investment as an instrument to moderate business cycle fluctuations.

From a structural policy perspective, promotion of investment thus also serves to compensate for imperfections of the market—as a corrective for inefficient financial markets or as a “reward” for making investments associated with positive external effects.

The ERP Fund's Policies During this Period

In actual practice, the goal which the ERP Fund set during this period was primarily to pursue an offensive structural policy (though with exceptions mentioned below) and to fortify the economic strength and international competitiveness of Austrian enterprises by supporting modernization, innovation, diffusion of technology, expansion of productive capacity, and the restructuring of various economic sectors. This agenda was meant to enable the Austrian economy to approach the level of the industrially developed states. To reach this goal, guidelines were established for each respective economic sector within the

framework of the ERP annual program and its fundamental principles established for individual areas of the economy.

With regard to the worthiness of particular projects to be fostered and promoted, foreign trade considerations—export orientation, import substitution—as well as employment policy aspects—furthering job security or job creation—have played a key role from the very outset. Moreover, promotional guidelines also took into consideration environmental and energy policy aspects, as well as those related to furthering economic competition. Over the years, policies related to fostering individual regions of the country have also been increasingly integrated into the design of ERP programs.

There was only one significant deviation from this offensive structural policy approach. This was in the fiscal year 1972/73, when it was decided to pursue a policy of economic stabilization in order to dampen the business cycle boom prevailing in Austria. Approximately a third of the planned ERP credit budget was not distributed at that time, but rather was “put on ice” for an indeterminate period of time. These ERP funds were ultimately paid out during the fiscal year 1974/75, when the Austrian economy was in a recession and these funds were desperately needed to stimulate the economy (the section on the development of the ERP credit volume discusses this in greater depth).

As previously mentioned, the ERP annual programs are approved each year by the federal government. Thus, a simple mechanism is in place to enable a flexible reaction to current economic policy demands (prevailing conditions). This potential flexibility has been employed above all in connection with the pursuit of special regional policy objectives (discussed in greater detail below). Thus, several of the ERP’s special regional programs were instituted as essentially long-term programs (e.g. for the Voitsberg coal mining area), even though they had to receive purely *pro forma* approval from the government over and over again every year. Others, however, were instituted to be able to manage a suddenly-emerging crisis as rapidly as possible (e.g. the short-term ERP special program for the Kirchdorf/Krems district, a situation triggered by the bankruptcy of the Eumig Co. and the skyrocketing unemployment it caused in that area).

Furthermore, since the very beginning of its activities of granting credits and in light of the limited means at its disposal, the ERP Fund has pursued a policy of focusing on those economic sectors which seemed most suited to achieving the objectives established in the ERP

Fund Act (strengthening the Austrian economy in general, with particular concentration on foreign trade and employment considerations). Accordingly, even as early as the 1962/63 fiscal year and throughout the period up to 1985 as well, support was provided to the following sectors of the economy: companies engaged in industrial and commercial production, the energy sector, agriculture and forestry, tourism and shipping/transportation.

The section on the ERP's activities in granting credit to individual sectors of the economy discusses this in greater depth.

The Importance and Development of Fostering Specific Regions

As mentioned above, ERP Fund activities aimed at fostering specific regions have played an increasingly important role particularly since the early 1970s. The economic situation in a number of regions—especially those communities highly dependent on lignite coal mining—led the ERP to begin making the establishment of regional political goals an ongoing component of the Fund's annual program as early as 1966/67, and to institute special programs for certain disadvantaged regions. (Note: the ERP Fund employs a fiscal year ending June 30.) During the period now under discussion (up to 1985), special regional programs were set up only for the industrial and commercial sector. Indeed, in the other sectors supported by the ERP Fund, there existed no such special programs, but regional policy criteria certainly were taken into consideration in granting credits (especially in the area of tourism). Over the years, these regionally-oriented special programs in the productive sector continually expanded both geographically as well as with respect to the ERP credit volume made available for them. (This is discussed in greater depth below.)

The ERP credits granted in conjunction with these special regional programs included especially favorable conditions in order to strongly stimulate investment in these disadvantaged regions (particularly by attracting firms to relocate there). The terms of such ERP credits generally ran up to 15 years, and provided for no repayments during the first five years in some instances. The interest rate during this no-repayment period was 1 percent per annum in the 1970s and 2 percent p.a. during the first half of the '80s. In the repayment period, the interest rate was, as a rule, 5 percent p.a. (During the years 1980/81 to 1982/83, it was 6 percent p.a.) In comparison, conditions for normal credits in the industrial and commercial sector during this period were

as follows: the term was between five and 10 years maximum; the interest rate was generally 5 percent p.a. (6 percent p.a. from 1980/81 to 1982/83); a no-repayment period was generally granted only for a maximum of one year.

The first special regional program was set up for coal mining areas in Styria, Carinthia and Upper Austria and was named the ERP Special Program for Mining Regions. Its declared goal was the creation of new jobs for the surplus workforce in these areas in which coal mining was on the decline because it had ceased to be profitable.

In the 1973/74 fiscal year, the ERP program to foster individual regions was expanded to include an additional structural policy focus. In an effort to do something about the increasing migration away from districts bordering on the Iron Curtain, a series of border areas in Upper and Lower Austria, Burgenland, Styria and Carinthia were declared developmental regions and integrated into the ERP regional support efforts. In addition to the previously existing special program for coal mining areas, a new program—the ERP Special Program to Foster Border Regions—was established to focus on the problems of these areas. In conjunction with this new program, the ERP funds set aside for fostering regional development were increased correspondingly.

During the second half of the '70s and particularly during the first half of the '80s, additional regions—"rust belts," border regions, inadequately developed peripheral zones—were integrated into the ERP program to foster specific regions—for example, in 1977/78 East Tyrol came into the border region program, and was included in the mining region program. In 1980/81, new ERP special programs were established for Upper Styria and Wiener Neustadt-Neunkirchen, regions categorized as older industrial belts currently in decline (the ERP Special Program for the Creation of Industrial-Commercial Jobs in Upper Styria as well as the ERP Special Program for the Creation of Industrial-Commercial Jobs in the Lower Austrian Region of Wiener Neustadt-Neunkirchen).

The funds made available for ERP credits to foster individual regions went hand in hand with the expansion or contraction of the special ERP regional programs which, in turn, depended upon business cycle developments. With the exception of a very few years, the funds made available for ERP credits to foster individual regions rose continuously. Independent of this general trend, though, extraordinarily large sums were used for regional programs in the early 1980s when

the Austrian economy was suffering the effects of an international business cycle downswing as a result of the second oil shock. In the ERP fiscal years 1980/81 to 1984/85, the credits granted within the framework of special ERP regional programs made up more than 50 percent of the ERP's entire credit volume in the industrial and commercial sector, and came to between öS 400 million and öS 500 million each year. (An exception was 1981/82, when this amount was öS 340 million.)

In conclusion, it should be mentioned that because of the tremendous structural political significance of the ERP program to foster individual regions, it was not effected by the general contraction of the volume of ERP credits made available in 1972/73 due to overarching economic stability considerations.

The Development of the Volume of ERP Credits Granted

On July 1, 1962 the ERP Fund began operations with assets of approximately öS 11.2 billion. Although most of these funds were already tied up as a result of credit commitments from previous years, a total of öS 781 million in credits could be granted in that first year to support the Austria economy.

The next year, the total volume of ERP credits made available increased by more than öS 300 million to approximately öS 1.1 billion. Up to 1970/71, the volume of ERP credits granted amounted to between öS 1.1 billion and öS 1.2 billion annually. Of a total planned credit volume of approximately öS 1.3 billion in the 1972/73 fiscal year, öS 426 million were withdrawn in order to curb the overheating business cycle boom. This reduction impacted primarily the industrial and commercial sector in which ERP credit volume of öS 650 million in 1971/72 was cut back to barely öS 260 million in 1972/73. The agriculture and forestry sector was also hit by this reduction (from öS 200 million in 1971/72 to barely öS 165 million in 1972/73). Thus, it was primarily the industrial credits, as opposed to regional and structural programs, that were impacted during this year.

The funds that had then been "put on ice" were subsequently released during the 1974/75 fiscal year, when the Austrian economy was feeling the powerful effects of the oil crisis and had gone into recession. Thus, the volume of ERP credits made available in that difficult year to support projects in the industrial and commercial sector could be nearly doubled in comparison to the previous year. In

concrete terms, ERP credits granted to industrial and commercial firms rose from öS 550 million in 1973/74 to over öS 900 million in 1974/75. (The corresponding figure in 1972/73 had been a “mere” öS 260 million due to the previously mentioned unreleased funds.) The total volume of all ERP credits granted to all sectors to which it provided support could thus be increased to more than öS 1.7 billion. These additional ERP funds which were then released were deployed primarily to support large-scale projects of a regional or structural policy nature.

In the 1975/76 fiscal year, Austria was faced by the worst recession since the end of the Second World War. To provide support for the domestic economy, the ERP Fund made available over öS 1.5 billion in credits. With the exception of the previous fiscal year (and the distribution of previously unreleased funds mentioned above), this sum constituted the largest credit volume in the Fund’s history to that date.

In the years thereafter, the volume of ERP credits made available remained about constant. It was not until the early ‘80s that the volume began to gradually climb, and first reached the öS 2 billion mark in the 1983/84 fiscal year. A table depicting the detailed development of ERP credits granted each year is found in the Appendix.

ERP Activities in Individual Sectors of the Economy

Since, over the years, the importance of individual economic sectors—especially in connection with cyclical developments within the particular sector—within the framework of the ERP Fund’s activities of fostering economic activities changed dramatically in some cases, the following section will describe ERP activities from 1962 to 1985 in each individual sector separately.

Industry and Commerce

From the very beginning, the emphasis in the industrial and commercial sector has been placed on supporting investment by firms engaged in production, export and job creation (although, in certain years, there was an insignificant proportion of firms in the trade and service sectors). In doing so, primary consideration was, in turn, accorded to those investment proposals which served to strengthen the applicant’s competitiveness in the domestic and foreign market,

especially with respect to European integration, as well as to bring about structural improvements within the particular firm or region. These proposals included investments for the purpose of modernization or automation, measures to enhance product quality, capacity expansion, as well as implementation of state-of-the-art technologies. (Note: prior to the “ERP Fund Era,” it was above all Austria’s foreign trade relationships with the most important EU member states that were still highly underdeveloped.)

Aside from these general criteria used to assess applications for ERP credits, certain special focal points emerged in particular years. For example, in the late ‘60s, the textile industry received considerable support. Due to the export orientation of these firms, it was necessary in many cases to construct new production facilities and/or to radically modernize machinery and equipment to achieve the necessary increase in productivity which was a precondition to becoming or remaining competitive in the international market.

An analysis by branch of the ERP credits granted indicates that, in the early years, it was primarily firms in the metal processing, electrical, chemical, iron and steel, sand and gravel, and construction industries that received support. Enterprises in these branches received almost 75 percent of all ERP industrial credits. From the mid-1970s on, mechanical engineering and steel construction assumed increasing importance. Since 1984, the paper industry has also been among the sectors that have been most strongly supported by ERP funds, after the special program providing for low-interest credits for this industry was discontinued by what was then the Ministry for Trade, Commerce and Industry.

In connection with the creation of replacement jobs (primarily by means of business relocations and new start-ups) in problem regions (coal mining areas and “rust belts”), investment plans in the metal processing and electrical industries took on particular significance. The majority of the projects that received ERP support were in these branches. On the other hand, the textile and non-ferrous metals industries dominated in creating jobs in border regions.

In its first fiscal year, the proportion of ERP credits granted to the industrial and commercial sector was approximately 30 percent of all credits extended in all sectors. This figure increased to over 50 percent by the end of the 1960s, and continued to climb in the ‘70s, when it ranged between 50 percent and 60 percent. In the first half of the ‘80s, the proportion of credits granted to the productive sector fluctuated

between about 64 percent and 68 percent. The actual numbers were öS 250 million in 1962/63 and approximately öS 1.4 billion in 1984/85. Through the expansion of the volume of credits granted to this economic sector, increasing investment in this sector could be supported by ERP funds. The investments supported by ERP credits increased from about öS 700 million in the first fiscal year to approximately öS 5.5 billion in 1984/85. (See the tables in the Appendix on the development of ERP credits granted as well as the investments supported by ERP credits from 1962/63 to 1984/85.)

There were three different programs available for industrial and commercial sector projects during this period: the middle-sized ERP credit (from öS 100,000 to öS 500,000) and the large ERP credit (over öS 500,000) within the framework of the normal program, and the large ERP credit within the framework of the special regional programs. Over the years, the relative importance of these programs has undergone significant and lasting change in accordance with the intentions of the ERP management. Thus, the importance of middle-sized credits declined continuously, until this form of credit was finally discontinued completely in conjunction with the ERP Fund reform in 1985 (discussed in detail below). On the other hand, the large ERP credit was expanded, particularly within the framework of the special regional programs. During the 1970s and especially beginning in the early '80s, a key concern of the ERP Fund in this connection was, on one hand, to provide stronger support to export-oriented enterprises (particularly middle-sized and large firms) and, on the other hand, to create jobs by attracting companies to set up operations in problem regions. Since this agenda concerned itself with large-scale undertakings, the decline of middle-sized credits was a logical consequence.

Tourism

During this entire period, ERP programs to foster the tourism industry were primarily concerned with the modernization of hotels, restaurants and similar facilities. During the 1960s, the chief focus was on betterments to sanitary facilities, overall decor, creation of additional bed capacity, and improvements to staff accommodations. It was not until the early '70s that raising quality standards became the prime criterion for granting ERP funds. At the same time, there was a significant increase in a hotel's required capacity in order for it to qualify for ERP funding: from 15 to at least 30 beds in the case of a

going concern, and at least 55 beds for a new project. These stipulations with regard to ERP credit funds granted to the tourism industry accorded recognition both to the rapidly growing trend toward group outings and travel in busses, as well as to the availability of a whole series of other programs designed to support smaller operations.

An additional point stressed by ERP programs to foster tourism particularly in the early '70s was support for swimming pool construction in areas that seemed to require such facilities due to the importance of summer tourism. Even then, particular attention was paid in this process to regions in which tourism was just beginning to emerge as a significant economic factor.

Beginning in the 1965/66 fiscal year, the "spa center" branch of the tourist industry was integrated into the Fund's guidelines. Indeed, the construction or modernization of spas was not one of the ERP's chief concerns; nevertheless, funds to further development in this sector were continually made available in subsequent years. From the early '80s onward, aside from its support for investment in generally increasing quality standards, the ERP Fund increasingly focused its funding activities to foster tourism on expansion of hotels and other forms of guest accommodations and infrastructure in areas in which tourism was just beginning to emerge as a significant economic factor, as well as in measures to prolong the tourism season in "one season" regions.

Agriculture and Forestry

Before the founding of the ERP Fund, a large number of small-scale credits were granted directly to farmers within the framework of ERP programs to foster agriculture. From 1962/63 on, this practice was completely revamped, and ERP funds were henceforth made available, in accordance with a new agenda for this sector, to larger-scale distribution facilities such as co-op organizations and for the purpose of processing and refining agricultural products. Over the entire period but especially in the early years, the chief emphasis was on supporting the construction of silos and multi-purpose structures for the storage, cleaning, drying, ventilation, and cooling of grain and corn, and of storage facilities for grain, fertilizer and mixed feeds. Over the years, however, the emphasis increasingly shifted to the processing and refining of agricultural products, whereby large ERP credits were granted, above all, for the modernization of dairies, slaughterhouses, and meat processing plants (the latter particularly in the '70s and '80s

with the goal of enabling these enterprises to export to the European Community). ERP credits were also made available for investment in agricultural infrastructure: in the '70s to build farm roads, and during the entire period—though with diminishing significance—for electrification projects in mountainous areas and border regions.

In the forestry sector, ERP credits were employed primarily for reforestation, building logging roads to open up new stands of trees, and mechanizing the process of bringing in cut timber.

Transport

The ERP Fund's efforts to foster transport made a considerable contribution to the construction of ski lifts (tow, chair, and gondola lifts) in Austria, so that significant new regions could be opened up for tourism, and regions that previously had strictly a summer season could now accommodate tourists in winter as well. Most of the credit volume made available to this sector by the ERP during the '60s and early '70s was employed to foster construction of lift facilities. From the beginning of the '70s on, the primary focus was no longer on the construction of new lifts, but rather on their modernization and the expansion of their capacity, as well as projects in the late '70s related to the consolidation of lift facilities in a single region. During a number of years, much more than half of all investment in lift facilities was financed in part by ERP credits featuring below-market interest rates.

A second main area of focus of the ERP Fund's efforts to foster transport during this period was support of domestic ship transport—particularly passenger ships on the Danube and the lakes of the Salzkammergut region.

In summary, it can be maintained that the ERP program to support transport was, in a broader sense, an effort to promote tourism, in that this program helped considerably to finance the necessary infrastructure for this emerging and flourishing economic sector.

Energy Sector

ERP funds were distributed to the energy sector for the purpose of constructing (in early years solely for completing) power plants (steam, hydroelectric, etc.) and district heating systems, as well as for the erection of energy transmission facilities and for the expansion of primary and secondary systems for delivering energy to consumers.

Miscellaneous Projects of the ERP Fund—Cooperative Development

Among the other accomplishments of the ERP Fund carried out in accordance with § 5, Sec. 2 of the ERP Fund Act since its inception have been its support measures in the framework of cooperative development (developmental aid). In this connection, ERP funds were provided to finance bilateral technical developmental aid projects (e.g. constructing hospitals and water supply facilities) and for productive investments such as electric power plants.

In the case of all projects financed with ERP funds, particular attention was paid to secondary investment effects in Austria of payments made to suppliers of goods and services; on a project basis, the Austrian proportion of these amounts had to be at least 50 percent.

The ERP Fund Reform of 1985

Brief Overview of the Substance of the ERP Fund Reform

The reform of the Fund's credit-granting process which was initiated in 1985 and essentially put into effect in the 1985/86 fiscal year constituted both a reorganization of the Fund and a reorientation of its policies with regard to fostering development. In this latter respect, there was a thorough reevaluation of the programs then in effect with the aim of reassessing the focal points of the activities pursued up to that point as to their "reasonableness," as well as considering the extent to which new initiatives were necessitated by a changing economic situation.

The most important upshot of these considerations was a shift in the emphasis of the Fund's activities toward increased involvement in fostering development in the industrial and commercial sectors and, simultaneously, a diminishment of efforts in non-industrial sectors. In concrete terms, this meant the complete termination of ERP programs to foster development in the energy sector, as well as a significant reduction of activities on behalf of the tourism industry. There were also cut-backs of ERP programs for agriculture, forestry, and transport. And since there had been a drastic drop in demand for middle-sized credits (i.e. those up to a maximum of öS 500,000) in the industrial and commercial sector, these were also discontinued.

The end of ERP efforts to foster development in the energy sector was primarily the result of investment costs for power plant construction, which had increased to such enormously high levels that an

ERP credit would have covered only a tiny fraction of total outlays. The effects produced thereby would have been only quite marginal; this led to the conclusion that the funds that had been used for this purpose heretofore could be deployed in a much more efficient manner (and with a greater effect upon the activities thus supported) in high-profile areas of the industrial and commercial sector faced with stronger international competitive pressures.

Besides this overhaul of credit-granting activities in general, prime focus was also on considerations with respect to a more selective mode of fostering development within the framework of the Fund's remaining programs. Especially in the industrial and commercial sector, there was a desire to employ the individual special ERP programs as an instrument to bring about an offensive policy of fostering industrial development, whereby the decisive criteria for a project's worthiness to be granted an ERP credit would be the applicant firm's degree of export orientation and the structural improvement effects the credit would bring about within the firm itself.

The more selective granting of development credits also quickly resulted in a marked shift that could be observed within the productive sector toward the technological processing sector and the chemical industry, and away from using ERP credits to support primary producers who had received such credits in the past (an issue discussed in more detail below).

From an organizational perspective, the Fund was reorganized into a service provider organized along the lines of a private firm (removal from the direct administration of the federal government in an organizational sense). In this way, a service-oriented organizational structure could be put into place which no longer had to be oriented upon the organizational structures of the administration of a sovereign state. The ERP Fund could act more efficiently and with a greater orientation toward service as a result of these organizational changes.

The Period from 1985/86 Until Austria Joined the EEC on January 1, 1994

The ERP Fund's Policies of Fostering Development During this Period

The objective of the ERP Fund's policies of fostering development during this period was to implement the shift of emphasis that had been established within the framework of the ERP Fund reform in

1985/86 and to continue to develop agenda revisions as economic conditions necessitated this. The concrete measures and the most important innovations in this connection are briefly discussed in the following section. During the previous 20 years, growth of the Austrian economy had consistently been a bit stronger than the corresponding rates in the domestic economies of other European OECD states (on average). Nevertheless, Austrian industry's productivity continued to lag behind some other European countries, and it was precisely this improved productivity that was meant to be achieved by the revamped ERP program (see below) for the industrial and commercial sector.

Industry and Commerce

In the '80s, and particularly during the second half of that decade, the intensification of the structural policy approach stood at the centerpoint of the distribution of ERP funds to the industrial and commercial sector, and this was accorded corresponding weight in establishing the guidelines for the individual ERP programs.

Thus, a new emphasis on fostering technology was already introduced in the 1987/88 fiscal year. In the framework of this ERP program, support was provided to projects in the area of production transition, which were consistent with the intentions of federal efforts to foster technology such as the Innovation and Technology Fund (ITF), as well as investments to implement Austrian or foreign research and development (R & D) activities in the field of series production. Furthermore, it ought to be mentioned here that the ERP Fund was commissioned by the federal Ministry for Science and Transport to handle a considerable portion of the ITF's efforts to foster technological development.

The ERP special program for foreign activities was then introduced during the 1988/89 fiscal year. As would subsequently come out, this was a decisive additional point of emphasis within the framework of the ERP program for the industrial and commercial sector. The rationale for this effort was Austrian industry's very low degree of internationalization in comparison to other OECD member states—that is, the level of direct investment of foreign firms in Austria was considerably higher than that of Austrian firms abroad. In order to reduce this deficit, the ERP Fund granted domestic enterprises favorable ERP credits to finance the costs incurred in connection with setting up a foreign subsidiary or joint venture (e.g. start-up or buy-in

costs, expenditures associated with opening up new markets, commercial credits to finance the necessary investment). Essential preconditions of this ERP effort was that the credit applicant chiefly did business in Austria and that these activities abroad would improve the firms international market position which would, in turn, have positive repercussions for both the individual enterprise's domestic operations as well as the Austrian economy as a whole. This was not designed to subsidize the export of jobs to cheap-wage countries, but rather to support offensive measures to open up new markets.

The ERP program to further internationalization attained especially great importance during the early '90s when, following the fall of the Iron Curtain, the Austrian economy was confronted by the historic chance to internationalize in newly-reformed Eastern European countries. Due to the close relationships that Austria had maintained with Hungary, the Czech Republic, Slovenia, Slovakia and Poland during the Cold War, Austrian firms enjoyed a favorable starting position during the initial years of restructuring to a free-market economy, which they then had to take advantage of. Between 1990 and 1995, Austria consistently occupied a top position (1st, 2nd or 3rd) among the foreign partners participating in newly-founded joint ventures in these countries (though with the exception of Poland). In order to take these changed circumstances adequately into account, the ERP Eastern Europe program was set up especially for this purpose during the 1990/91 fiscal year. To date, the ERP Fund has supported a total of approximately 350 internationalization projects.

During these years, projects to foster regional development were likewise extremely important and the funds made available through them rose continually. In the period under consideration here, regional programs' credit volume doubled from approximately öS 500 million in 1986/87 to over öS 1.1 billion in 1993/94. The goal was to achieve structural improvement effects and to take pressure off the labor market through intensified investment in problem regions.

Due to its proven record of success and its know-how based on tremendous experience in the field of fostering regional development, the ERP Fund was also entrusted with the task of implementing various special programs of the federal government in this area. These included the "100,000 Schilling" and "200,000 Schilling" programs instituted in the mid-'80s as combined measures to foster investment and job creation, as well as the "Regional Innovation Premium" and

“Support for Regional Infrastructure” programs sponsored by the Ministry of Science and Transport.

Since the early '90s, consideration has also been given by the ERP to the special situation of small and medium-sized enterprises (SMEs) with respect to obtaining financing on the free market. In comparison to large firms, SMEs often have to pay a far higher risk premium in taking out a loan, and this makes the access to credit much more difficult for these enterprises. Therefore, since the 1990/91 fiscal year, a special SME technology program has been conducted by the ERP to support such enterprises and to foster innovative investment projects. Since, as a rule, the number of projects submitted far outstrips the ERP's budgeted credit funds, and the Fund's policy of fostering development is not based upon the principle of equal shares for all projects worthy of support, but rather to offer extremely generous support to outstanding proposals selected according to clear criteria, an evaluation schema for individual ERP programs was introduced as early as the 1988/89 fiscal year and has been continually refined over the years. (Of course, a precondition is that the project comply with special ERP guidelines.) According to this evaluation catalog, the final assessment of submitted proposals is primarily based on four factors: the economic situation and development of the enterprise, the quality of the project, its impact on the economy (regional significance, environmental implications, etc.) and market development. The individual projects' relevance to structural policy emerges as a result of the evaluation, which is determinative for the amount of support given.

Moreover, an upper credit limit per individual project and per firm as well as a minimum percentage limit for ERP funding were introduced in the 1990s. (These upper limits had previously been öS 100 million; since 1995, this has been increased to a maximum of öS 200 million in connection with the implementation of the EU structure fund credits to foster regional projects.) With regard to the minimum percentage limit, the following rule continues to be valid: projects are excluded from receiving support in cases in which the ERP credit quota—as a result of the upper credit limit—would no longer make up more than 20 percent of total project costs and no other supporting grants from other institutions are available to make up a combined “aid package.” Thus, proposals with an investment volume of more than öS 500 million are as a rule excluded from receiving ERP credits. The primary rationale behind this policy was to force large firms to use the capital market to finance major investment projects and, at the same

time, to be able to make sufficient ERP funds available to medium-sized enterprises as well as for regionally significant proposals (usually supported by “aid packages”) and (usually medium-sized and small) technology projects.

These two measures made it possible to simultaneously achieve the goal of being able to provide very high support to particularly high-quality projects and to significantly increase the ERP credit proportion of total project investment. In the mid-'80s for all ERP-supported projects, the average credit made up approximately 30 percent of the entire project costs; thereafter, this figure rose to almost 60 percent. (See the graph in the Appendix.)

Tourism

The ERP program to foster tourism was revived in the 1989/90 fiscal year. Since then, the areas of concentration have been to support:

- automation and modernization of restaurants, hotels and similar facilities in order for them to reach a minimum standard of at least the 3-star category,
- new projects only in border areas and problem regions, and only when the project can make a significant contribution within an overall tourism policy, and
- establishment of tourism operations and facilities to foster active/adventure vacations (whereby swimming pool construction is limited to exceptional cases in developing areas).

Spa hotels and similar luxury-class establishments receive funding only when such projects can be expected to stimulate tourism throughout an entire region.

Transport

A new focal point was also established for ERP efforts to foster transport: measures supporting the “road-rail-ship” combined freight transport concept. Due to the rapidly increasing truck traffic on Austria’s roads and the simultaneous decline in demand for shipping by railroad and ship, offering incentives to encourage so-called combined freight transport has come to be one of the ERP Fund’s most important goals in the area of transport.

A portion of the ERP’s funds also continued to be used to support domestic ship transport—particularly passenger ships on the Danube and the Austrian lakes. Over the years, however, the importance of

such projects has steadily declined. Support for ski lift projects was discontinued in 1987 to avoid contributing to excess capacity in that sector.

From the early '90s on, practically the entire yearly budget for ERP credits in the transport sector was made available to support special investment to expand capacity within the framework of so-called "combined freight transport."

Agriculture

In the agriculture and forestry area, the goals that had been pursued since the mid-'70s essentially remained in place, although there was a certain shift of focus to projects dealing with processing and refining agricultural products (particularly dairies and meat processing plants).

Two new points of emphasis were introduced into the ERP agricultural program during the second half of the '80s: support for community projects to produce district heating from biomass, and domestic hothouse horticulture. This latter agenda point was an upshot of Austria's balance-of-trade deficit in horticultural products and the reactor catastrophe in Chernobyl.

Cooperative Development

There were no significant changes in the program of developmental aid projects during this period.

The Development of the Volume of ERP Credits Granted

During the fiscal years from 1985/86 to 1992/93, the ERP was able to increase the annual volume of credits it granted by between öS 200-400 million per year. The figure for 1985/86 came to approximately öS 2 billion; by 1992/93, it had climbed to almost öS 5 billion.

This tremendous increase in ERP credits granted was due primarily to the fact that the maturities of credits were reduced during the '80, and particularly in the case of credits for projects in the industrial and commercial sector. The rationale behind these measures with respect to term to maturity was the rapid pace of technological development—in light of the necessity of increasing productivity in order to maintain the ability to compete in international markets, firms had to upgrade their machinery and equipment much more quickly than in the '60s and '70s.

Due to the weak performance of the Austrian economy in 1993, the Fund made available a special endowment for ERP credits in the amount of öS 1 billion for the 1993/94 fiscal year as a supplement to the regular ERP credit volume in the amount of approximately öS 5 billion. The additional funds primarily benefited firms in the industrial and commercial sector. The ERP Fund's goal was to prevent a potential drop in long-term growth rates due to a decline in private sector R & D activities as a result of the recession. The thinking behind this step was that business cycle declines can lead to substantial losses of economic growth and welfare as a result of decreased R & D activities, and these can no longer be made up long-term, even during an ensuing business cycle upswing.

ERP Activities With Respect to Individual Sectors of the Economy

Due to the above-mentioned developments with respect to policies to foster investment in the industrial and commercial sector, this period was characterized by intensified support for innovation and technology projects. As for individual sectors, there was a distinct shift in favor of higher "value-added" manufacturers (metal processing, electrical industry, machinery construction, iron and metal goods production, auto components industry), whereas the volume of ERP credits to primary producers declined constantly.

In connection with support for businesses to relocate to problem regions or for the establishment of new firms in such areas, the chief projects were those involving automotive component suppliers, the electrical industry, and the metal processing industry. The proportion of credits granted to the industrial and commercial sector continued to climb in accordance with the shift of emphasis to this economic branch as established in connection with the ERP reform, and constituted approximately 90 percent of all credits granted since the beginning of the '90s.

The Period Since Austria Joined the EEC in 1994

General Remarks

Austrian membership in the EEC—and later in the EC (now the EU)—brought with it a completely new situation with respect to Austria's autonomy in designing policies to foster development. Continuing to pursue a completely independent support policy was no longer possible, since fundamentally new legal circumstances were now binding with regard to the granting of subsidies (Note: in this section, the terms “subsidize,” “foster” and “support” are used synonymously.) in Austria, and these applied to all other member states of the EEC and the EU as well. The essential feature was that, once Austria had joined the EEC, the supreme legal authority with respect to laws regulating subsidies was the EFTA Surveillance Authority (ESA) headquartered in Brussels.

The ESA constituted the counterpart of the EU Commission in the field of laws regulating competition. At that time (the beginning of 1994), the ESA was thus responsible for questions related to competition in the six new EEC member states (Finland, Iceland, Liechtenstein, Norway, Austria and Sweden) and the EU Commission in the then-12 EC member states.

In connection with this decisive change with respect to the chief authority regulating subsidies, it should also be mentioned that, within the framework of the EEC, the transport sector as well as agriculture, forestry and fisheries were not included and these sectors were not subject to regulation by the ESA. For these areas of the economy, national autonomy with respect to subsidy matters continued in effect until Austria joined the EU on January 1, 1995.

Thus, for the ERP Fund, this new situation—beginning of January 1, 1994 in some areas and on January 1, 1995 in its entire field of activity—meant a certain degree of restriction of its autonomy in designing support programs. In setting up its annual programs and the basic guidelines for the individual ERP programs until then, the ERP Fund had only to comply with the relevant provisions in the ERP Fund Act and the economic policy goals for the forthcoming year as established by the Austrian government. In 1994 and 1995 respectively, EEC or EU provisions regulating competition constituted the framework conditions for the feasibility of guidelines for the individual ERP programs. Special support policy measures which seemed necessary from the Austrian perspective could be implemented only when they were in accordance with EEC or EU regulations regarding competition.

EU Regulations Regarding Competition - The Most Important Provisions for the Activities of the ERP Fund

Since, during Austria's one-year membership in the EEC, the same provisions regulating competition applied at that time to competition within the EU (with the exception of the sectors enumerated above), the following discussion will deal exclusively with EU regulations regarding competition.

For simplicity's sake, only a brief description will be provided here of the most important EU provisions regulating competition which are currently valid. Essentially, none of the fundamentals have changed since the beginning of 1995, although there certainly have been some ground-breaking modifications to details (such as the required individual notification of projects in certain branches and sectors, whereby the 1995 EU provisions were far less restrictive than those in effect today).

The essence of the EU provisions regulating competition is that all aid subsidies are forbidden, because it is feared that subsidies distort the competition between EU member states, or would threaten to do so (see Art. 92 of the EC agreement). However, since the EU also pursues certain goals in conjunction with its community policies (e.g. narrowing the economic gap between individual member states, enhancing the EU's competitive position vis-à-vis other economic powers, diminishing dependence upon so-called third-party states, improving environmental conditions in member lands), exceptions to this general ban on aid subsidies have been established. Thus, in order to achieve other highly desirable goals, the EU basically permits subsidies in the following cases:

- R & D
- regional development
- support for SMEs
- environmental protection
- bail-outs and restructuring of firms
- the so-called "de minimis" rule (aid in amounts considered insubstantial)

The special determinations concerning all of these exceptions were enacted in the form of EU announcements and made public in the official EU gazette. These so-called community framework provisions stipulate for what purpose and in what amount aid subsidies may be

granted. The following section will describe those which are of significance to ERP programs.

Community Framework for State R & D Aid

According to the community framework for R & D, additional amounts can be given out as aid subsidies for basic research as well as for applied research and development (a precise definition of these three R & D categories is contained in the EU rules). The “additionality” of the expenditures plays an important role here—that is to say, an R & D project can be supported only when, collateral to receiving these subsidies, a firm’s average R & D expenditures are raised correspondingly. (Ongoing R & D programs as well as outlays purely related to product adaptation can thus not be subsidized.) This condition of so-called additionality is automatically considered satisfied in the case of R & D projects carried on by SMEs; on the other hand, additionality constitutes a make-or-break criterion for R & D projects carried on by large firms.

As the basis for a subsidy, all expenditures incurred in connection with carrying out an R & D project can be taken into account. As a rule, the upper subsidy limit for such projects is 50 percent of gross expenditures for basic research and 25 percent of gross expenditures for applied R & D, whereby additional bonuses amounting to 5 percent to 25 percent of gross expenditures can be granted under certain conditions (e.g. the project is conducted by an SME or in a specially subsidized region, the project is a collaborative effort, etc.). These percentages with regard to the maximum subsidy amount always refer to the “subsidizable” costs; in computing the maximum subsidy amount, all aid subsidy payments for a particular project are to be added together. This general mode of computation applies to all community frameworks in the EU provisions regulating competition; therefore, this need not be gone into further in the subsequent discussions of the individual community frameworks.

Community Framework for Regional Aid

With respect to projects to foster development in particular regions (these have been determined by Austria together with the EU Commission on the basis of certain criteria; they include, until the end of 1999, Burgenland, the Mühlviertel district of Upper Austria, the Waldviertel and Weinviertel districts of Lower Austria, Upper, Southern and Eastern Styria, and Eastern Tyrol), so-called tangible

“initial investments” (necessary start-up investments in machinery and real property) as well as intangible investments made in connection with carrying out an investment project (such as outside consultants, know-how transfer, costs of patents and licenses) can be supported by subsidies. As a rule, the upper subsidy limit for such projects is 30 percent or 40 percent of net expenditures in the case of Burgenland and 20 percent of net expenditures in the case of the other regions. Here as well, projects conducted by SMEs can be awarded bonuses of up to 10 percent.

Community Framework for State Aid to SMEs

Essentially the same provisions apply to the subsidizable costs of projects carried out by SMEs as is the case for regional aid subsidies—both pure investments as well as so-called “soft” expenditures such as those paid for consultants, training, know-how transfer, and feasibility studies qualify for support. A firm is considered an SME (NOTE: the figures below first cite the amount for a small business, followed by that for a medium-sized one) under EU provisions regulating competition if it has no more than 50/250 employees and its yearly gross revenues do not exceed 7/40 million ECUs or its net assets do not exceed 5/27 million ECUs and a large firm owns less than 25 percent of it. The upper subsidy limit for such projects is 15 percent of net expenditures in the case of small business and 7.5 percent of net expenditures in the case of the medium-sized firms, whereby the upper limits according to regional aid provisions come into play in the case of projects in subsidized regions. SME subsidies, however, are not permitted to be granted to firms in the so-called sensitive sectors (discussed below).

“De Minimis” Rule

The “de minimis” rule states that subsidies in trivial amounts do not effect competition and are thus permitted. Within the framework of subsidy programs under the “de minimis” rule, a particular firm can receive “de minimis” aid of up to 100,000 ECUs within a three-year period. All “de minimis” subsidies granted to a firm within this three-year period are to be totaled, and the upper limit may not be exceeded. In this cumulative process, those subsidies which were granted within the framework of an EU Commission-approved aid package (e.g. ERP programs) do not have to be included. Furthermore, it ought to be mentioned that “de minimis” subsidies are not subject to notification

requirements. “De minimis” subsidies, however, are not permitted to be granted to firms in the so-called sensitive sectors.

In summary, the simple conclusion can be drawn that the greater the extent to which a firm’s activities which are to be subsidized are removed from the market, the better the chances of the particular project to receive support (from the perspective of EU provisions regarding competition) and the higher those subsidies might be. Accordingly, the highest subsidy percentages are granted for basic research, whereas costs such as marketing and distribution cannot be subsidized at all. The same applies to the criterion regarding firm size: the smaller the firm, the greater the extent to which a project can be subsidized. Pure investment projects by large firms—with the exception of those in regions in which development is being fostered—do not qualify for subsidies since, respectively, 1994 and 1995. Regional subsidies occupy a special position in this connection. The most important goal of this type of subsidy is to prevent disadvantaged regions and central regions from drifting farther apart, and large firms can make a significant contribution in this respect. Nevertheless, since September 1998, even within the framework of programs fostering regional development, large-scale projects can be supported only under certain specified conditions up to the upper subsidy limit according to the community framework for regional aid subsidies. (The rules which are applicable here are set down in the new multi-sector regional subsidy guidelines for large-scale investment plans.)

Finally, it should also be pointed out in connection with EU regulations regarding competition that special provisions apply to certain sectors in which there is substantial excess capacity throughout the EU as well as to those dominated by a few large firms. These so-called sensitive sectors include the production of iron and steel, motor vehicles, and synthetic fibers, shipbuilding, coal mining, rail and truck transport, inland navigation, agriculture and fisheries.

The ERP Fund’s Policies and Activities During this Period

As previously indicated, the so-called community frameworks based upon the EEC / EU provisions regulating competition constitute the overall rules for the design of specific ERP programs. Moreover, the ESA (for the 1994/95 fiscal year) and the EU Commission (beginning with the 1995/96 fiscal year) have had to be informed in advance of the guidelines of all ERP programs, which had to be

approved by these authorities. (The ERP programs for transport, agriculture and forestry for the 1994/95 fiscal year were the sole exceptions to this rule.) It is only after notification of this approval has been received that the individual ERP programs become operational and credit applications can be approved. In order to process these applications in a smooth and timely way despite this long, drawn-out notification process, the ERP Fund proceeds with the task of accepting and investigating applications during this waiting period, so that they can be promptly passed on to the ERP Commission for its decision immediately after receipt of notification regarding individual ERP programs. One of the reasons for this protracted notification process has been the complete lack or severe shortage of personnel in the responsible departments at the ESA and the EU Commission.

However, as a result of the introduction of more selective criteria over the course of recent years—the termination of the ERP normal program and the simultaneous shift of emphasis to innovation, technology, fostering regional development, SMEs and internationalization—the guidelines for individual ERP programs already largely conformed to the criteria contained in the EEC competition provisions in effect at the time Austria joined that organization. Therefore, there was hardly any need to modify or adapt the ERP guidelines in 1994 and/or 1995. Nevertheless, a series of additional and, from the point of view of actual practice, purely formal points had to be adopted into the ERP guidelines, including definitions of SMEs, various research categories, cumulative upper subsidy limits, etc., as such terms are defined in the regulations governing competition.

The only serious cut-backs that had to be made in any of the ERP programs were in those focusing on internationalization and Eastern Europe. Despite intensive negotiations and objectively comprehensible grounds (in particular, the fact that Austria continued to lag behind most other OECD states with respect to the degree of internationalization of its economy), it has been impossible to conduct either of these two programs to the extent they were being carried on during the first half of the '90s. The three chief modifications are as follows:

1. subsidizing distribution branches abroad is no longer possible,
2. all projects involving large firms must either be reported to and approved by the EU Commission in advance, or may be granted subsidies only under the “de minimis” rule, and

3. ERP credits can, generally speaking, only be related to material investments; expenditures purely related to opening up new markets can no longer be supported.

The result of these radical restrictions was that ERP financing to foster development in these two areas virtually came to a standstill. In the fiscal years from 1989/90 to 1993/94, from 40 to over 60 such projects were supported each year; in the fiscal years from 1995/96 to 1997/98, the yearly average was five. As previously mentioned, agriculture, forestry and transport were not integrated into the EEC agreement. It was not until Austria joined the EU that these sectors came under the jurisdiction of EU provisions governing competition. Analyses were conducted during the first half of the '90s on the effects of Austria's joining the EU. Since these studies showed that the regulations of a common market would have serious negative short-term consequences for these sectors (e.g. for farmers, the take-over of the communal agricultural policy; for shipping firms, the discontinuation of the practice of independently assessing and collecting duties on behalf of the state), a number of special short-term programs to benefit these sectors were set up in 1994. For example, a special measure was then introduced on behalf of the food and beverage industry in the form of a concerted action bringing together all federal institutions which provide support to this sector. The objective of this special three-year program was to assist these firms as much as possible to implement the required short-term restructuring measures. During the first one and a half years, this special measure continued to be implemented in the context of existing ERP programs (for the industrial and commercial sector and for agriculture) and these projects received extraordinarily generous funding. Beginning in the 1995/96 fiscal year, a separate program, the ERP Eurofit program, was established in addition to the ERP agricultural program that had been in place for many years, since, in the meantime, the TOP Eurofit subsidy program had been discontinued and its objectives were taken over by the ERP Fund. In conjunction with this special program, the ERP Fund supported a total of 120 projects with a total credit volume of öS 3.5 billion during the 1993/94 to 1996/97 fiscal years (within the framework of the ERP programs for the industrial and commercial sector and for agriculture). Thus, the ERP Fund could provide decisive support in financing an investment volume of over öS 7.5 billion in the food and beverage industry.

Aside from these changes to individual ERP programs that were directly connected with Austria's joining the EU, a few other innovations were also introduced. Of particular significance here was the introduction of a new ERP infrastructure program for the industrial and commercial sector during the 1994/95 fiscal year. This effort fostered the establishment or expansion of industrial-commercial infrastructure facilities such as centers for start-up enterprises and technology and research parks in order to stimulate the founding of new businesses in technologically advanced sectors and/or in problem regions, as well as to support the establishment of private-sector industrial research co-operatives.

An additional significant expansion of the ERP's activities to foster development that came about as a result of Austria joining the EU had to do with the implementation of EU structural funds in Austria. In this respect, in deciding for the implementation of the European Fund for Regional Development (EFRD) structural fund subsidies, Austria opted in favor of keeping the existing subsidy system in effect. This has meant that the matching federal funds (co-financing) which are required to supplement the EFRD funds granted must be provided by various different Austrian subsidy instruments. A considerable proportion of the required federal matching funds are provided by the ERP Fund. This co-financing is provided above all by the ERP programs for disadvantaged regions, infrastructure and tourism. Within the framework of these programs, up to 50 percent of the projects subsidized by the ERP Fund receive—in addition to ERP credits with below-market interest rates—supplementary EFRD funds in direct proportion to the credit. Austria's first EU structural fund period extends from the beginning of 1995 until the end of 1999.

To complement its key role as co-financing partner, the ERP Fund was also appointed (following a search process conducted throughout Europe) as the agent to conduct the monitoring throughout Austria for the EFRD on behalf of the federal chancellery.

Moreover, the ERP Fund was commissioned by the Ministry of Agriculture and Forestry to assess cases to be subsidized and to carry out support activities for the so-called sector plans for agriculture and forestry, as well as for a number of other aid projects (biomass, farm road construction, sugar beet processing facilities, etc.). Both sector plans are likewise subsidy programs co-financed by the EU; here, however, the funds are provided by the European Agricultural Guidance and Guarantee Fund, Guidance Section.

The volume of credits granted by the ERP during the 1993/94 and 1994/95 fiscal years was approximately öS 5.7 billion; the corresponding figures during the two subsequent fiscal years were about öS 1 billion higher, and in the 1997/98 fiscal year it increased substantially once again to almost öS 8.2 billion. This continual increase in newly-granted ERP credits has been primarily attributable to premature pay-back of credits, due to the fact that interest rates have dropped considerably since the credits were granted. This last fiscal year also featured a special endowment in the amount of öS 1 billion connected with the creation of an ERP special program for growth and technology offensives discussed in more detail below.

Due to the important role of ERP credits in connection with the deployment of the EU structural funds in Austria following this country having joined the EU, there has been increasing support granted to innovative projects which have created jobs in problem regions. With respect to individual sectors, there has been a further shift in favor of higher "value-added" manufacturers (metal processing, electrical industry, machinery construction, iron and metal good production, auto components industry); at the same time, ERP credits to primary producers have declined steadily.

In connection with support for efforts aimed at attracting new or existing businesses to set up operations in Austria, the focus has remained on the auto components and metal processing industries. The proportion of credits granted to the industrial and commercial sector continued to increase in accordance with the shift of emphasis to this sector established in conjunction with the ERP reform; since the beginning of the '90s, these account for approximately 90 percent of all credits granted by the ERP.

Current Situation and Future Prospects

The planned changes to the framework conditions of the EU competition guidelines as well as the reform of the EU structural funds (Agenda 2000) are currently at the center of public discussions regarding the design of subsidy programs in connection with direct measures to foster economic development. The way it looks now, regions qualifying for subsidies will be limited over the medium term and the funds made available to support programs in these areas will be decreased. The latitude accorded to individual states in designing programs with special emphases will thus tend to contract. Never-

theless, the following objectives will continue to be of uppermost importance for the ERP Fund as the largest Austrian institution directly fostering economic development:

- securing existing jobs and doing more to stimulate the creation of new ones,
- eliminating obstacles impeding growth—particularly for SMEs, and
- supporting innovation.

To achieve these goals, the ERP Fund will continue to optimize its subsidy programs as circumstances dictate, to strive to make the process of granting credits as clear and comprehensible as possible, and to intensify its efforts to serve the private sector. At the outset of the 1997/98 fiscal year, a series of key innovations related to these objectives were introduced. These include:

*ERP Special Program for a Growth and Technology
Offensive—Mobilization of Equity Capital*

Particular attention is being paid to the current state of efforts to eliminate obstacles that impede growth. It is above all innovative small and middle-sized firms that quickly run up against expansion limits as a result of the small domestic market. In many cases, further growth through opening up new markets can be accomplished only by having access to the capital market. Supporting innovative, growth-oriented firms in obtaining financing both through private placements as well as public stock offerings is thus a key objective of the ERP Fund's growth and technology offensive.

Enterprises whose projects conform to the basic principles of the ERP's technology or SME programs and want access to the capital market to obtain financial resources and to finance costs (such as those incurred opening up new markets) which do not qualify for subsidies are offered especially favorable conditions. An ERP credit with a very low rate of interest (0.5 percent p.a.) and a maturity of five years makes available a stable source of working capital which does not participate in profits or growth and thus, in combination with true equity financing, represents part of an attractive mix. Furthermore, as an additional component of a compact aid package, it is also possible to integrate liability assumption through the federal Financial Guarantee Corporation. In addition, negotiations are currently underway to allow for closer cooperation of the ERP Fund with venture capital

funds and other such financial institutions in identifying and financing innovative growth projects. With these special programs and accompanying measures, the ERP Fund is making a direct contribution to mobilizing equity capital.

Expansion of the ERP Infrastructure Program

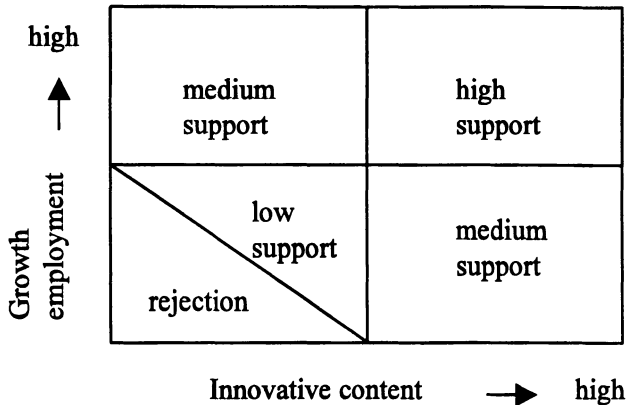
Innovation centers, business start-up centers, and facilities enabling technology transfer have long been a part of ERP efforts to foster infrastructure. These impulse generators perform an important function in the national system of innovation as nodes in the innovation network of small and middle-sized firms, and as core elements in the formation of technology clusters and branches. ERP funds from the infrastructure program are also available now for the establishment or expansion of high-level commercial parks equipped with high-tech facilities. This is meant to ease the way for, above all, small firms which, as a result of their rapid expansion or other pressing reasons (such as noise ordinances) must relocate their operations. Moreover, investments for participation in specialized trade shows as technology transfer facilities for SMEs can now receive support from the ERP infrastructure program. ERP funds can thus contribute to greater professionalism and a tighter focus on the part of Austrian trade shows.

Clear and Comprehensible Criteria for Granting Credits

Projects that are most worthy of support stimulate high growth and employment, and display a high degree of innovative content. If these factors apply to a low extent, the amount of support granted to a project will be low or it will be deemed unworthy of support.

Establishing the amount of support which a particular project will receive is possible only through close cooperation with other agencies providing similar aid, such as the individual Austrian provinces. The ERP Fund's long years of collaboration with these institutions and the shared perspectives they have come to hold make possible such a mode of working together.

EVALUATION MATRIX



Stimulus for Higher Employment—Bonus for Jobs and Apprenticeships

Due to the current labor market situation, creating new jobs is among the most pressing concerns of the ERP Fund. For this reason, firms receive an ERP subsidy bonus if, in connection with carrying out an investment program, they increase employment by at least 10 percent as compared to the size of their workforce prior to the start-up of the project. The compensation comes in the form of an interest rate bonus of 1 percent p.a. over the course of three years as long as the firm proves itself to be successful in this respect. A much more generous financing package is granted to firms with outstanding apprenticeship training programs and to those which have created new apprenticeship positions.

Improved Services for Firms

The ERP Fund's particularly intensive efforts on behalf of SMEs have led to the creation of an additional special measure which has only been in effect since July 1998. The introduction of accelerated processing procedures has been designed to assess and decide on applications for ERP credits for amounts under öS 20 million within six weeks of the receipt of all necessary documentation. In doing so, the ERP Fund can also coordinate its support activities with the Financing and Guarantee Corporation and other such agencies fostering