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Austria and Switzerland at the Crossroads

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AUSTRIA AND SWITZERLAND AT THE CROSSROADS

Geographically, Austria and Switzerland have been at the crossroads of Europe for centuries. At the beginning of the 21st century, these nations also find themselves at major crossroads in both domestic policies and future relations with their European neighbors. The stability and quiet prosperity that Austria and Switzerland have enjoyed for decades are threatened by economic developments and political controversies that could profoundly affect both nations for years to come.

Austria's postwar stability was based on neutrality in international affairs, state control of major sectors of the economy, a highly developed social welfare system, and tight control of national political life and rewards by a socialist-conservative coalition. During the 1990s, each of these factors began to weaken. For example, with the end of the Cold War Austria's strategic situation quickly changed from a neutral buffer between NATO and the Soviet Bloc to a gateway to the newly free nations of central and eastern Europe. The neutrality issue in Austria has become even more complicated and contentious as a result of the war in Kosovo and the decision by three former communist nations (Poland, Hungary and the Czech Republic) to join NATO.

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On the negative side, Austrians (and many outside observers) were stunned by the furious reaction of the other 14 European Union members to the electoral success of Austria's far-right Freedom Party led by the controversial Jörg Haider. In February 2000, when the Freedom Party displaced the Social Democrats in Austria's governing coalition, the socialist-dominated governments of the other 14 EU members froze all bilateral relations with Austria, and within the EU boycotted and humiliated Austrian officials at every turn.

The Freedom Party's success reflected growing voter frustration with Austria's ossified political system, bloated bureaucracy, escalating health care and welfare costs, and the continuing burden of assimilating waves of immigrants from eastern and southeastern Europe. The socialist-dominated European Union regards both Freedom Party policies and the rhetoric of its populist opportunistic leader, Haider, as beyond "common European values" and deserving of severe sanctions.

The controversy, which dragged on for months, threatened to become a full-scale crisis. Austrians became increasingly incensed at the ED's arrogance and heavy-handed efforts to overturn the results of a free national election. Meanwhile, some EU countries began to recognize the sanctions "represented an unparalleled intrusion into the internal affairs of a member country" and were counterproductive to other important EU goals. For example, the European Union needs the unanimous approval of all 15 members to adopt EU voting and governance reforms and to approve the accession of new members from central and eastern Europe.

When the European Union finally lifted the sanctions on September 12, 2000, officials claimed the sanctions had been useful and the EU would maintain "particular vigilance" regarding Austria. In reality the intervention was an embarrassing failure and will leave a lot of scars.
Some of the factors that have shaped Switzerland's postwar stability and development resemble Austria's circumstances. For example, Switzerland has zealously followed a policy of neutrality in international affairs, rejecting both military alliances and membership in the United Nations. As recently as 1986 voters in a national referendum voted decisively against joining the UN. However, remaining outside the United Nations has not been an obstacle to attracting UN agencies and other important international organizations to Switzerland, where they enhance Switzerland's prestige and high standard of living.

Domestic political stability has been anchored for decades in Switzerland's confederal constitution, unique system of direct democracy through frequent national referenda, and so-called "magic formula" for sharing federal power among four political parties which reflect Switzerland's diverse language groups and economic interests. As in Austria, this "cozy sharing" of federal political power is being vigorously challenged by right-wing politicians, particularly the Swiss People's Party headed by Christoph Blocher, a wealthy international businessman.

Politically, Blocher is a populist and fervent nationalist who appeals to traditional small town Swiss values. He is strongly opposed to Swiss membership in the European Union and United Nations and to the continuing flow of legal and illegal immigrants which many Swiss feel are overwhelming the country. Foreigners currently comprise 19.2 percent of Switzerland's total population of 7.1 million, and a national referendum in September 2000 will seek to cap the foreign population at 18 percent of the total. The federal government opposes the proposed cap, but the debate reflects the palpable unease among the Swiss about the future direction of their country.

Swiss financial and industrial firms have traditionally been more involved in European and global markets than their Austrian counterparts. When a majority of Swiss voters in 1992 rejected a government proposal to join the European Economic Area (because it was perceived as a first step to joining the European Union), business leaders concluded they should expand operations in EU countries to ensure continued access to the vital EU market. Several major Swiss firms also have elected to consolidate with other Swiss and European firms to strengthen their competitive position in the rapidly changing global economy.

Swiss corporations have adapted well to the increasing scope and strength of the European Union and the launching of the euro currency. At the same time business leaders have pressed the Swiss government for domestic legislation and diplomatic agreements with the EU which would protect Switzerland's huge stake in EU trade (60.8 percent of Swiss exports and 78.8 percent of its imports).

A key step in this process occurred May 21, 2000, when 67.2 percent of Swiss voters in a national referendum approved a package of seven bilateral agreements with the European Union. For Switzerland the most controversial issues remain overland EU transport through Switzerland and the gradual introduction of free movement of people between the EU and Switzerland. For the moment Switzerland appears poised to enjoy the commercial benefits of EU membership without the burden of fiscal contributions or a loss of sovereignty.

The most emotional issues affecting Switzerland's external relations, of course, are the alleged role of the Swiss government regarding "Nazi gold" and the role of Swiss banks and other financial institutions regarding dormant bank accounts and other assets of Holocaust victims. The allegations, litigation and global publicity surrounding these issues have been overwhelming at times. Recent class action settlements of some allegations and claims have been costly and controversial, and have satisfied virtually none of the parties involved. Unfortunately, even the process of distributing settlement funds to the victims has become controversial. The debate over culpability and appropriate restitution to the victims is likely to continue to rage for years to come.

The eleven papers prepared for this volume by the Martindale Scholars address a wide range of important issues facing present-day Austria and Switzerland. Under the guidance of faculty mentors, the students have made extensive use of published materials and Internet resources, and have drawn extensively on information gained during a field study trip to Austria and
Switzerland in May and June 1999. The students and their faculty mentors benefited enormously from a series of meetings with high-level business, government and academic experts in Vienna, Zurich, Lausanne and Geneva.

We are grateful to the many individuals in Austria and Switzerland who shared their expertise and experience with our group, and to the three distinguished alumni of Lehigh University who organized the meetings and devoted so much of their own time and attention to the students: Paul Senger-Weiss, Executive Chairman, Gebrüder Weiss Gesellschaft m.b.H. (Lauterach and Vienna); Hans J. Bär, Honorary Chairman, Julius Baer Holding AG (Zurich); and Professor John C. Badoux, President, École Polytechnique Fédérale de Lausanne (Lausanne).

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