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Hasi and Proporz

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Mr. Walter S. Rogers
Institute of Current World Affairs
522 Fifth Avenue
New York 36, N.Y.

Dear Mr. Rogers:

If continuing coalition is inevitable, the Austrians may as well relax and enjoy it. For this, the most probable outcome of the next election, they are well-equipped: no one has ever written about this country without headlining the famous Viennese propensity for compromise as a national characteristic.

Another reason why the apple-cart is so unlikely to be upset is that there are so many apples on it. The Coalition's critics may be right when they maintain that Austria's present moment of unprecedented (relative) prosperity has been achieved largely despite the Coalition system, but it is an argument that usually leaves voters unimpressed. The alternatives to the present system are uncertain - it is the only system the Second Republic has ever known - and the memory of civil strife in the First Republic is intensely alive. Even when he agrees with all the nasty now being said about the Coalition (and he usually does agree with them), the citizen is inclined to conclude: "We'd better stick with it."

It is a very Viennese answer.

The result of this line of thinking is a current rash of Coalition self-criticism, skeptically helped from outside by the critics who doubt that the Coalition will ever be able to clean itself up. But if the Coalition is here to stay, then one must at least make the effort.

The chief self-confessed evils of the existing arrangement are immobility and corruption. Of these, the former is largely a result of government by two equally-balanced factions that genuinely disagree on many matters of both ends and means, and each of which exerts a virtual veto on legislation or administration of which it disapproves.

A conspicuous example is the pressing problem of financing new large-scale investment programs. In the post-war period most of this sort of investment was done in accordance with a socialist pattern, partially because the government, in receipt of ERP funds, was the only real source of capital and partially because many in the People's Party had really not decided on which side of the social fence they belonged (a confusion shared by the MRP in France and the Christian Democrats in Italy and dramatized in the present crisis in Rome). Now the Socialists would like to continue and expand the nationalized sector of the economy, while maintaining government control over the

sources of capital. (This last would permit socialist planning to affect even the non-socialized sectors, but less idealistic motives are also involved.) The People's Party would prefer to see no more nationalization and the expansion of the private capital market. For this second purpose they favor a system of "People's Shares" as a method of encouraging private saving and accumulation of private capital in a land with few capitalists. In this, incidentally, it is they rather than the Socialists who would change the course of local history: in Austria government investment has always been far more important than private.

The result of this conflict of principle is that no decision is reached, while industries throughout the country wait for investment funds to come from somewhere. When time is vital, if the present tide of prosperity is to be caught at the flood that leads on to fortune, these delays could be disastrous for the future.

Corruption of course commands more headlines than mere immobility, and the "Haselgruber Affair", a stinking (and confused) kettle of fish if ever there was one, has been on and off the front pages since it first came to light last June.

I don't pretend to understand all the details of the Haselgruber story, although I have been following its development since September and have discussed it with journalists, politicians and all sorts of citizens. It is a bit too complicated, and political and business figures - both parties - keep popping in and out of doors like husbands and lovers in a French farce. Even Vienna coffee-house-politicians cannot quite keep up.

But since the affair provides a textbook case study of Proporz corruption and economic mismanagement under the Coalition, and since it is receiving enough publicity to turn it into the Panama or the Stavisky scandal of the Austrian Second Republic, the story is worth attempting.

Johann Haselgruber, a farm boy with wits and ambition, was one of a group of enterprising young men in Austria and other European countries who made quick fortunes just before and after the end of the war by dealing in scrap metal, then much in demand. After the first postwar years of universal scarcity, most of these entrepreneurs, lacking any real business knowledge, returned to the poverty from which they began.

But some, including Hasi, found other means of continuing. They dealt with the Russians, who remained in the scrapmetal market. This, during the occupation, was an undertaking always unpatriotic, usually quasi-legal, and sometimes simply illegal. To cover their tracks and put away a nestegg against the future, the scrap-smugglers entered another dubious business: monetary transactions arranged through Switzerland.

Hasi had bigger ideas than these get-rich-quick-and-run schemes. He turned to a legitimate iron and steel business, which he established

in St. Andrä-Wörden, a Danube valley village snuggled between the Vienna Woods and the river a few miles upstream from the capital.

But having had no real business experience, and only the dubious recommendation of his success as a wartime and postwar scrapmetal magnate to support his needs, he found credit hard to come by.

Proporz and an organisation called the Girozentrale (Central Clearing-house) provided a way out - a way that Hasi was certainly not the only one to travel. This Girozentrale is the roof-organization for the 174 Austrian Sparkassen, or saving banks. It was until 1938 a joint stock company, and was transformed by the Nazis, as part of their rationalization of the Ostmark economy, into a public corporation. At the end of the war, therefore, the Girozentrale lost assets valued at some 400 million Reichsmarks in Berlin, but still was not allowed to disown its Austrian liabilities. So to maintain interest payments, it began a policy of advancing money to speculative enterprises - that the banks would not touch - at higher rates. The coming of Proporz with the coalition resulted in the sorting of the 174 regional offices into "Vereinssparkassen", run by the Blacks, and "Gemeindesparkassen", run by the Reds. With one exception the Socialist "Gemeindesparkassen" are smaller, nearer insolvency, and unimportant. But the exception is the Zentralsparkasse der Gemeinde Wien, which handles 40% of the entire business of the Girozentrale.

That Haselgruber should come to the Girozentrale is certainly in order. But the criterion by which the Girozentrale decided that he was a suitable credit risk seems a bit unbusinesslike: he could receive very large credits for his iron and steel enterprise if he would kick back half of the credits given him (some reports say 40%) as donations to the treasuries of both the coalition parties.

The scheme worked very well. When Hasi's St. Andrä-Wörden industry continued to fail economically, it even produced further credits. Just what brought this pleasant arrangement to an end remains obscure. Scrapmetal prices collapsed in 1957, and Hasi was once more in trouble; then someone along the line blocked new credits. In June the affair broke into the open, although the new director of the Girozentrale testified in court this week that all this could have been avoided if only 12 million schillings more had been advanced in the spring. Many here believe that the Socialist Party, financially much stronger than its Proporz-partner, and therefore not really dependent on such tainted money, finally betrayed Haselgruber by arranging the blockage of further funds. Whatever was the case, the Austrian Wirtschaftspolizei (industrial police), one of the most efficient arms of Austrian bureaucracy, descended suddenly on Haselgruber, found his enterprise to be non-viable and in bankruptcy, and (with the help of Vienna publisher Fritz Molden, who had smelled scandal first in his popular daily Express) revealed the source of Hasi's finances.

The affair has been running its confused and smelly course ever since. Fritz Polcar, member of Parliament and Vienna regional General Secretary of the People's Party, was implicated especially closely. He resigned from his seat in the Nationalrat, but, curiously, did not

resign his party position until several months later. On January 20th Polcar ostentatiously celebrated his fiftieth birthday by giving a party in the Vienna home of the People's Party, which was attended, equally ostentatiously, by party dignitaries including Dr. Felix Hurdes, president of the Parliament and number two man in the People's Party. Dr. Hurdes stirred political reaction by toasting Polcar: "May our host be seen once more in that position in which his many friends would like very much to see him." Yet so closely was the former Vienna party boss involved in the scandal that it is often referred to in the press as "the Haselgruber-Polcar affair."

The scandal has rocked Austrian politics. Haselgruber declared publically that he was no more than a victim of the system, and many were inclined to agree that this was true. He further declared that, if he were going to be damned for his role, others would go to hell with him, and he proceeded to name names. Among these was a particularly savory gentleman named Wilhelm Wilfling, the Socialist Director of the Girozentrale and former director of the Sparkasse at Enns, through which much of Haselgruber's money had come. Hasi said he had passed Wilfling 1.4 million schillings (about \$ 56,000) as a bribe.

Molden's Express printed the charge, Wilfling sued the Express, and the case came to court last week - the first of an almost infinite series of Haselgruber cases that the courts will be clearing for years. After contradictory testimony had been heard, the judge brought Haselgruber and Wilfling together in a dramatic confrontation and told them: "One of you is lying" - the understatement of the month. In the end he decided the word of Director Wilfling was marginally better than the word of scrap-smuggler Haselgruber, and Express paid nominal damages of 500 schillings (\$ 20).

Wilfling's career sheds some light on both his own credibility and the whole sordid picture of administration by Proporz. Before 1934 he belonged to the right-wing, para-military and quasi-Fascist Heimwehr; during the Schuschnigg dictatorship he was a precinct leader of the (Fascist) Fatherland Front, which did violence to both socialists and Nazis. But after the Anschluss he joined Hitler's Wehrmacht and became an officer. During the occupation of France, he was convicted by court martial of smuggling foodstuffs and sentenced to three years in prison. In 1945 he somehow was in a position to surrender the town of Enns to the arriving Americans, and, by telling how the Nazis had put him in prison, he obtained from the Americans an identification card as a "victim of Nazism" - a valuable document to have in those days. Austrian authorities later discovered the truth and relieved him of this particular trophy. Finding his way to the job of director of the Enns Sparkasse, he joined the Socialist Party in 1953, and as a Socialist was advanced to the Board of Directors of the Upper Austrian Saving Banks Association, and eventually to the position of Director of the Girozentrale.

Last week, as Wilfling, fat, bald, pale and perspiring, faced Haselgruber before the judge, the Socialist Party announced that he would remain one of their two candidates on the four-man Board of Directors of the Girozentrale, which is in the process of reorganization.

So far, however, the Socialist Party leadership has not been directly implicated in the scandal, as the People's Party has been through Polcar and others. - The People's Party treasury is, moreover, known to have received sizeable sums from Haselgruber - 23 million schillings was the figure given me by a Freedom Party member of Parliament - while it remains unclear whether the Socialist's treasury received much, little, or none of the money passed to its representatives in the Girozentrale. This reflects the generally accepted view here that the Reds are genuinely less corrupt than the Blacks, if only because they are richer and can afford to keep clean. Corruption is a relative matter, after all.

This bare-bones outline does no justice to the multitude of complications in the Haselgruber story. Particularly unhelpful in clarifying anything was the "smuggling" episode of November

On the last day of October Hasi suddenly made the front pages again: with two colleagues, he had been arrested for "weapons smuggling" to an unspecified Middle Eastern Power. After about ten days of confusion, the accused were released from jail to await trial. Only this week the case came to court, and was quickly dismissed.

What seems to have happened was this: A German associate of Haselgruber was approached by a mysterious Austrian who said that a supply of surplus Austrian gendarme carbines was available for sale, if a customer could be found. The German naturally came to Haselgruber, who apparently made some preliminary enquiries in a Middle-eastern direction. Then Hasi, his director and the German associate arranged to meet the supposed agent for the gendarme weapons. When the "agent" arrived, he was accompanied by a police investigator, who promptly arrested the trio for attempted smuggling. The "mysterious Austrian" had in fact been an agent provocateur of the police.

As originally released by the police, the story made no mention of agent provocateur, or of gendarme weapons, and in fact it succeeded in implying that the arms involved were of significant size, modernity and quantity to be significant. Only gradually did the extent of police involvement come to light, and the fact that the "arms" involved consisted of a small consignment of overage police weapons. Haselgruber protested, not unreasonably, that he had known the "agent" to be a police official, and that he had therefore supposed that the transaction was officially authorized and quite legal. The case collapsed, leaving only a few questionmarks.

The most accepted explanation of this peculiar incident is that the police wanted Haselgruber tucked away in jail during that particular week, in order to avoid complications while the Socialists (who control the Interior Ministry and therefore the police) took over the bankrupt assets in St. Andrä-Wörden (which fell to them, in some way, under Proporz). This explanation is not entirely satisfactory, and I have been unable to confirm or disprove it.

At least one Vienna newspaper has suggested that the episode represents the most serious threat yet to democracy, because a citizen was imprisoned, not for genuine suspicion of a specific

crime, but for the sake of some political convenience.

Meanwhile, the name Haselgruber has become an Austrian household word. No Vienna cabaret is without its Hasi songs, and at the mid-night floorshow at the annual Policeman's Ball last month I counted four Haselgruber jokes. In the corner restaurants and neighborhood beer parlours you can put a schilling in the juke box and listen to a jolly calypso (!) about "Haselgruber der grosse Matador" (a Matador is a child's building set, a little like the American Erector Sets). And of course the anti-Coalition press uses Hasi as a stick with which endlessly to beat the Government.

The public attitude and the attitude of the bureaucracy, however, were probably characterised by a statement from an incidental witness at the Wilfling vs. Express trial. She said: "So what can a merchant do, other than - as Haselgruber has done - give the parties money?" The witness was a lawyer. She also said: "Politics have unhappily played a very essential role by us in the Girozentrale - as everywhere."

I began by mentioning a current spate of Coalition self-criticism. In this Haselgruber is not often mentioned by name, but his shadow obviously lies across every discussion, crossing the shadow of approaching elections. Anti-corruption laws have been proposed, along with a general reform of the administration. Interior Minister Helmer, who had long maintained that thoroughgoing reform was impractical, because replacements for inefficient and corrupt officials simply were not available, reversed himself in a speech last week - although he still had some reservations. There is increasing talk of an independent civil service, based on examination, and some journalists have been analyzing the American and British systems, but there seems to be an unspoken fear that to shake the administration too hard will only produce panic and not improvement.

The old Austrian bureaucracy was reasonably honest and independent, serving the Emperor and later the First Republic quite impartially, supplying ministers to the government itself whenever quasi-Parliamentarianism failed - which was often. Its boast was honesty rather than efficiency, but it was a fair boast:

"What we have now," a friend told me sadly, "is what one expected from, perhaps, Bulgaria before the war. Our bureaucracy has been Balkanized."

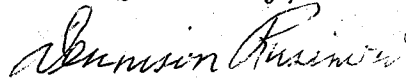
Hitler and the Anschluss years finally destroyed this structure that Maria Theresa had built. The expediency of Proporz, instituted in the dark days after 1945 when even Hitler's civil servants in turn were ousted, led to party loyalty as the sole prerequisite for civil service, to incompetence and corruption, to Haselgruber and Wilfling and Polcar.

Corruption scandals are bad enough in established democracies - there is a real link between the Stavisky Riots of 1934 and the Maginot demoralization of 1940 in France. In a young, hard-pressed democracy

they are terribly dangerous.

On the other hand, this seems to be a year for scandals, and perhaps Vienna is merely trying to do its share. If Haselgruber has not had the world headlines afforded to Rosemarie Nitribitt, "Ballet Rose", Jean Lacaze and the revelations of Edward R. Murrow, surely it is only because the story has no sex angle.

Sincerely,



Dennison Rusinow

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