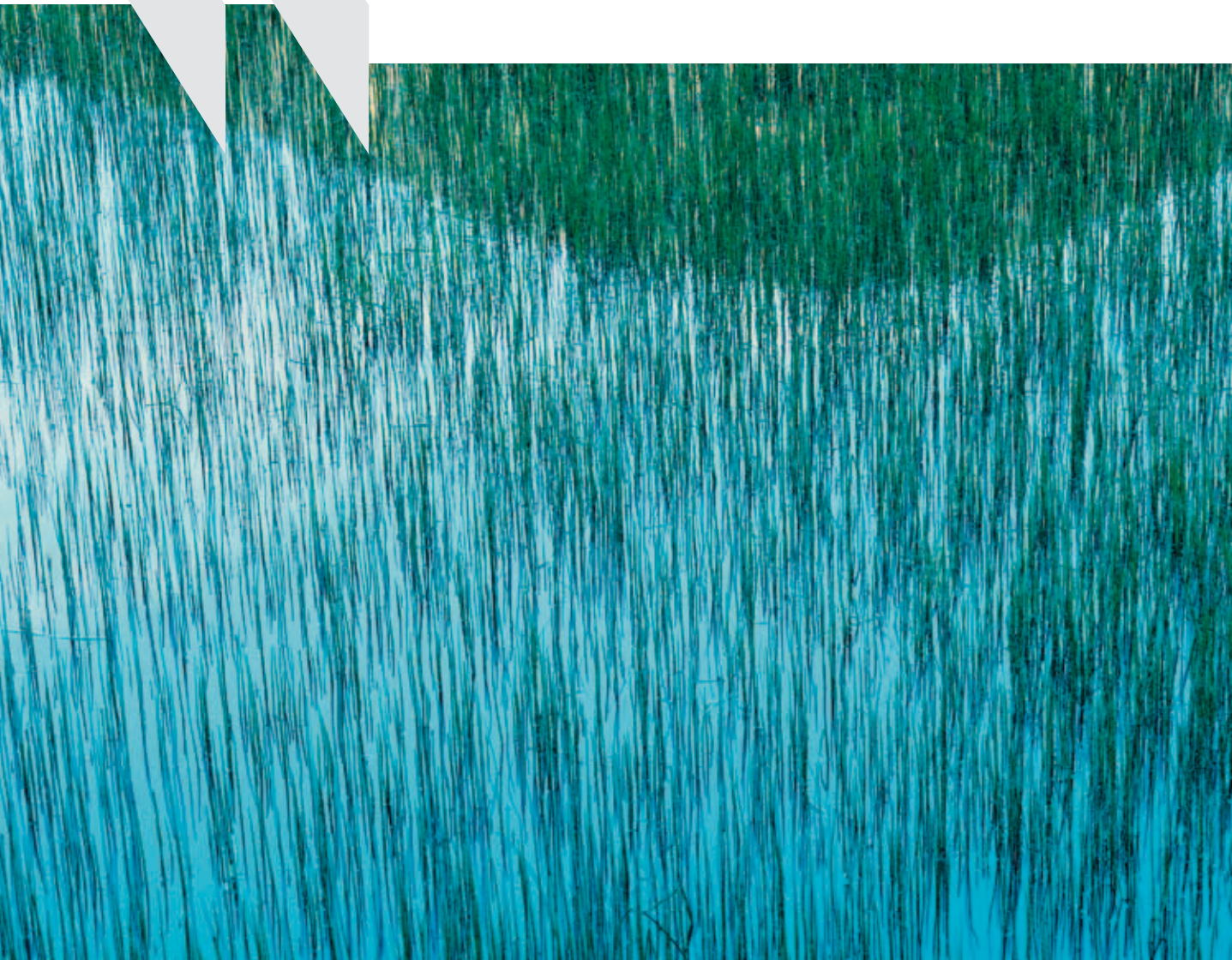
OECD Economic Surveys

AUSTRIA



Volume 2009/10
July 2009

OECD Economic Surveys

Austria

2009

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where the governments of 30 democracies work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Commission of the European Communities takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

Also available in French

Cover illustration: © Pat O'Hara/The Image Bank/Getty Images.
Corrigenda to OECD publications may be found on line at: *www.oecd.org/publishing/corrigenda*.

Table of contents

Boxes

Tables

Figures

This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Austria were reviewed by the Committee on 6 May 2009. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 19 May 2009.

The Secretariat's draft report was prepared for the Committee by Rauf Gönenç, Lukasz Rawdanowicz and Christian Hederer under the supervision of Vincent Koen. Research assistance was provided by Béatrice Guérard.

The previous Survey of Austria was issued in July 2007.

Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at www.oecd.org/eco/surveys.

BASIC STATISTICS OF AUSTRIA (2008)

THE LAND

Area (thousand km^2)	84	Major cities (thousand inhabitants, 2005)	
Utilised agricultural area (%)	38	Vienna	1 630
Utilised forestry area (%)	40	Graz	250

THE PEOPLE

Population (thousands, 2007)	8 315	Labour force (thousands)	4 380.3
Inhabitants per km^2	99.1	Employment (thousands)	4 166.5
Average annual population growth (1997-2007, %)	0.4	Registered unemployment rate (% of the labour force)	5.8
International migration balance (thousands, 2007)	33	LFS unemployment rate (% of the labour force)	4.9

PRODUCTION

Gross domestic product, current prices		Origin of value added (%)	
In billion €	282	Agriculture	2
Per head (thous. $, PPP exchange rate)	37	Industry	31
		Services	67

THE GOVERNMENT

Per cent of GDP		Composition of National Council of Austria (September 2008)	Number of seats
General government revenue	48.2	Social Democratic Party of Austria (SPÖ)	57
General government expenditure	48.7	Austrian People's Party (ÖVP)	51
Gross public debt (Maastricht definition)	62.6	Freedom Party of Austria (FPÖ)	34
		Alliance for the Future of Austria (BZÖ)	21
		The Greens (Grüne)	20
		Total	183

FOREIGN TRADE

Exports of goods and services, % of GDP	59.2	Imports of goods and services, % of GDP	53.9
Main exports of goods (% of total):		Main imports of goods (% of total):	
Machinery and transport equipment	39.7	Machinery and transport equipment	34.3
Manufactured goods	23.2	Manufactured goods	16.9
Miscellaneous manufactured articles	11.0	Miscellaneous manufactured articles	13.4
Others	26.0	Others	35.4

THE CURRENCY

Irrevocable conversion rate (1 €)	13.7603	Currency units per $ (period average):	
		Year 2008	0.68
		May 2009	0.73

Executive summary

So far, Austria has weathered the global financial crisis better than other OECD countries. Even so, it is entering its worst recession in half a century. Moreover, its strong economic links with Central and Eastern Europe involve risks to GDP growth and financial stability. In the face of the crisis, the stance of monetary policy has been loosened in the euro area and measures have been taken in Austria to strengthen the liquidity and capital basis of the financial system, whilst automatic stabilisers coupled with discretionary fiscal measures also serve as a cushion.

- *While measures in Austria and abroad have been introduced to stabilise financial markets, further financial-sector support might be needed to deal quickly with downside risks should they materialise. Income maintenance should continue to be administered with a view to protect workers rather than jobs and in conjunction with schemes improving their longer-term employability. Nevertheless helping maintain existing jobs for a limited duration can be helpful in the current state of the crisis.*
- *The deterioration in the fiscal position calls for spelling out soon credible medium-term consolidation measures, to take effect once economic conditions improve. This will be helped by the new four-year expenditure ceiling framework and the transition to performance budgeting but also calls for greater commitment on the part of the* Länder.

Beyond the ongoing crisis, the economy will need to be put on a stronger growth path, and to regain the ground lost over the past decade *vis-à-vis* better-performing economies. There is room and need for policies to enhance both labour productivity and labour utilisation.

- *The productivity gap between dynamic, trade-exposed manufacturing and comparatively lagging sheltered service sectors should be addressed through more active domestic competition policies.*
- *The persisting contrast between the employability of skilled prime-age versus older and less-skilled workers should be reduced through measures enhancing labour supply and demand for disadvantaged groups.*

High-quality education is key both for growth and social cohesion. Austria's education system, from pre-school to university, should be strengthened. Ambitious reforms, which have already been launched in some areas, should be considered a national priority.

- *From age three onwards, all children should benefit from high-quality pre-school education.*
- *In compulsory education, resources should be reallocated to the most important and innovative policy initiatives, such as the Neue Mittelschule. The federal government should continue with efforts to provide more autonomy to schools, in exchange for improved accountability in meeting national education standards.*
- *At the tertiary level, growing registration demand needs to be met without compromising teaching quality. Universities should have greater leeway to select their students and charge tuition fees, with a comprehensive student grant and income-contingent loan system ensuring equality of opportunity.*

OECD ECONOMIC SURVEYS: AUSTRIA – ISBN 978-92-64-05439-4 – © OECD 2009

ISBN 978-92-64-05439-4
OECD Economic Surveys: Austria

Assessment and recommendations

Austria has been affected by the international crisis…

Austria's economic expansion came to a halt with the global financial crisis which erupted in the summer of 2007 and intensified in the autumn of 2008. However, till end–2008, the downturn proved less abrupt than in most other high-income euro area countries. Private consumption and investment held up better, as did exports, notably to Central and Eastern Europe (CEE). International contagion first took the form of general tensions in the financing of banks and a tightening of economy-wide credit conditions. In response, the authorities put in place measures to bolster banks' liquidity and capital, and the confidence of depositors and creditors. The ongoing slump in world trade is the second channel through which global weakness is affecting Austria, where exports amount to some 60% of GDP. Coupled with the financial-sector uncertainties, and with the expectation of shrinking domestic employment, this foreshadows subdued spending by households and enterprises. Against this backdrop, and despite significant policy action, Austria is projected to experience its deepest and most protracted recession since the mid–1950s, with unemployment rising sharply, albeit with a lag.

… and is exposed to risks in Central and Eastern Europe

The financial system has been less affected than elsewhere, being less exposed to the most toxic international asset classes or to souring domestic credits. Strains arose in February 2009, however, when the perceived riskiness of credit positions in a number of CEE countries rose sharply in light of a deteriorating economic outlook and balance of payments problems. Austrian banks have been very active across a broad spectrum of countries in the region in recent years through cross-border loans and credits by subsidiaries, which accounted for a prominent portion of their total earnings. With Austrian banks' assets in CEE representing over 60% of Austrian GDP, the fiscal implications of a potential banking crisis raised concerns and the risk premium on Austrian government bonds soared to as much as 130 basis points in early 2009, though it has edged down since. Uncertainty about the situation in certain CEE countries endures, however, and deep recessions in the region would put additional strains on Austria's financial system, regional trade and domestic activity and investment. The ensuing risks differ across the CEE countries, however, both because of large differences in economic conditions there and as a function of their relative importance to Austria as economic partners.

A number of policy measures have been taken in response to the crisis

A series of monetary, financial, fiscal and labour market policy measures have been put in place since last autumn.

- In addition to the monetary stimulus imparted by the Eurosystem, the Austrian authorities have introduced a € 100 billion (36% of GDP) package, including a top-up of the deposit guarantee scheme by € 10 billion, € 15 billion for capital injections in financial institutions, and € 75 billion for supporting interbank lending (*via* a new clearing bank) and for government guarantees of bank bond issuance. Banks soliciting these resources need to sign agreements with the authorities and to step up lending. A new guarantee scheme underwrites the borrowings of small-and-medium sized enterprises for their investment and working capital needs. These measures have helped alleviate the strongest sources of tension in the financial system between October 2008 and April 2009.
- Fiscal policy has also responded to the exceptional circumstances. As the share of taxes and public spending in GDP is high, and as social transfers are comprehensive in Austria, the automatic stabilisers play a particularly large role. Moreover, discretionary stimulus is being injected, notably through measures to support households' purchasing power (including increases in family benefits, cancellation of student fees, and VAT cuts on medication), personal income tax cuts (brought forward from 2010 to 2009) and other measures such as new infrastructure investments. The fiscal deficit is projected to rise from close to zero to about 4.5% of GDP in 2009 – with approximately two thirds of the increase a result of automatic stabilisers and one third stemming from discretionary stimulus.
- Labour market policy action has also been taken. In Austria, workers' incomes are well protected in case of unemployment, initially through unemployment insurance and then through equally supportive social assistance. All recipients of unemployment insurance and social assistance are in principle referred to active labour market programmes, which seek to assess and, if possible, adapt their labour market skills. More recently, a rarely-used public subsidisation scheme for enterprises that keep on their employees despite falls in activity has been expanded. It is now available for up to 18 months, and compensates income losses due to working time reductions of up to 90% of the basic salary. Participating firms are encouraged to use the subsidised hours for re-qualification and retraining. Some 50 000 workers had been covered by this measure by April 2009 and the total take–up is expected to approach 70 000 by end-2009, amounting to a quarter of the current number of registered unemployed.

More may be needed, but without creating distortions

These various policy levers should continue to be used in a timely and flexible way, keeping in mind the need to avoid lasting negative side effects and to start phasing out policy support once economic conditions improve. Generous income maintenance is in principle associated with programmes aiming at improving recipients' employability and *care should be taken that they keep fulfilling that role through the crisis*. Neither the recent tax cuts nor

OECD ECONOMIC SURVEYS: AUSTRIA – ISBN 978-92-64-05439-4 – © OECD 2009

social protection appear to unduly distort market signals or hinder the adjustment of corporate structures and worker qualifications and *it is essential that further measures – if any – also be as neutral as possible in that respect*. Measures aimed at securing financial stability appear broadly effective to date, but further support may become necessary in the event of additional regional or global shocks. *Plans should be ready in the event that the financial crisis worsens in one or more CEE countries*. The Austrian authorities are closely monitoring developments. They have actively facilitated confidence-building and crisis-management contacts within the CEE region and the international financial community, and are keeping in close touch with their relevant counterparts. *Depending on developments, further cross-border initiatives may be called for.*

Austria has made a welcome step forward in tax co-operation

In response to the changing environment Austria has endorsed the OECD standard for the exchange of information in tax matters, and withdrew its earlier reservation on the applicable article in the OECD Model Tax Convention. Once information exchange consistent with the OECD Model is implemented, Austria will be in a position to exchange information on all tax matters foreseeably relevant for the administration or enforcement of the domestic law of its treaty partners. *Austria is encouraged to implement this decision as rapidly as possible*.

Fiscal sustainability needs to be safeguarded

The deterioration in Austria's fiscal position, though less dramatic than in a number of other OECD countries, is substantial and unavoidable. Going forward, however, the long-term sustainability of public finances should be ensured, not least because it conditions the short-term effectiveness of macroeconomic stimulus. Therefore, *it is important to spell soon out a credible path of fiscal consolidation to be embarked upon once the recession has ended, based principally on expenditure restraint but also, if necessary, on increases in less distortive taxes*. Two factors should play a positive role in this regard. First, the recent introduction of rolling four-year spending ceilings (which allow for cyclical spending on unemployment insurance and social protection) should help contain spending. Secondly, Austria has made progress with respect to containing ageing-related expenditure, especially on pensions. Nevertheless, efforts on this front should be maintained as risks and uncertainties remain high. *Pension schemes for all civil servants should be fully harmonised, incentives for early retirement should be curtailed, disability pension schemes should be redesigned, a new sustainability mechanism for the pension system should be envisaged and health reforms should be implemented more resolutely.*

Reform of fiscal institutions should help post-crisis consolidation

Before the onset of the recession, Austria had launched important fiscal institutional reforms. Strategic public expenditure planning and output-based budgeting are to be enforced from 2013. They involve explicit performance targets for all key public services, facilitating the assessment of the costs of public activities against their social benefits.

Such progress with transparency should help reveal areas where resources can be utilised more efficiently. Combined with a desirable – albeit admittedly difficult – reform of federal fiscal relations, *improved transparency of the costs and benefits of the* Länder's *activities would generate savings*. Indeed, as confirmed by a recent report of the Court of Audit, there is ample scope for savings in sub-central expenditures. Efforts at reforming federal fiscal relations, with an aim to better match service (spending) and funding (tax) responsibilities at federal and *Länder* levels will provide an occasion to re-assess and reform the structure of taxation. It should notably help promote the economically desirable, but so far elusive shift from a "work and income-based" to a more "wealth and consumption-based" tax structure. *A re-appraisal of the tax system should look at all of these issues.*

Growth potential can be lifted further

While the macroeconomic policy response to the global financial crisis is the immediate priority, it should not detract from structural reforms in product and labour markets. Austria continues to enjoy a relatively high level of GDP *per capita*, but over the past decade and a half it has tended to lose some ground compared with the front-runners. This reflects persisting gaps in both labour productivity and labour utilisation. The productivity gap has started to narrow in recent years, but the labour utilisation gap has tended to worsen. The most globally-oriented parts of the business sector have intensified their innovative efforts and achieved significant productivity gains, but the more sheltered services have been less dynamic. *Structural reforms and policies to improve productivity, investment and employment would not only help boost growth potential and average* per capita *income, but would also enhance social cohesion.*

Service market regulation should become more supportive of innovation and investment

Despite important liberalisation initiatives in recent years in large sectors such as retail trade and telecommunications, the regulatory framework in services remains somewhat restrictive. In the absence of the incentives and disciplines of trade competition, the rules governing market entry and the creation of new corporations, as well as various sectoral regulations, are not sufficiently supportive of competition, innovation and productivity growth. This is a prime factor underpinning the contrast between the good productivity and employment performance of manufacturing and a generally weaker record of services in international comparison over the past decade. Even though the legal framework of competition is strong and comprehensive – with few sectoral exemptions – competition policy will have to be fostered, especially by further strengthening the Federal Competition Authority (FCA). *Regulations should be adapted to instil more competition in trade-sheltered markets and facilitate entry, innovation and investment. The FCA should be mandated and adequately resourced to play a more proactive competition advocacy role.*

Greater competition is needed in the infrastructure sectors

Greater competition in network sectors such as energy, transport and communications would improve real incomes and the overall competitiveness of the economy. These

industries are characterised by large vertically-integrated firms with high government ownership relative to other OECD countries. Government ownership seems to enjoy broad public support as a source of quality and security of supply in key services, but cost and price performance fall short of OECD benchmarks. For example, electricity prices for industry exceed OECD averages and, while fees in telecommunication services are lower than OECD averages, they remain higher than in other high-income European countries. *Sectoral regulators and the FCA should closely monitor market structures, behaviour and prices in particular in electricity, gas, rail passenger transportation, postal services and telecommunications.*

Labour market dualism should be reduced

Austria's overall labour market performance is strong, with a high employment rate and a low unemployment rate – notwithstanding the recent rise in joblessness. At the same time, there is a stark contrast between the respective employment rates of a large, well-performing core of prime-age workers with at least upper secondary education, and vulnerable groups such as older workers and workers with less than upper secondary education. Among high-income OECD countries this contrast appears strong in Austria, and constitutes a drag on potential growth. The employment challenges faced by vulnerable workers may further increase in the future due to the inflows of workers from neighbouring countries after the full liberalisation of labour movements with the new EU member states in 2011. *Increasing the employment rate of older and low-skilled workers should be higher on the agenda, by addressing their remaining incentives for staying out of the labour force, as well as the impediments to stronger demand for their labour in the business sector. Helping up-skill these workers and improving their employability should also be a prime objective of public policies.*

The employment rate of older workers can be raised

The low employment rate of older workers mainly reflects their massive withdrawal from the labour force until a few years ago. Pension, early retirement and disability schemes provided them with incentives to do so. The associated benefit conditions have since been tightened but cumulative cohort effects persist. Moreover, some recent policy measures have weakened older workers' participation incentives. The penalty on early retirement was reduced in 2007, with a cut in the heretofore actuarially neutral discount rates applicable at early retirement. *To lift the employment rate of older workers, the early retirement and disability pension schemes should be redesigned. The discount rates applicable before the standard retirement age should be actuarially neutral.*

The low-skilled's work incentives should be strengthened

The employment rate of the low-skilled remains one of the lowest among high-income OECD countries. This reflects shortcomings in work incentives, as well as weak demand for their labour. They face high implicit taxation when moving from inactivity to employment, and from part to full-time employment, even if this was to some extent alleviated by the 2009 tax reform. The implicit taxation rate is high for inactive low-skilled women with two or more children. In addition, while the enforcement of labour market availability rules

for the recipients of unemployment insurance is among the strictest in the OECD, this is not the case for social assistance. The partition between federal responsibilities for unemployment insurance and *Länder* responsibilities for social assistance appears to be a source of inefficiency. *Labour market participation incentives of the less-skilled should be improved by reducing the implicit taxation of low-income individuals transiting from inactivity to employment, by better integrating the management of unemployment insurance and social assistance, and by providing a larger proportion of social assistance through in-work benefits.*

Business sector demand for low-skilled labour can be bolstered

The employment costs of the low-skilled are high and relatively rigid in Austria, contrasting with the degree of wage flexibility in the core labour market. Minimum wages are the main constituent of cost floors. There is no officially-legislated minimum wage, but hundreds of minimum wages negotiated sectorally, with ratios to the national average wage clearly above OECD averages. In these conditions, the recent government initiative to set a national minimum wage floor for all wage negotiations, at a level below the minimum wages in the largest sectors is likely to have only a limited impact. Still, it may affect the cost of hiring into regular jobs workers with atypical labour contracts, as well as the potential employment costs of the presently inactive or unemployed. The total costs of employing the low-skilled are also magnified by hefty employer social security contributions – among the highest in OECD. In light of the experience of other OECD countries, *the employment of the low-skilled could be boosted by substantially reducing employer social security contribution rates, although this should be fully funded by spending restraint in lower-priority areas, or increases in less distortive taxes.*

Upgrading human capital through stronger education is crucial

Austria's growth performance hinges *inter alia* on the quality of its education system. While it has long successfully equipped the labour force with very good vocational skills, it now faces the major challenge of providing youth with the new, higher and more generic skills called for by technological change, international competition and aspirations for a more equitable distribution of human capital. As in many other countries, the education system faces difficulties in responding to these challenges. It has been organised to date as a massive public service, where fiscal costs are high, the existing human and physical resources are difficult to reallocate, and management is more input than output-oriented. It also suffers from a particularly complex federal structure, with central, *Länder* and local governments fulfilling politically independent roles but having overlapping responsibilities. Reform efforts in different education layers met with problems in the past, due to limited agreement across society, political parties, teaching professionals and federal and *Länder* authorities on the key challenges and the most urgently needed changes. The new government has an ambitious education reform agenda. Achieving a degree of consensus amongst the various stakeholders will be important for its success.

Pre-school education needs to be considerably strengthened

Austria's pre-school infrastructure has some weaknesses in international comparison. In pre-school facilities, class sizes are large and socioeconomically disadvantaged, including immigrant, children are under-represented. The government has recently agreed with the *Länder*, which are constitutionally in charge of pre-schools, to have one year of free compulsory kindergarten education for all five-year old pupils, on a half-day basis. This will start to apply from September 2009, and be generalised in September 2010. Moreover, significant additional resources will be devoted to the provision of new child care facilities, the improvement of German language skills in pre-schools and the training of private childminders. Furthermore, there is an agreement to set up an education plan (*Bildungsplan*) in order to guarantee a high standard quality all over Austria. Although those are major steps forward, room for further progress is considerable. The basic policy objective should be for *all children from age three onwards to benefit from high-quality pre-school education*.

The ongoing reforms of compulsory education require deeper resource re-allocations

A major reform was launched in compulsory education in 2007, to overcome the excessively early streaming of students into "academic" and "general" tracks by promoting a new breed of "comprehensive schools" (*Neue Mittelschule*). For this to succeed, adequate teaching resources and school infrastructure are needed. At the same time, there is ample scope for the rationalisation of school and class infrastructure, and of the distribution of teaching personnel across the country. *Resources should be freed from where they are less needed, and re-allocated to the most important and innovative policy initiatives*. This agenda, however, faces a wealth of administrative and political hurdles. *The federal governmentshould continue with efforts to renew the structures of compulsory education by providing more autonomy to schools, in exchange for improved accountability in meeting national education standards*.

The intended development of high-quality tertiary education is not on track

University enrolment is relatively low in Austria, especially in science and engineering. The government intends to offer high-quality tertiary education to a larger proportion of the young. However, universities' existing organisational and funding arrangements are not well-suited to this ambition. In principle, universities are required to register all qualified applicants to the programmes and courses of their choice, without any selection and at no financial cost to the student. The resulting imbalance between ambitious service objectives and limits on available resources has started to undermine the quality of education. Alternative tertiary institutions, which select students and charge fees, have begun to provide arguably better and more labour-market-relevant education. Whilst waiting for more comprehensive reforms, *growing registration demand needs to be met without compromising teaching quality. Universities should have greater leeway to select their students and charge tuition fees, with a comprehensive student grant and income-contingent loan system ensuring equality of opportunity*.

ISBN 978-92-64-05439-4
OECD Economic Surveys: Austria

Chapter 1

Facing the financial crisis

The global financial crisis put an end to Austria's economic expansion. By late 2008, Austria had entered recession, albeit less abruptly than some of the euro area countries, and the economy is set to contract markedly in 2009, experiencing the deepest and most protracted recession since the mid-1950s. Its strong economic links with a number of countries in Central and Eastern Europe pose risks to financial and fiscal stability. However, compared with many other OECD economies, the build-up of domestic imbalances, in the form of over-extended credit and asset prices, has been very limited in Austria. In the face of the financial crisis and deteriorating outlook, action has been taken to stabilise financial markets, boost confidence and support activity.

The economic expansion Austria was enjoying at the time of the previous OECD *Economic Survey* (OECD, 2007) came to an end with the global financial crisis. By late 2008 Austria had entered a recession which is expected to be most severe since the mid-1950s. The markets' perception of increased risks in Central and Eastern Europe (CEE)[1] and potential spillovers to Austria has added to financial market tensions. In response, the national authorities have taken action. Measures were implemented to preserve confidence in the financial system and avert a credit crunch and the fiscal stance was eased. This was supported by the Eurosystem's policy interest rate cuts and liquidity measures. Against this background, this chapter provides an overview of recent macroeconomic developments and policies and discusses the outlook and risks. The next chapter sets out the challenges faced by Austria for sustaining growth over the longer run, notably with respect to product market conditions and labour markets.

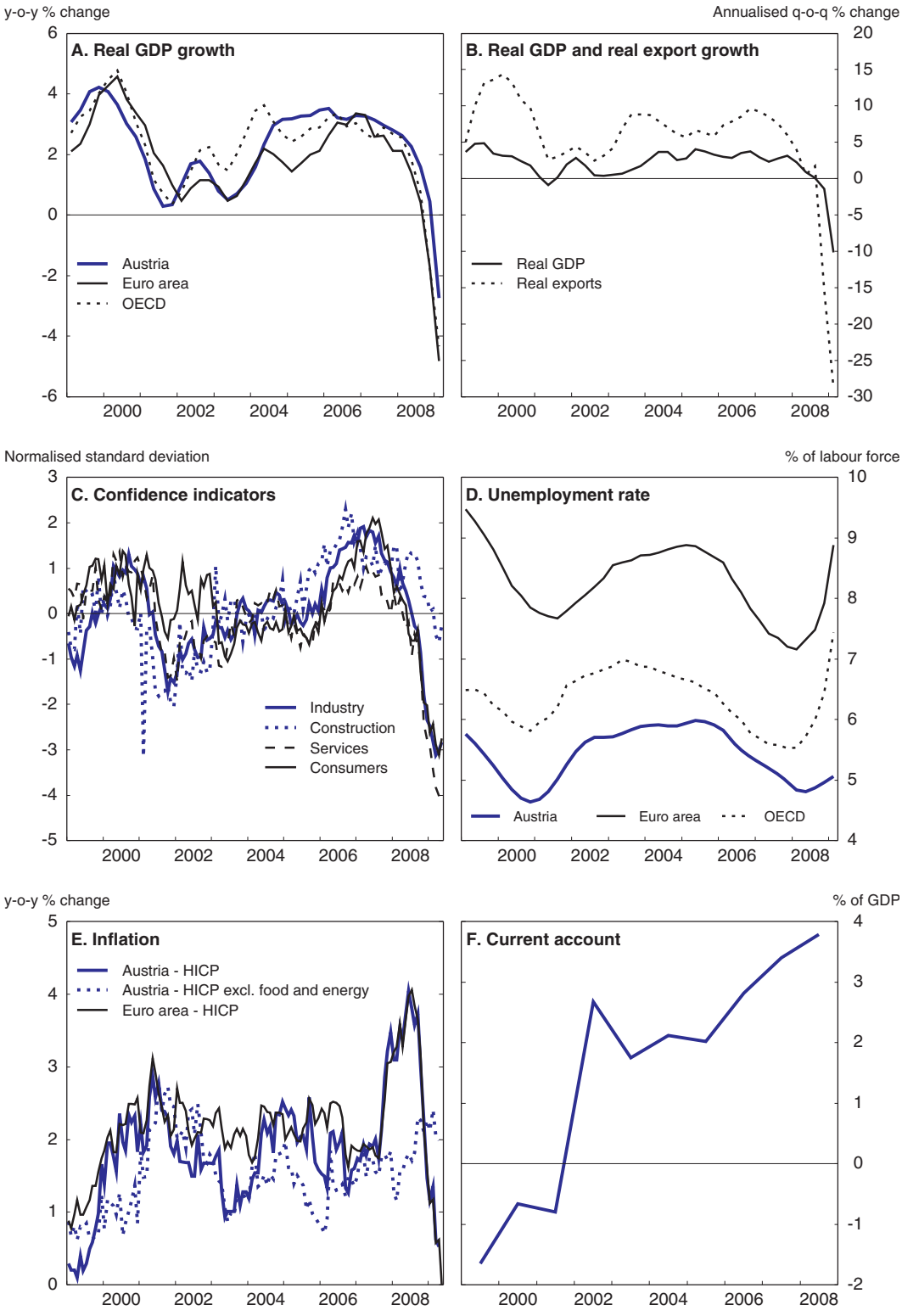
A bleak outlook

Entering recession

In 2005-07, the Austrian economy grew robustly, outperforming the euro area (Figure 1.1). This strong expansion was largely driven by exports, especially to CEE, while consumption was subdued. In the course of 2008, however, as the global financial crisis spread and worsened, confidence plummeted, equity prices collapsed and financial market stress intensified (Box 1.1). Activity slowed and by late 2008 Austria had entered recession, which intensified in early 2009. The cumulative decline in output, however, was less pronounced than in the euro area as a whole. The economic downturn was primarily due to falling exports, reflecting the collapse in world trade, and shrinking investment, in the light of the tightened credit standards and uncertainty about the outlook. In addition, household consumption declined at the turn of 2008 and 2009 as consumer confidence weakened and the labour market deteriorated. The previously strong employment growth moderated in late 2008 and turned negative in early 2009, more in manufacturing than in services. Registered unemployed increased and job vacancies declined. The deterioration has been somewhat mitigated by the government-subsidised short-time working scheme (*Kurzarbeit*), which temporarily contains job cuts and worker income losses (Chapter 2). The scheme encompassed some 50 000 workers by April 2009. Inflation underwent a large swing in 2008-09, reaching a decade-long peak of 4% in June 2008 due to soaring food and energy prices, before easing rapidly, to 0.5% in April 2009, as the hike in oil prices reversed. Core inflation, however, remained fairly constant, at around 2.2%. The current account surplus increased to 3.8% GDP in 2008, the highest level recorded in past four decades, primarily thanks to improved balances of trade in services and income.

Looking ahead, the Austrian economy is set to contract considerably in 2009 and to expand only gradually through 2010 (Table 1.1), experiencing the deepest and most protracted recession since the mid-1950s (Figure 1.2). Sustained weakness in foreign demand will result in a significant export decline in 2009. Once the world economy

Figure 1.1. **Key macroeconomic indicators**



Source: OECD, Economic Outlook database, Main Economic Indicators database, Eurostat.

StatLink http://dx.doi.org/10.1787/645106881717

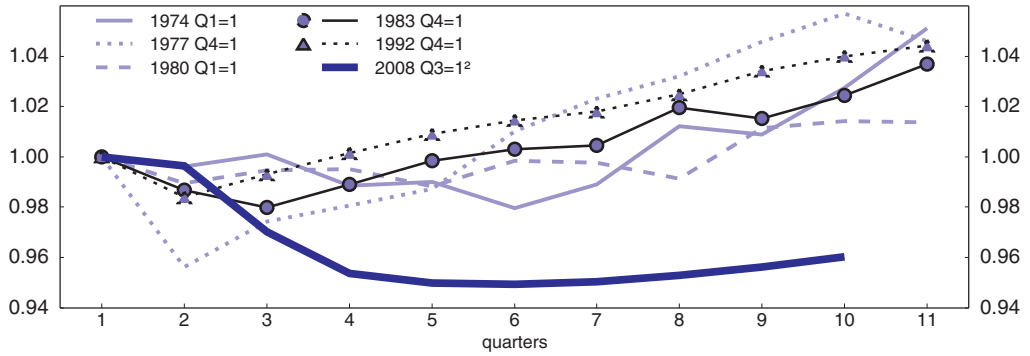
Table 1.1. **Recent macroeconomic developments and near-term prospects**

	2006 current prices € billion	2006	2007	2008	2009	2010
Private consumption	139.3	2.5	0.9	0.8	–0.1	0.4
Government consumption	47.3	2.2	1.9	2.0	1.4	0.7
Gross fixed capital formation	56.1	2.8	3.8	1.0	–8.9	–0.3
Final domestic demand	242.7	2.5	1.8	1.1	–1.9	0.3
Stockbuilding[1]		0.1	–0.2	0.1	0.1	0.0
Total domestic demand	244.0	2.1	1.9	1.9	0.3	0.3
Exports of goods and services	146.1	7.3	8.6	2.8	–14.0	1.1
Imports of goods and services	132.9	5.4	7.2	1.2	–10.2	1.8
Net exports[1]		1.3	1.2	1.1	–2.9	–0.3
GDP at market prices	257.2	3.3	3.0	1.7	–4.3	–0.1
GDP deflator		1.9	2.2	2.4	1.4	0.9
Memorandum items						
GDP without working day adjustment	233.1	3.4	3.1	1.8	–4.4	0.0
Harmonised index of consumer prices		1.7	2.2	3.2	0.6	0.8
Unemployment rate		5.6	5.1	4.9	6.1	7.9
Household saving ratio[2]		10.8	11.7	13.0	13.7	13.0
General government financial balance[3]		–1.7	–0.7	–0.5	–4.3	–6.1
Current account balance[3]		2.8	3.4	3.8	1.6	1.6

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.

Notes: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *www.oecd.org/eco/sources-and-methods*.
Source: OECD, Economic Outlook database.

Figure 1.2. **Comparing major downturns in Austria**[1]
Real GDP index



1. Since the start of the quarterly data series, in 1955. Some of the minor downturns are not shown here.
2. OECD Economic Outlook 85 projections from 2009 Q2.

Source: OECD, Economic Outlook database.

StatLink http://dx.doi.org/10.1787/645130114837

strengthens, a modest improvement in exports is expected in 2010. Given lower capacity utilisation, constrained financing and the still gloomy outlook, business investment is also projected to continue falling in 2009, before gathering momentum in 2010. Private consumption growth will remain positive over the projection horizon though very weak, as the deteriorating labour market will depress real disposable income growth and push up

Box 1.1. **Impact of the global crisis on Austria's financial system**

The financial turmoil that began in the US sub-prime mortgage market in 2007 ignited a global chain reaction, leading to sizeable corrections in equity and housing markets, generalised repricing of risk and massive financial institution deleveraging. Global liquidity dried up while risk premia and general anxiety soared. These processes intensified in the aftermath of Lehman Brothers' bankruptcy in September 2008 (Furceri and Mourougane, 2009).

Initially, the spillovers to Austria were limited. Austrian financial institutions had only a small exposure to US sub-prime mortgages and had to write off only an estimated € 1.1 billion (0.4% of GDP) of their investments in structured credit products (OeNB, 2008a). Some further losses were incurred due to the exposure to Lehman Brothers and Icelandic banks. However, financial institutions in Austria were directly affected by the freeze of the euro area money markets, especially in late 2008, when interbank interest rate spreads reached new highs (Figure 1.3). Eurosystem liquidity support measures and interest rate cuts, combined with domestic financial stability packages (Box 1.3), have helped alleviate tensions in the Austrian interbank market and contain interest rate spreads. Nevertheless, these spreads have remained elevated and like in other euro area countries interbank lending has remained limited.

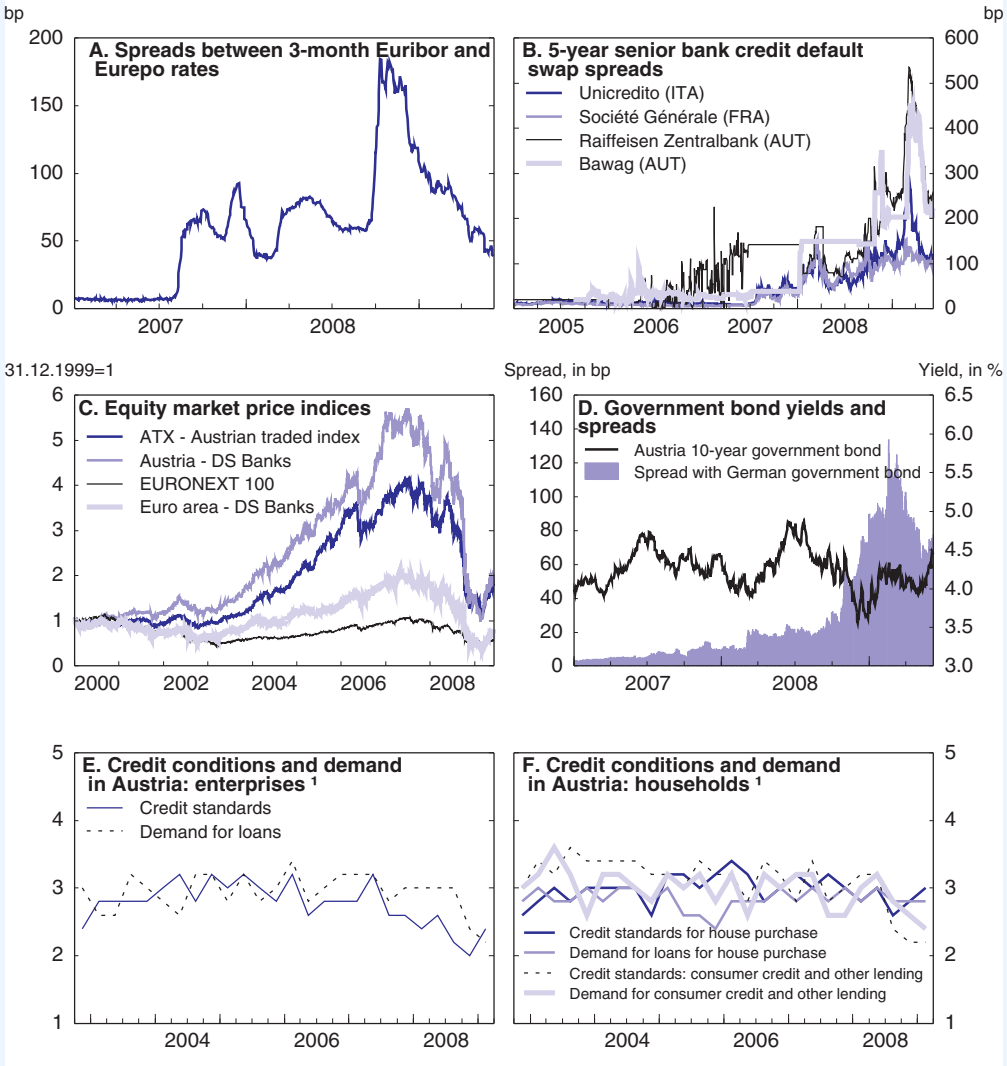
As the global repricing of risks proceeded, the cost of insuring bank debt against default, as measured by credit default swap rates (CDS), rose markedly for several Austrian and other European banks. The equity prices of Austrian banks tumbled by around 85% between mid-2007 and early 2009, more than the overall index of the Vienna stock exchange, which declined by nearly 70%. These developments seem to reflect market perceptions of heightened risks associated with the large exposure to CEE, lower expected profits due to the sharply deteriorating macroeconomic outlook but possibly also a lack of liquidity in the CDS market. While the financial results of Austrian banks remained robust in the first half of 2008, they have started to deteriorate since on the back of lower trading and fee income.

Some smaller Austrian banks ran into more severe troubles. The largest banks sought government support through recapitalisation and issued state-guaranteed bonds. In October 2008, Constantia Bank had to be saved after suffering cash outflows. In November 2008, Kommunalkredit was nationalised with the state acquiring 99.78% of its shares for a symbolic € 2. In January 2009, at Medici Bank, a small non-systemic bank, the Financial Market Authority appointed a government commissioner after the bank made losses in Madoff funds. By mid-May 2009, four systemically-important banks had concluded agreements with the government on capital injections and two others were discussing such arrangements. Credit growth to households and non-financial corporations has moderated. The recent Eurosystem bank lending surveys indicate that in Austria, as in other euro area countries, banks' margins for loans have increased and credit standards have tightened. The depreciation of the euro against the Swiss franc has added to the cost of debt servicing, as almost 30% of the stock of total loans to households were denominated in Swiss francs in the third quarter of 2008 (OeNB, 2008b). The recent fall in money market spreads and cuts in ECB interest rates should, however, help contain the price of credit. For companies, issuance conditions for bonds and shares have also tightened.

Massive equity price slumps have led to financial portfolio shifts towards deposits and government bonds. New household deposits increased sharply, strengthening Austrian banks' liquidity position. Equity market developments have also affected the position of pension funds. By late 2008, around 58 500 retirees who draw on supplementary funded pensions had already experienced a decline in benefits (OeNB, 2008b). The lower value of assets also reduced companies' collateral for taking on new loans.

Box 1.1. **Impact of the global crisis on Austria's financial system** *(cont.)*

Figure 1.3. **Elevated tensions in financial markets**



1. Based on the Austrian results of the euro area-wide bank lending survey (BLS); the lines present averages of scores for five Austrian banks taking part in the BLS. The scores for credit standards/demand for loans are: 1 tightened/decreased considerably, 2 tightened/decreased somewhat, 3 remained basically unchanged, 4 eased/increased somewhat, 5 eased/increased considerably.

Source: Datastream and OeNB.

StatLink http://dx.doi.org/10.1787/645146131443

Government bond yields have declined as demand for government bonds increased, but at the same time the spreads with respect to German government bonds have risen, as have sovereign CDS rates. This could reflect higher perceived default risk, related to a potentially costly bail-out of Austrian banks active in CEE and the recent fiscal stimulus (see below), but it might also denote the fact that the markets for the Austrian bonds are less liquid.

household saving. Yet, the high wage increases negotiated for 2009, the lower income taxes associated with the tax reform (see below), social transfers and lower inflation will help support real household income. Headline inflation will be low and core inflation will decline over the projection horizon as already substantial economic slack will widen. Fiscal stabilisation measures (see below) and the working of sizeable automatic stabilisers will raise the budget deficit to just over 6% of GDP in 2010. Together with the recapitalisation of banks (see below), this will increase public debt to nearly 80% of GDP in 2010.

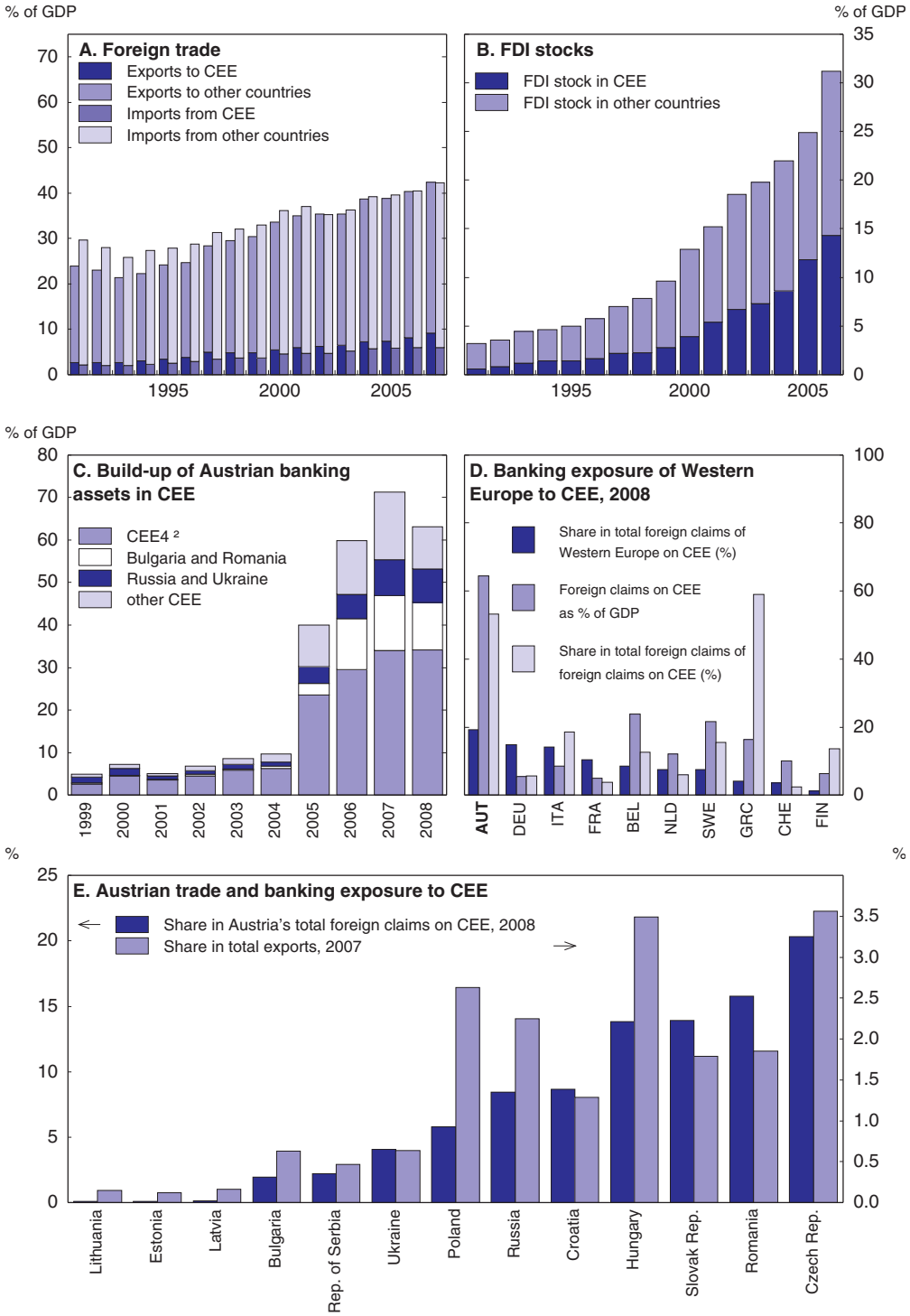
Risks and uncertainties surrounding the outlook

The uncertainty looming over the macroeconomic outlook remains uncomfortably large, especially regarding the timing of the recovery. The strength of foreign demand and pace of financial market normalisation will be key in shaping economic developments in the near term.

Austria is particularly vulnerable to the financial crisis and the retrenchment in global demand. This stems from its relatively small size and high trade and financial openness, especially *vis-à-vis* CEE with which it has built up tight links (OECD, 2007). Trade openness (measured as a ratio of exports and imports to GDP) and the intensity of Austria/CEE export and import flows has almost doubled over the past two decades (Figure 1.4). The stock of Austrian FDI in CEE rose seven-fold between 1997 and 2006, by which time it accounted for nearly half of the total outward Austrian FDI stock. Initially, FDI went primarily to manufacturing, but in recent years it has been directed increasingly to the financial sector. Austrian financial institutions have gradually built up considerable assets in this region, amounting to over 60% of annual GDP.[2] At the end of 2008, 12 Austrian banks operated 69 fully consolidated subsidiaries in CEE.[3] Among Western European banks, Austrian banks have become the most exposed to this region, as measured by their share in the total foreign claims of Western Europe on CEE and by the ratio of their claims on CEE to Austrian GDP and to total Austrian foreign claims.[4] Their expansion in CEE was primarily responsible for the large build-up in total foreign assets, which rose from 47% of GDP in 1995 to 133% in 2008, much faster than the overall assets of Austrian monetary financial institutions (379% of GDP in 2008 against 225% in 1995).

As the global financial crisis took its toll on CEE countries and their economic outlook soured (Box 1.2), potential further financial strains in CEE and its repercussions on the Austrian banking system became the biggest perceived risk for Austria. The financial system was deemed sound in mid-2008 (IMF, 2008), but its stability was threatened by potentially substantial losses for Austrian banks stemming from crises in CEE. Indeed, the fiscal costs of past banking crises are estimated to average 13% of annual GDP (Laeven and Valencia, 2008). Several private sector reports have attempted to estimate the potential losses of banks active in CEE, but these estimates vary significantly, highlighting the current high degree of uncertainty. In February 2009, Goldman Sachs (2009) and Danske Bank (2009) estimated that Austrian banks could lose between 2% and 10% of GDP, depending on the scenario under consideration. The likelihood and features of any such scenario, however, vary a lot, both because of large differences in economic conditions in each CEE country and as a function of their relative importance to Austria as economic partners (Box 1.2 and Figure 1.4). Potential losses are highly uncertain and will depend among other things on the specific non-performing assets of particular banks, the associated credit recovery rates, contagion effects and policy responses of CEE governments, international institutions and foreign banks in the region.

Figure 1.4. **Increased economic linkages with CEE**[1]



1. CEE includes: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Former Yugoslav Republic of Macedonia, Moldova, Republic of Montenegro, Poland, Romania, Russia, Republic of Serbia, the Slovak Republic, Slovenia, Turkey and Ukraine. The country coverage slightly differs between trade, FDI and banking statistics.
2. CEE4 includes: the Czech Republic, Hungary, Poland and the Slovak Republic.

Source: Statistics Austria, OeNB, Bank for International Settlements.

StatLink http://dx.doi.org/10.1787/645148801472

OECD ECONOMIC SURVEYS: AUSTRIA – ISBN 978-92-64-05439-4 – © OECD 2009

Box 1.2. **Economic risks in Central and Eastern Europe**

Central and Eastern Europe (CEE) covers a group of emerging market economies, whose contours and definition vary considerably across studies. They are sometimes viewed as a homogeneous set due to their common past economic and political background. However, they exhibit significant differences as regards, among others, size, degree of economic development, economic structure and policy, and political and economic integration with the European Union and euro area.

In the recent past, in the context of catching-up with advanced economies, most CEE countries experienced high, and often above-potential, GDP growth (Table 1.2). In general, strong economic performance was underpinned by greater access to EU markets. It was also made possible by sustained inflows of foreign capital, not only in the form of direct and portfolio investment, but also in the form of foreign banks' transfers and EU structural funds. This supported strong investment and consumption growth and was reflected in high current account deficits and rising external debt. It was associated with rapid credit growth, though from a low base, often denominated in foreign currencies. Moreover, equity and house prices rose significantly.

Table 1.2. **Selected economic and financial indicators for CEE**

	GDP growth[1]	Current account balance[2]	External debt stock[2]	Growth in credit to private sector[3]	Domestic credit stock[2]	Foreign currency loans[4]	Equity price growth[3]	Exchange rate change[5]
Bulgaria	6.1	–22.0	107.4	36.8	59.2	50.0	51.6	0.0
Croatia	4.8	–8.7	95.4	14.2	82.9	61.4	31.2	2.7
Czech Rep.	5.5	–1.8	42.6	15.4	52.9	9.1	30.3	12.0
Estonia	8.8	–17.7	118.7	29.5	93.4	80.0	34.0	0.0
Hungary	3.7	–4.9	121.1	15.8	74.4	57.2	21.7	25.5
Latvia	9.8	–23.9	143.4	41.1	94.8	86.3	21.2	0.7
Lithuania	8.4	–13.7	78.5	45.4	61.1	54.8	41.3	0.0
Poland	5.1	–4.4	55.5	13.9	46.8	24.2	30.4	37.0
Romania	6.4	–13.7	n.a.	47.2	35.0	54.3	n.a.	17.2
Russia	7.2	5.9	35.9	34.4	25.2	n.a.	30.6	22.8
Rep. of Serbia	5.6	–15.3	n.a.	25.7	n.a.	n.a.	13.9	20.0
Slovak Rep.	7.1	–5.5	59.1	7.3	51.6	–	21.1	–
Ukraine	7.8	–3.7	58.6	50.2	61.7	n.a.	67.6	47.0

1. Real average annual growth over 2003-07 (IMF).
2. % of GDP, 2007 (IMF).
3. Real average annual growth over 2003-07 deflated with consumer prices (IMF); for the Republic of Serbia, over 2004-07.
4. % of total loans, 2007 (OeNB and other national central banks).
5. % depreciation of domestic currency against the euro between June 2008 and March 2009 (ECB).

Notes: Exchange rate and foreign currency loans data for the Slovak Republic are not shown as it joined the euro area in January 2009. N.a. stands for not available.
Source: OECD Secretariat calculations based on IMF and various central banks.

With the intensification of the global financial crisis, external financing pressures in a number of CEE countries mounted. Cross-border lending in CEE contracted, sovereign and corporate bond markets collapsed and asset prices plummeted, though to a varying degree. Several economies in the region witnessed massive exchange rate depreciation (Table 1.2) and adjustments in the real economy. In early 2009, the exchange rates and stock markets in some countries have, however, rebounded. Some economies sought

Box 1.2. **Economic risks in Central and Eastern Europe** *(cont.)*

external financial aid, which should help restore stability.* The current account adjustments, which will differ across countries, are likely to be more painful due to the collapse of foreign demand, especially from the advanced EU economies, which are the main trading partners.

Ex ante assessment of the risks of financial crisis is inherently difficult, though research based on past events has identified several indicators that make financial turmoil more likely. These refer among others to current account and budget deficits as well as to the level and composition of debt (in terms of maturity, currency and financing sources). The size and nature of such imbalances and the ensuing risks significantly differ across CEE (Table 1.2). Using financial crisis leading indicators for CEE, Connolly (2009) found that the Baltic countries, Bulgaria, Romania, Croatia, Hungary and Ukraine were more vulnerable than the Czech Republic, Poland and the Slovak Republic. This analysis, however, did not account for possible contagion effects, which could affect even relatively healthy economies.

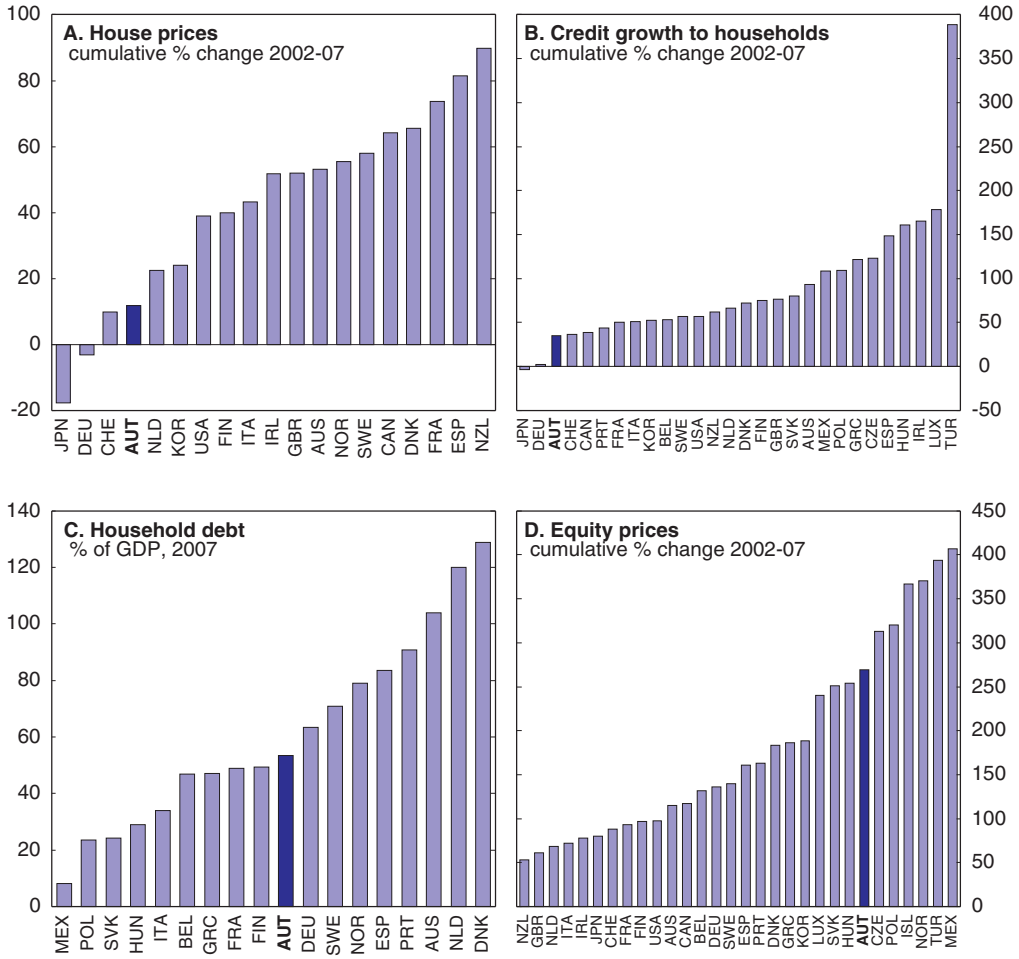
* The IMF has signed stand-by arrangements with Hungary (€ 12.3 billion), Latvia (€ 1.7 billion), Romania (€ 12.9 billion), the Republic of Serbia (€ 2.9 billion) and Ukraine (€ 12.3 billion), and a flexible credit line arrangement with Poland (€ 15 billion). The European Union has provided medium-term financial assistance to Hungary (€ 6.5 billion), Latvia (€ 3.1 billion) and Romania (€ 5 billion). Additional funds have been granted by the World Bank and international consortia.

Even if financial turmoil in CEE is contained, the region is undergoing a severe recession (Box 1.2). This will hurt Austrian exports and bank profits, with negative implications for economic growth, income and employment. Some of these effects may materialise with a lag. The unwinding of the current account imbalances in some countries in CEE is likely to be protracted and a prompt return to the high growth rates enjoyed in the recent past should not be expected. Nonetheless, insofar as a positive growth differential between CEE and Western EU economies is sustained, Austria will continue to benefit from its economic links with CEE. Over the past decade, the increasing trade and financial openness, in particular *vis-à-vis* CEE, has stimulated economic growth and job creation in Austria (OECD, 2007). Demand from fast-growing neighbours in CEE bolstered export growth (Ragacs and Vondra, 2009) and the subsidiaries of Austrian companies in the region, primarily in the financial sector, generated large profits.[5] Overall, the increased openness of Austria has served it well and this is expected to continue, despite higher vulnerability to international shocks.

In contrast to the vulnerabilities of the Austrian banking sector associated with the exposure to CEE, the risks that domestic credit and asset market exuberance could entail (Borio and Drehmann, 2009) seem to be limited. Unlike many other European countries, Austria did not experience a rapid increase in property prices during the expansion (Figure 1.5). Mortgage and other credit grew only modestly. Consequently, Austrian households did not accumulate large debts by OECD standards. Moreover, they continued to save a lot, with a saving rate estimated at 12.8% in 2008 (OeNB, 2009). Equity prices, however, increased enormously in the past years, far outpacing developments in other euro area countries, not least as a result of the expansion of Austrian companies in CEE.

It is difficult to project the evolution of precautionary household saving in the face of the crisis. That said, private consumption is likely to be supported by the recent wage increases, the social benefit system and various fiscal measures (see below). Wage

Figure 1.5. **Limited prior build-up of financial imbalances**



Source: Statistics Austria, OECD, Economic Outlook database, Main Economic Indicators, National Accounts database, IMF, International Financial Statistics.

StatLink http://dx.doi.org/10.1787/645171135017

negotiations for 2009 were finalised in late autumn 2008, when inflation was still high and the global and Austrian economic outlook was not yet that bleak, and involved pay increases ranging from 3.6% to 3.9%.[6] Unemployment benefits and other social assistance measures will also help maintain income. So will the state-subsidised scheme to support shorter working hours arrangements (Chapter 2).

Looking ahead, sustained high wage growth would adversely affect employment and international price competitiveness. In this context, the wage settlements for 2010 will be key. Wage moderation may prevail, however, given the expected decline in inflation, the historic high sensitivity of real wages to unemployment (Hofer *et al.*, 2001) and the record of the social partnership framework. Over the past decade, with the exception of 2008, nominal wages did not outpace labour productivity by much (Chapter 2). To some extent, this can be ascribed to the fact that Austrian trade unions are committed to preserving and improving Austrian competitiveness but also to the threat of outsourcing abroad and the growing intensity of trade competition.

Lastly, as regards the impact of the recession on specific sectors other than the financial sector, the slowdown is likely to hit the auto industry particularly hard. The higher price of consumer credit, tighter credit standards, depressed confidence and deteriorating labour markets have likely deterred households from purchasing big-ticket products which are usually bought on credit, in particular cars. Austria is extensively involved in producing car parts and in car assembly, primarily for German car makers, and thus it is dependent on their orders. The production of cars and parts thereof in Austria has already declined sharply in the second half of 2008, significantly more than total manufacturing output. Some temporary relief to the car industry may come, however, from the car subsidies introduced in several European countries, including Austria (see below).[7]

Tourism may also suffer during the recession. This sector is important for the Austrian economy. The direct and indirect contribution of tourism in terms of value added amounted to 8.2% of GDP in 2007 and in terms of jobs it accounted for 12.1% of total employment (Laimer and Smeral, 2009). Tourism traditionally generates a significant surplus of trade in services. Until the end of 2008 the tourism industry seemed to resist well, with the number of overnight stays and arrivals still higher than a year before. However, in early 2009 some signs of weakness emerged and further deterioration cannot be excluded, though the sector may fare better than in other European countries (Smeral, 2009).

Difficult policy challenges

Across OECD countries, the marked deterioration in the outlook after September 2008 has required prompt and broad policy measures to stabilise financial markets, boost confidence and support the real economy (OECD, 2009). These have included monetary policy easing, interventions in financial markets, changes in financial market regulations and fiscal stimuli. Austria has deployed a number of measures, despite the change of government in autumn 2008.[8]

Easing the monetary stance

On the monetary policy front, and for the euro area as a whole, the ECB has reduced the rate of the main refinancing operations by a cumulative 325 basis points since early October 2008, to 1%. It has also introduced operational changes in liquidity provision, switching from variable-rate to fixed-rate auctions, which effectively helped ease monetary conditions.In addition, the pool of collateral pledged for open market operations and the existing international swap arrangements to offer US dollar liquidity at short and medium-term maturities were substantially expanded. The effectiveness of monetary policy easing was somewhat uncertain, however, in the context of dysfunctional financial markets.

Safeguarding financial stability

The Austrian government has adopted several measures to bolster financial stability and improve liquidity in the money market (Box 1.3). Austrian banks prior to the financial turmoil were found to be sound and able to withstand liquidity shocks (OeNB, 2008b; IMF, 2008), in part reflecting a business model based more on deposits rather than on money market funding. However, the freeze in interbank money markets exerted strenuous pressures on banks.

Box 1.3. **Measures to tackle financial market turmoil in Austria**

Austria, like many other OECD countries, has responded to heightened world financial market tensions by adopting measures to maintain financial stability and strengthen the interbank market. In October 2008, Parliament passed a financial stability package resting on four pillars.

Stimulation of the interbank market. In order to support a normal functioning of the interbank money market in Austria, the *Österreichische Clearingbank AG* (OeCAG) was set up based on the Interbank Market Support Act (*Interbankmarktstärkungsgesetz*). The OeCAG borrows funds on the interbank market and on-lends them to banks or insurance companies on equal terms for a fee of around 50 basis points. It will operate until the end of 2009. The federal government granted equity capital for OeCAG, guarantees its liabilities and assumes liabilities for losses related to its operations. Under this act, the government may in addition assume liability for notes issued by banks with a maturity of up to five years in order to facilitate the raising of fresh capital. The government allocated € 75 billion (around 27% of annual GDP) for the above measures. As of mid-May 2009, around € 21.2 billion had been used.

Strengthening banks' capital base. The Financial Market Stability Act (*Finanzmarktstabilitätsgesetz*) allows the Ministry of Finance to recapitalise financial institutions (banks and insurance companies) supervised by the Financial Market Authority (FMA). The recapitalisation measures envisage: state guarantees for the liabilities towards financial institutions and for institutions' liabilities towards public entities; granting loans; and strengthening the capital base *via* the acquisition of shares or convertible bonds. In the worst case the state may also take over banks' assets. Government capital injections entail a fee and come with several conditions, pertaining to the provision of credit, sustainability of the corporate model, use of equity capital, staff remuneration, dividend payments, equity capital requirements, preservation of jobs and information disclosure. These measures were capped at € 15 billion (around 5% of GDP). As of mid-May 2009, € 5.6 billion had been used.

Restoring confidence in financial markets. Deposit guarantees have been extended in an amendment to the Banking Act (*Bankwesengesetz*). As a result, deposits of natural persons are guaranteed without limit until end-2009 and thereafter up to € 100 000; deposits of small and medium-sized firms are guaranteed up to € 50 000; and deposits of legal persons are guaranteed up to € 20 000. The deposit guarantee scheme is funded by the banking industry for guarantees up to € 50 000, and by the state above that amount. In addition, the Stock Exchange Act (*Börsegesetz*) was amended allowing the FMA to forbid or restrict the short-selling of certain financial instruments for three months and, if required, to extend this period for up to six months. Violating this regulation may result in an administrative fine, up to € 75 000. The short selling of four financial institutions' shares was prohibited until end-June 2009. The government assigned a maximum amount of € 10 billion (around 4% of GDP) to the deposit guarantee scheme.

Strengthening financial market supervision. On top of the reforms introduced in early 2008 (Box 1.4), the FMA gained the right to request capital add-ons under a simplified procedure if a financial institution is judged unable to limit its operating risks.

Against the backdrop of mounting financial risks in CEE and their potential destabilising effects on other European countries, a Joint Action Plan to support CEE's banking sector was launched in late February 2009. It involves the largest international financial institutions active in CEE (the European Bank for Reconstruction and

Development, the European Investment Bank group and the World Bank group) and has three objectives: deploying financial assistance to strengthen banks and support lending to the real economy, particularly to small and medium enterprises (SMEs); engaging other stakeholders and mobilising financial resources for the region; and facilitating a co-ordination of national bank support packages and policy dialogue. The Action Plan participants committed € 24.5 billion to alleviate external financing gaps in CEE. In addition, the existing EU fund for assisting non-euro area EU Member States in balance of payments difficulties was doubled to € 50 billion (Hungary, Latvia and Romania have already drawn on these funds – Box 1.2) and the EU has offered a € 75 billion credit line to the IMF. Moreover, European banking group co-ordination meetings for Hungary, Romania and Serbia were held in March and May 2009, with participants from major international banks present in these countries (including several Austrian banks), the IMF, the European Commission, the World Bank and relevant public home and host institutions. The banks publicly expressed their commitment to maintain their overall exposure and to ensure prudent capitalisation of their subsidiaries.

The ongoing financial turmoil and recession is testing Austria's financial supervision regulations and institutions. The latter have been reformed and improved in recent years, not least in the light of some serious incidents stemming from managerial failings, fraud and/or risky business models.[9] Risk analysis was strengthened, the number of on-site inspections was increased and the awareness of banks about risk management was raised. Austrian financial supervisors have also strengthened co-operation with CEE through memoranda of understanding and supervisory colleges for individual cross-border banking groups. In 2008, a new division of tasks between the Financial Market Authority (FMA) and the Austrian central bank (OeNB) was implemented (Box 1.4). Finally, an improved reporting of liquidity, on a weekly basis, was introduced amid tensions in money markets.

The global crisis has exposed four general weaknesses of the Austrian financial system and supervision, some of which are being addressed. *First*, banks did not

Box 1.4. **The 2008 reform of financial supervision in Austria**

Austria has a dual supervisory system based on co-operation between the Financial Market Authority (FMA) and the OeNB. The allocation of competencies between the two institutions and sharing of responsibilities were redefined as from 1 January 2008.

The reform preserved the FMA's role as the main authority in charge of banking supervision, responsible for regulation and enforcement, and broadened the competences of the OeNB in banking supervision, which were explicitly established in the National Bank Act (*Nationalbankgesetz*). The OeNB was given access to data of non-bank financial intermediaries, including insurance companies, to facilitate a comprehensive assessment of financial market stability. The central bank became responsible for all on-site inspections and off-site analyses of banks, including stress-testing. This new division of tasks removed overlaps and made room for greater specialisation. In the process, the number of financial supervision staff has been increased (in the OeNB by 5.5% in 2008).

The FMA and OeNB are hereby jointly sharing supervisory responsibilities. To facilitate this, a common database has been set up; single points of contact have been nominated in the FMA and OeNB, who are responsible for particular financial institutions; and a Single Bank Forum (*Einzelbankenforum*) has been established, with a view to ensuring the dissemination of essential official documents among senior FMA and OeNB management.

adequately assess foreign currency lending risks, in particular in CEE. *Second*, the foreign activities of Austrian banks are concentrated in CEE. Initially, the fact that they are present in most of the countries in the region was deemed to make for good risk diversification (IMF, 2008). However, recent events have demonstrated that, in times of financial turbulence, CEE countries tend to be treated by investors as a single asset class, even though their individual situation varies considerably. This raises the risks of systemic and region-wide financial problems and thus should be more appropriately reflected in the risk assessment of banks and supervision authorities. *Third*, recent events have highlighted several aspects of contagion that should gain more prominence in the analysis of financial stability. They relate among others to the interplay between macroeconomic and financial developments, as well as to liquidity and reputational risks. The 2008 financial supervision reform addressed some of these aspects. *Fourth*, international capital ratios failed to factor in cyclical developments appropriately, providing inadequate buffers, and did not properly account for off-balance sheet operations.

Another recent challenge for financial policy concerns Austria's compliance with international demands relating to bank secrecy and tax co-operation. Austria has decided to explicitly endorse the OECD standard on information exchange for tax purposes and, together with a number of other countries, withdrew its reservation on Article 26 of the OECD Model Tax Convention on Income and on Capital. This initiative is welcome. Once Austria has implemented information exchange consistent with the standard of Article 26, it will be in a position to exchange information in all tax matters foreseeably relevant for the administration or enforcement of the domestic law of its treaty partners. Austria is encouraged to implement this decision as rapidly as possible.

Further financial turmoil in one or more CEE countries cannot be ruled out, calling for additional measures on the part of the Austrian authorities. The existing apparatus to stabilise the financial markets would serve that purpose (Box 1.3), but prompt implementation would be important, especially regarding capital injections. A more general financial meltdown in CEE would require a co-ordinated international intervention, under the *aegis* of the Joint Action Plan and EU/IMF arrangements. Moreover, if the recession turned out to worsen or last longer than expected, or if financial markets tensions endured, it might become necessary to extend some of the temporary measures into 2010.

Fiscal stabilisation

In addition to the above monetary policy and financial stability measures, support to demand is coming from the fiscal side, both through the workings of the automatic stabilisers and in the form of discretionary measures. Automatic stabilisers in Austria are large by OECD standards (Girouard and André, 2005) and they are relatively powerful compared with other EU countries (Barrell *et al.*, 2002). However, the effectiveness and size of automatic stabilisers in Austria may have declined over recent years, due to the diminished tax progressivity and falling shares of revenue and expenditure in GDP (Chapter 3). In this light, and in the face of a deep and unusually synchronised global recession, discretionary fiscal stimulus was justified.

Fiscal loosening began in spring 2008 when the so-called anti-inflation package was introduced. It involved the reduction in unemployment insurance contributions for low-wage employees (Chapter 2) and the increase in tax reliefs for commuters (*Kilometergeld* and *Pendlerpauschale)* – Table 1.3. This was followed by the September 2008 package, which

Table 1.3. **Budget implications of the recent fiscal measures**

(in € million, unless otherwise noted)	2009	2010	2011	2012	2013
Anti-inflation package (spring 2008)	338	308	308	308	308
Reduction of unemployment insurance contribution	288	288	288	288	288
Increase in *Kilometergeld* and *Pendlerpauschale*	50	20	20	20	20
September 2008 package	1 062	1 149	1 375	1 606	1 753
Repeal of university fees	157	157	157	157	157
Increase of social care benefits	127	135	143	151	159
Increase of pensions (0.2 percentage points)	53	53	53	53	53
Extension of the special retirement scheme (*Hacklerregelung*)	0	0	150	300	360
Extension of eligible contribution periods for *Hacklerregelung*	24	27	27	28	32
Abolition of waiting year for the first pension adjustment	43	88	136	186	238
Halving of VAT-rate on medication	270	289	309	331	354
13th-month family allowance	250	250	250	250	250
Tax exemption	138	150	150	150	150
Growth Programme I	105	105	75	75	75
Extension of programmes to improve international competitiveness	25	25	25	25	25
Capital donation for the SME capital fund at AWS	40	40	0	0	0
Railroad investments[1]	10	20	30	30	30
Internet (broadband)[1]	10	0	0	0	0
Increase of the housing savings scheme (*Bausparförderung*)	20	20	20	20	20
Growth Programme II	250	448	423	173	73
Accelerated depreciation	0	250	350	100	0
Regional economic stimulus programmes	75	75	0	0	0
Mandatory year of kindergarten	25	73	73	73	73
R&D	50	50	0	0	0
Energy voucher and refurbishment	100	0	0	0	0
2009 tax reform	2 135	2 858	3 000	3 060	3 060
Wage and income tax cuts	1 900	2 300	2 300	2 300	2 300
Family tax measures	235	488	510	510	510
Other tax reductions	0	70	190	250	250
Eco premium on the purchase of new cars	23	0	0	0	0
Reduced working time package	220	220	0	0	0
Total	4 133	5 088	5 181	5 222	5 269
In % of GDP	*1.5*	*1.9*	*1.8*	*1.8*	*1.7*

1. Rents paid from the budget to the enterprise owing the infrastructure.
Source: April 2009 Austrian Stability Programme and OECD Economic Outlook database.

was initiated to boost households' real incomes in the context of high inflation and ahead of general elections, rather than to cope with the reverberations of financial turmoil (Table 1.3). It involved increasing pensions sooner and more (3.4% as from November 2008 instead of 3.2% as from January 2009), introducing a 13th-month of family allowances, increasing long-term care benefits, abolishing university tuition fees, halving the VAT rate on medication to 10% and amendments to the special retirement schemes for long-term insured (*Hacklerregelung*)[10]. While tumbling energy and food prices abruptly brought inflation down in late 2008 (see above), these measures – amounting to some 0.4% of GDP on a full-year basis – remained in force.

As the scale of the global recession became more obvious, Austria introduced two packages in the autumn of 2008 to bolster economic growth. The first one, legislated in October 2008, encompassed help for SMEs to finance investment and infrastructure projects (Table 1.3). The government committed to provide € 1 billion (around 0.4% of GDP) *via* the SME fund administered by the Austrian Economic Service (AWS), including

€ 105 million from the budget, € 500 million earmarked for raising credit limits and € 400 million reserved for additional guarantees. On top of this, € 100-200 million were to be mobilised under the *aegis* of the European Investment Bank. Infrastructure projects mainly involved modernising railways and road works and envisaged a faster implementation of infrastructure projects announced in March 2008. The budget for these projects over 2009-14 was increased to € 22.5 billion from € 18.8 billion over 2008-13. The guarantees for SMEs and infrastructure projects are undertaken outside the consolidated budget, *via* public enterprises, and are not shown in Table 1.3.[11] Moreover, within the government scheme to promote savings for house purchase (*Bausparförderung*), the maximum amount of building-society deposits, on which the government guarantees interest rates (4% in 2009), was increased from € 1 000 to € 1 200 per person/year.

A second package was passed in November 2008. It included accelerated depreciation for equipment purchased in 2009-10, a mandatory year of kindergarten for children at age five, starting in autumn 2009 (Chapter 4) and new infrastructure and R&D spending. In addition, in February 2009 the government decided to introduce a € 1 500 eco premium to encourage households to buy new cars. It applies to consumers scrapping their old cars (registered before 1996) and buying a new one between April and December 2009. This measure is capped at € 45 million, of which half will come from the federal budget and half from car dealers, implying a subsidy for 30 000 cars (around 10% of the new cars registered in 2008). The government also amended regulations on reduced working time (see above and Chapter 2).

Also adding stimulus, the reform of the personal income tax, which had been decided earlier, was brought forward from 2010 to 2009. The reform was enacted in March 2009 with a retroactive effect from January 2009. The two lower marginal tax rates were reduced and the thresholds of the bottom and top income brackets were raised as of 2009 (Table 1.4). In addition, the tax credit for children was increased to € 700 per year, a child tax-free allowance was introduced (€ 220 per child for a single earner and € 132 for both parents) and the costs of childcare, including kindergarten (up to € 2 300 per year and per child not older than ten) were made deductible from the income of one of the parents. Moreover, a 13% tax exemption for profits up to € 30 000 was granted for entrepreneurs and freelancers and tax deductions for donations and church membership fees were doubled to € 200. The tax reform involves the biggest fiscal costs by far (Table 1.3).

Table 1.4. **Changes in personal income tax rates and thresholds**

Tax brackets, in €		Marginal tax rates, in %		Average tax rates, in %	
2008	2009	2008	2009	2008	2009
0 to 10 000	0 to 11 000	0.00	0.00	0.00	0.00
10 000 to 25 000	11 000 to 25 000	38.33	36.50	23.00	20.44
25 000 to 51 000	25 000 to 60 000	43.60	43.21	33.50	33.72
Over 51 000	Over 60 000	50.00	50.00	–	–

Source: Austrian Federal Ministry of Finance.

The fiscal measures discussed above – excluding those with no direct impact on fiscal balances – total 1.5% of GDP in 2009 and 1.9% of GDP in 2010. This is less than in some other OECD countries (notably Germany, Finland, Sweden or Denmark), but in line with the European Economic Recovery Plan (EC, 2008). In contrast to some OECD countries, where

measures are mostly temporary (OECD, 2009), fiscal stimulus in Austria is of a more lasting nature and increasing somewhat beyond 2009. In general, the difference in the magnitude of fiscal stimulus across countries reflects differences in the extent of the expected economic slowdown, in the size and effectiveness of automatic stabilisers and in the room to loosen fiscal policy. While the net effect on aggregate demand of all these measures is likely to be positive, its size is uncertain (Box 1.5). Similar uncertainty applies to the effectiveness of automatic stabilisers, whose size in Austria in terms of effects on the budget deficit is expected to be approximately twice as large as that of discretionary measures.

Box 1.5. **Effectiveness of fiscal stimulus in Austria**

Estimating fiscal multipliers is inherently difficult and even more so in the context of the current recession due to dysfunctional financial markets, uncertain confidence effects and large balance sheet adjustments. The fiscal measures taken since September 2008 are estimated to increase the level of GDP by 0.8% in 2009 and by 1.4% in 2010 and to create around 25 000 jobs in 2009-10 compared with the OeNB's baseline projection (Köhler-Töglhofer and Reiss, 2009). This box analyses some of the uncertainties surrounding fiscal multiplier estimates and likely differences between particular measures.

Tax cuts and other household income-boosting measures feature prominently in Austria's fiscal packages (Table 1.3). They are expected to increase the level of GDP by 0.6% in 2009 and by 0.9% in 2010 (Köhler-Töglhofer and Reiss, 2009). This is more than implied by the fiscal multiplier estimate of Barrel *et al.* (2009), which would suggest an increase in GDP by only around 0.2% in 2009. Any such estimates are rather uncertain and the effectiveness of tax cuts may be reduced by negative confidence effects and significant wealth losses. In general, household consumption is more likely to respond positively to tax cuts when they reduce distortions, are permanent, and as more consumers are liquidity constrained. The first two conditions hold for Austria, however the last one is less clear-cut. On the one hand, the prevailing tight financial conditions are likely to cause liquidity constraints. On the other hand, the tax relief is not well-targeted on liquidity-constrained households; it brings tax relief also for middle-income tax payers and does not benefit those with the lowest incomes, who in 2008 were below the first tax bracket and did not pay income taxes at all (Table 1.4).

The multipliers associated with public investment are usually higher than revenue multipliers, which are more prone to leakage into savings. However, investment multipliers tend to have a limited short-term impact on the economy due to implementation lags. If the recession turns out to be more protracted, implementation lags may be less problematic. The new investment projects in Austria are modest compared to those that were already in the pipeline before the recession. This would suggest a rather small extra stimulus to the economy. Moreover, the envisaged funds for infrastructure investment may actually not be fully spent. The need for specialised skills and high capital intensity of some transport infrastructure works may also lead to capacity constraints and higher imports. In contrast, the crowding out of private investment by government spending, which has often been observed in OECD countries (Blanchard and Perotti, 2002), should be less of a concern in the downturn.

Box 1.5. **Effectiveness of fiscal stimulus in Austria** *(cont.)*

More broadly, the effectiveness of fiscal stimulus in Austria is likely to be affected by fiscal sustainability, openness and the situation in financial markets:

Fiscal sustainability. Highly indebted countries can experience a contractionary fiscal expansion, owing to concerns about fiscal sustainability. Thus, credible fiscal consolidation, which reverses or offsets fiscal stimulus, is key. Public debt in Austria, at around 60% of GDP, is not exceptionally high. However, it is projected to rise and if this trend is not reversed in coming years, one cannot exclude non-Keynesian effects in the future.

Openness. Very open economies, like Austria, are likely to benefit less from undertaking fiscal stimulus in isolation as much of it tends to leak out *via* imports (OECD, 2009). This, however, is less of a risk in the case of internationally synchronised fiscal action (Bénassy-Quéré and Cimadomo, 2006; Barrel *et al*., 2009).

Financial markets. Based on the past experience of recessions involving problems in the banking sector, the effectiveness of fiscal stimulus is crucially dependent on the pace at which financial markets conditions normalise. The Austrian government has introduced several measures to ensure financial stability, which are likely to enhance the effectiveness of fiscal stimulus.

In a small open economy, like Austria, there is a limit to the government's ability to offset a sharp and protracted decline in foreign demand. However, if the economic situation deteriorates more than projected and the Austrian government decides to inject further fiscal stimulus, it should consist of temporary measures, in contrast to the stimulus implemented already, unless offsets are provided for. Increasing funds for the existing big infrastructure projects should be avoided insofar as capacity constraints may be binding. In contrast, the implementation of some small existing projects at the level of *Länder* and municipalities, which can be completed rapidly and have socially and/or economically desirable effects, should be accelerated. The government could also consider stepping up spending on education or cuts in social security contributions for low-skilled workers, but this would call later on for offsetting expenditure restraint in other areas. The government should resist direct and selective financial aid to non-financial companies. This could delay the needed adjustments in the real sector, invite lobbying for aid on the part of other enterprises and potentially distort market competition.

Austria's fiscal position is set to deteriorate markedly over the next two years due to the working of automatic stabilisers and the implementation of the discretionary fiscal packages, but the exact magnitude of this deterioration remains uncertain. Regarding the budget deficit projections, these uncertainties relate to the overall volatility of the macroeconomic environment and corporate tax receipts. The latter are expected to fall more than implied by the slowdown in economic activity, given the ongoing balance sheet adjustments, especially in the banking sector. This is closely linked to group taxation, which makes corporate tax revenues less predictable. The law on group taxation allows companies with affiliated branches abroad to deduct losses of their branches from domestic profits, as long as the losses are not written off in the source country. In the current circumstances, lower profits are very likely, especially for financial institutions operating in CEE. The uncertainties surrounding public debt projections are even greater as they also reflect the ultimate use of state guarantees and bank capital injections, which

hinges on developments in CEE and is difficult to predict. There is also a possibility of contingent liabilities arising from legal charges against the authorities for negligence in supervision and enforcement (IMF, 2008).

The expected increase in the budget deficit and gross public debt calls for credible fiscal consolidation, which is needed to ensure long-term fiscal sustainability and in turn the effective functioning of the current fiscal stimulus. Consolidation strategies are discussed in Chapter 3.

Notes

1. CEE is taken here *lato sensu* to refer to emerging markets in Central, Eastern and South-Eastern Europe.
2. Based on Table 9B in BIS (2009), which contains statistics on consolidated foreign claims at end-2008. They include the cross-border claims and local claims of foreign affiliates. The increase in foreign claims in 2005 stems from the broadening of the reporting entities. The BIS foreign claims are lower than the statistics reported by OeNB (2008b). For mid-2008, the BIS reported € 186 billion of foreign claims on CEE, as against € 265 billion reported by the OeNB. This partly reflects the inclusion in the OeNB statistics of banks which are formally the subsidiaries of Italian and German banks and are not included in the BIS data, and possibly also differences in country coverage.
3. Fully consolidated subsidiaries are subsidiaries where parent banks exert exclusive control (*e.g.* when they have the majority of voting rights) and whose assets and liabilities are fully reflected in parent banks' balance sheets.
4. On the last measure Greece is more exposed than Austria.
5. In the first half of 2008, the activities of large Austrian banks in CEE generated pre-tax consolidated profits of € 3.3 billion against € 1 billion from the domestic business segment (OeNB, 2008b).
6. In the metalworking industry the increase was 3.8%-3.9% and covered 170 000 workers. In the public sector it was 3.6% and covered 350 000 workers. In trade it was 3.6%-3.7% and covered 500 000 workers.
7. Following five months of decline, the new car registrations in Austria increased in April and May 2009 with the introduction of the car scrapping premium in April.
8. In summer 2008, the grand coalition between the Social Democratic Party (SPÖ) and Austrian People's Party (ÖVP), in power since January 2007, broke up and new elections were held in September 2008. The SPÖ came out ahead with 29.3% of the vote, followed by ÖVP with 26%. The two parties formed a new grand coalition and government, which was sworn in at the beginning of December 2008.
9. The pension settlement for the long-term insured (*Langzeitversichertenregelung*) permits 50/60-year-old women/men to retire if they have contributed 40/45 years to the pension system. No yearly deductions are applied when using this option (until 2013 when the scheme expires) – see Chapter 3.
10. The scheme allows manual workers to retire earlier than white-collar workers. It was to be abolished in 2008 but was extended by two years (Chapter 3).
11. Prammer (2009) explains how outsourcing helps shift some public spending outside the consolidated budget.

Bibliography

Barrell, R., I. Hurst and Á. Pina (2002), "Fiscal Targets, Automatic Stabilisers and their Effects on Output", *in* Banca d'Italia (ed), *The Impact of Fiscal Policy*, Rome.

Barrel, R., T. Fic and I. Liadze (2009), "Fiscal Policy Action in the Banking Crisis", *NIESR Pre-Budget Report*, National Institute of Economic and Social Research, London.

Benassy-Quéré, A. and J. Cimadomo (2006), "Changing Patterns of Domestic and Cross-Border Fiscal Policy Multipliers in Europe and the US", *CEPII Working Papers*, No. 2006-24, CEPII.

BIS (2009), *BIS Quarterly Review*, Bank for International Settlements, June, Basel.

Blanchard, O. and R. Perotti (2002), "An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output", *Quarterly Journal of Economics*, Vol. 107, No. 4.

Borio, C. and M. Drehmann (2009), "Assessing the Risk of Banking Crises – Revisited", *BIS Quarterly Review*, March, Bank for International Settlements, Basel.

Connolly, R. (2009), "Financial Vulnerabilities in Emerging Europe: An Overview", *BOFIT Online*, No. 3, Bank of Finland Institute for Economies in Transition, Helsinki.

Danske Bank (2009), "Euro Area: Exposure to the Crisis in Central and Eastern Europe", Danske Bank Research, 24 February.

EC (2008), *Communication from the Commission to the European Council*, COM(2008) 800, Brussels.

Furceri, D. and A. Mourougane (2009), "Financial Crises: Past Lessons and Policy Implications", *OECD Economics Department Working Paper*, No. 668.

Girouard, N. and C. André (2005), "Measuring Cyclically-Adjusted Budget Balances for OECD Countries", *OECD Economics Department Working Paper*, No. 21.

Goldman Sachs (2009), "How Big a Shock to CEE", *New Markets Analyst*, No. 09/04, Goldman Sachs Global Economics, Commodities and Strategy Research.

Hofer, H., K. Pichelmann and A.-U. Schuh (2001), "Price and Quantity Adjustments in the Austrian Labour Market", *Applied Economics*, Vol. 33, No. 5.

IMF (2007), *IMF Country Report*, No. 07/143, IMF, Washington.

IMF (2008), "Austria: Financial System Stability Assessment – Update", *IMF Country Report*, No. 08/190, IMF, Washington.

IMF (2009), *IMF International Financial Statistics*, March 2009 Edition, IMF, Washington.

Köhler-Töglhofer, W. and L. Reiss (2009), "The Effectiveness of Fiscal Stimulus Packages in Times of Crisis", *Monetary Policy and the Economy Q1/09. Quarterly Review of Economic Policy*, OeNB, Vienna.

Laeven, L. and F. Valencia (2008), "Systemic Banking Crises: A New Database", *IMF Working Papers*, No. 08/224, IMF, Washington.

Laimer, P. and E. Smeral (2009), *Ein Tourismus-Satellitenkonto für Österreich. Methodik, Ergebnisse und Prognosen für die Jahre 2000 bis 2009*, Statistics Austria, WIFO, Vienna.

OECD (2007), *OECDEconomic Surveys: Austria*, OECD, Paris.

OECD (2009), *Interim Economic Outlook*, Paris.

OeNB (2008a), *Financial Stability Report*, No. 15, OeNB, Vienna.

OeNB (2008b), *Financial Stability Report*, No. 16, OeNB, Vienna.

OeNB (2009), *Monetary Policy and the Economy Q4/08. Quarterly Review of Economic Policy*, OeNB, Vienna.

Prammer, D. (2009), "Public Sector Outsourcing: Creative Accounting or a Sustainable Improvement? A Case Study for Austria", *Monetary Policy and the Economy Q1/09. Quarterly Review of Economic Policy*, OeNB, Vienna.

Ragacs, C. and K. Vondra (2009), "Austria's Exports to Eastern Europe: Facts and Forecasts. Likely Impact of Slowing Exports on Growth in Austria", *Monetary Policy and the Economy Q1/09. Quarterly Review of Economic Policy*, OeNB, Vienna.

Smeral, E. (2009), "Tourismus im Sog der Finanzmarkt- und Wirtschaftskrise", *WIFO Monatsberichte*, No. 3/2009, WIFO, Vienna.

ISBN 978-92-64-05439-4
OECD Economic Surveys: Austria

Chapter 2

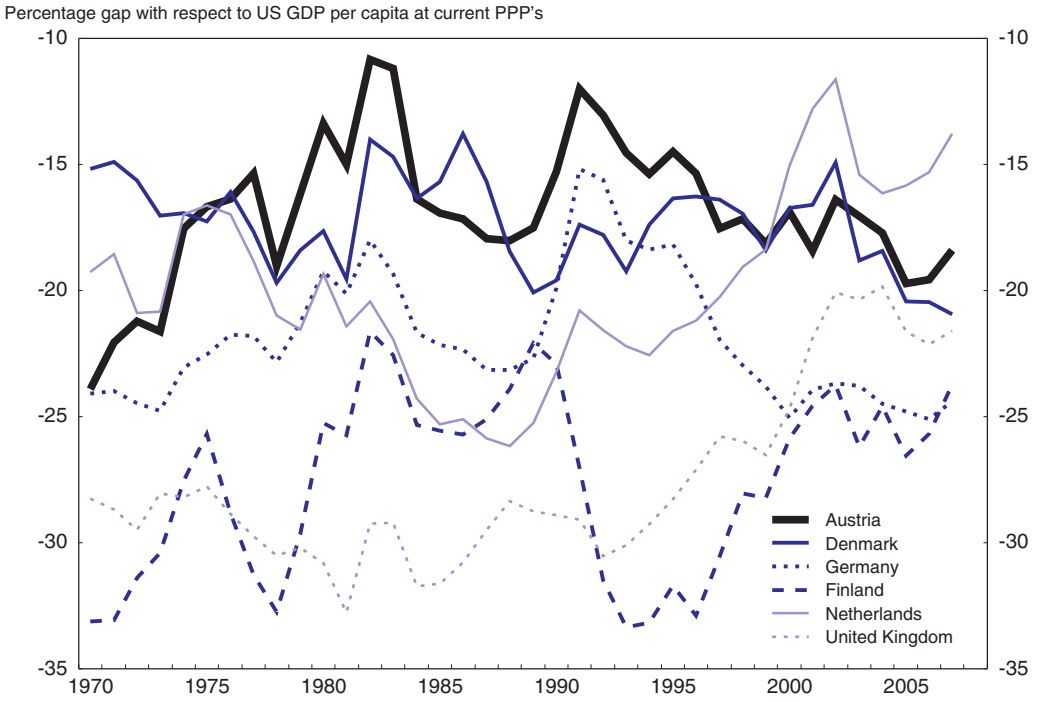
Lifting growth potential through further product and labour market reforms

Austria has one of the higher GDP per capita levels in Europe, but owes this position to a strong pace of convergence until the early 1990s. Over the past decade and a half, it has lost some ground vis-à-vis the best-performing OECD countries. While aggregate productivity growth has picked up in recent years, the employment rate has remained below potential. The most globally-oriented parts of the business sector have intensified their innovation efforts and achieved greater productivity gains. In contrast, the more sheltered services have displayed less dynamism and the participation rate of the low-skilled remains unsatisfactory. Further structural reforms in product and labour markets would help boost potential output, trend growth and average per capita income levels, and reinforce social cohesion. This chapter suggests that there is room for stimulating competition, innovation and investment in services and for labour market reforms to foster the employment of low-skilled workers.

The macroeconomic policy response to the global financial crisis is key in the present circumstances, but the importance of structural policies in product and labour markets is undiminished. Product and labour market conditions will influence the path of the economy during the ongoing downturn, as well as the pace of recovery once the global economic landscape improves. Over the longer run, the economy's structural features remain essential determinants of living standards.

Austria has one of the highest GDP *per capita* levels in Europe, but the decomposition of the determinants of GDP *per capita* shows remaining productivity and labour utilisation gaps (Figures 2.1 and 2.2). In recent years, the productivity gap has widened, despite the manufacturing sector's strong performance. In contrast, the gap in labour force participation has diminished, notably as a result of an improvement in the participation rate of older workers. At the same time, Austria's relative position as regards the employment ratio (*i.e.* the ratio of employment to the labour force) has slightly weakened. This was due to both a slight decrease in the employment ratio of the skilled workers, and to the increase in the share of low-skilled workers in the labour force (with their

Figure 2.1. **Despite strong growth, Austria has lost some ground since the early 1990s**

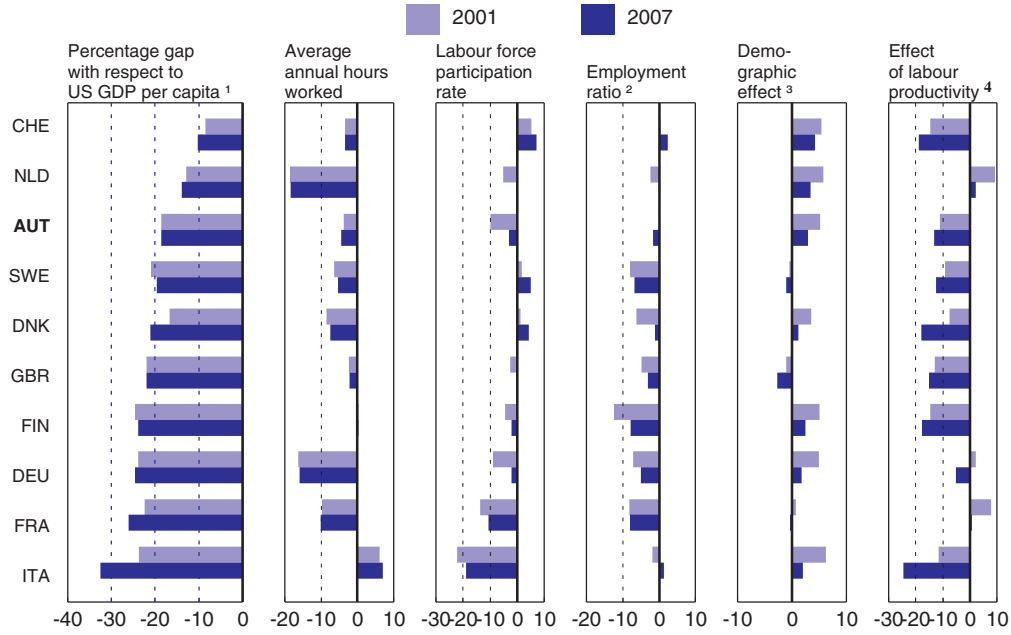


Source: OECD, National Accounts database.

StatLink http://dx.doi.org/10.1787/645173688502

OECD ECONOMIC SURVEYS: AUSTRIA – ISBN 978-92-64-05439-4 – © OECD 2009

Figure 2.2. **Developments in productivity and labour utilisation**



1. Based respectively on 2001 and 2007 purchasing power parities (PPPs).
2. Ratio of employment to the labour force.
3. Share of the working-age population in the total population.
4. Labour productivity is measured as GDP per hour worked.

Source: OECD (2009), National Accounts, Productivity and Labour Force Statistics databases and OECD calculations.

StatLink http://dx.doi.org/10.1787/645245174262

significantly lower employment ratio). As a result of these developments, and stronger performance by other countries, Austria's relative GDP *per capita* level has lost some ground over the past decade, despite the impetus provided by its integration with the rapidly-growing economies of Central and Eastern Europe (CEE).

Against this background, this chapter provides an overview of recent policies and developments in product and labour markets which are expected to affect potential output and trend growth.

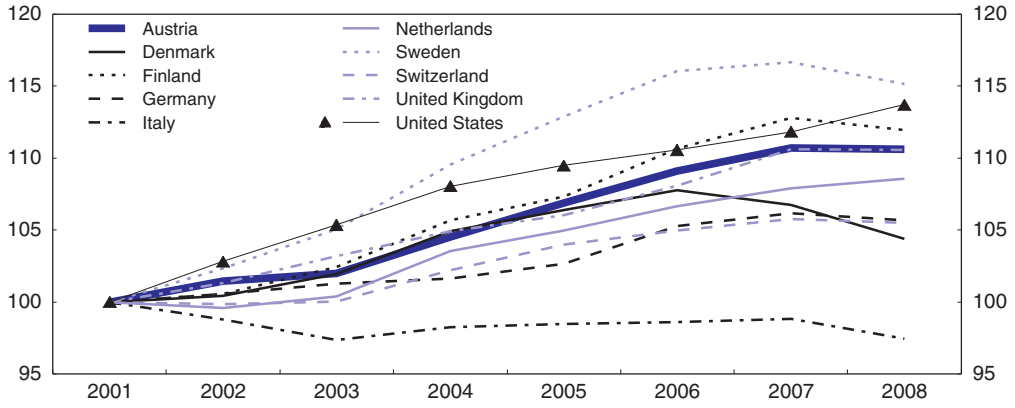
Productivity growth has picked up, but the business environment could be more supportive

Two factors have stimulated productivity growth in recent years (Figure 2.3). First, the Austrian economy has been more exposed to international and regional competitive forces. Most prominently, the build-up of the technological and industrial capacity of CEE has made these countries both vibrant markets and strong competitors for Austrian manufacturing. The emergence of low-cost overseas suppliers has also compounded competitive pressures. In response, Austria's business sector has strived to contain its labour costs with the support of distinct social partnership arrangements and intensified innovation efforts, thereby succeeding in maintaining sizeable production capacities at home. Productivity, investment, employment and export performance in the exposed sector have remained strong and improved further (Figure 2.4).

Secondly, private-sector R&D activity has expanded faster in Austria than in other OECD countries (Figure 2.5) and international surveys single out Austria as a prominent

Figure 2.3. **Productivity growth has been fairly strong in recent years**

Real GDP per person employed, 2001 = 100

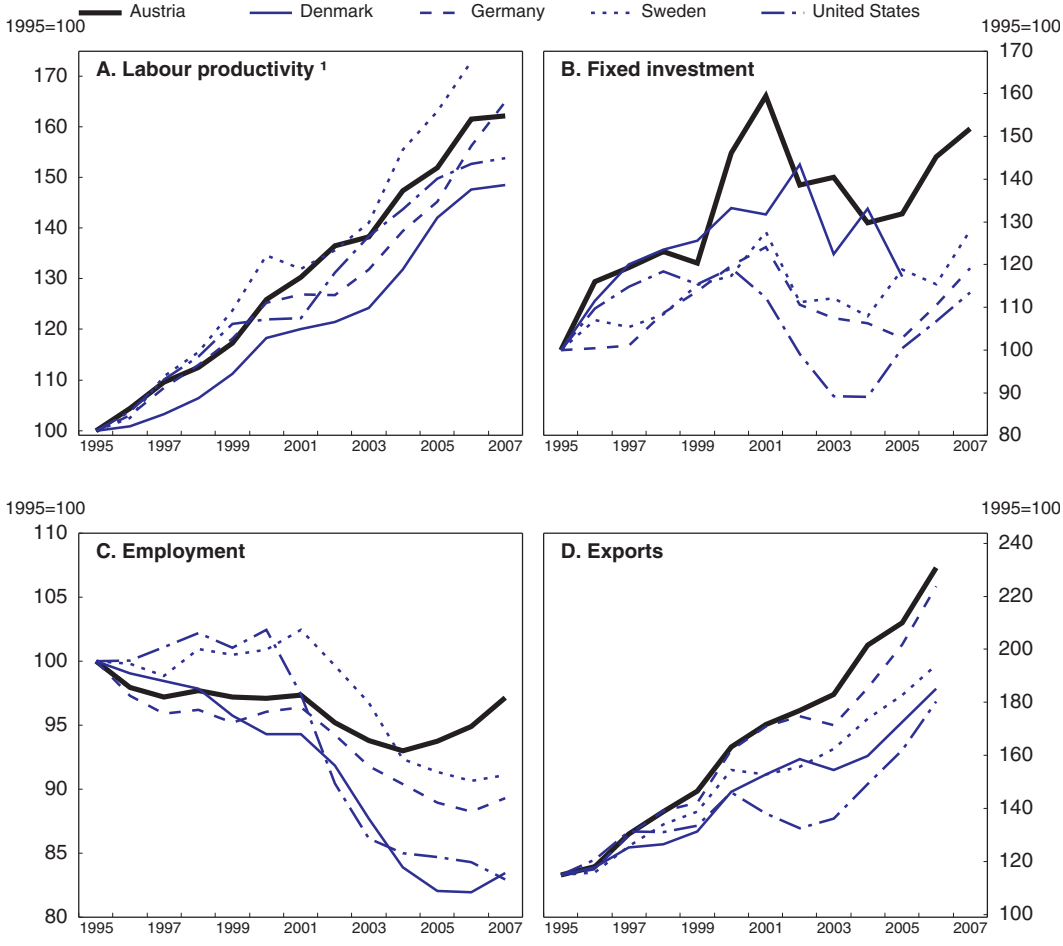


Source: OECD, Economic Outlook database.

StatLink http://dx.doi.org/10.1787/645254061801

Figure 2.4. **Trade-oriented manufacturing has been very dynamic**

Manufacturing sector, index



1. Measured as gross output, in volume, per person employed.

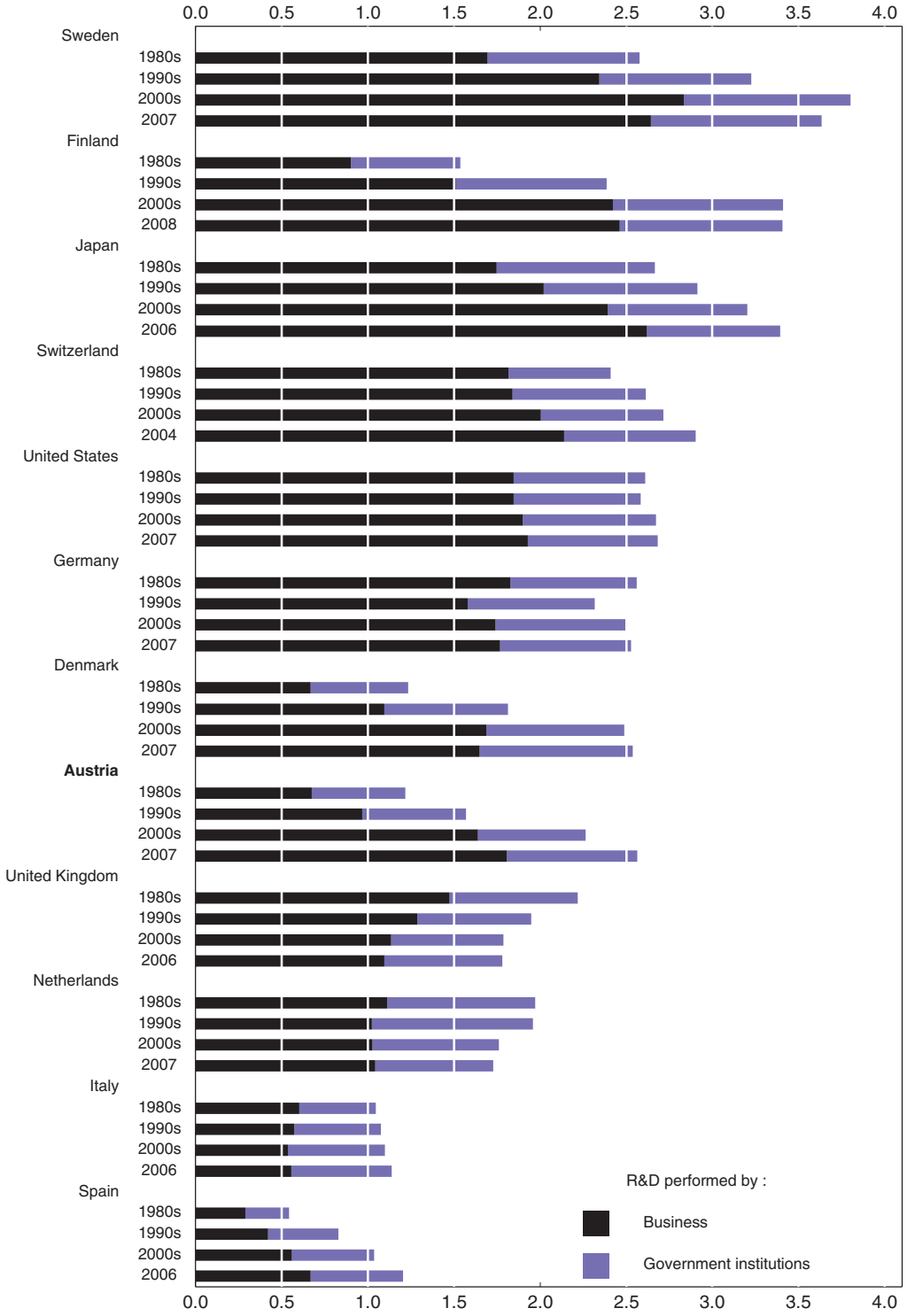
Source: OECD, STAN database.

StatLink http://dx.doi.org/10.1787/645264876676

OECD ECONOMIC SURVEYS: AUSTRIA – ISBN 978-92-64-05439-4 – © OECD 2009

Figure 2.5. **R&D and innovation activities have expanded considerably**

As per cent of GDP



Note: Ranked by the total expenditure on R&D in the 2000s (average 2000-07 or latest available data).

Source: OECD, Main Science and Technology Indicators.

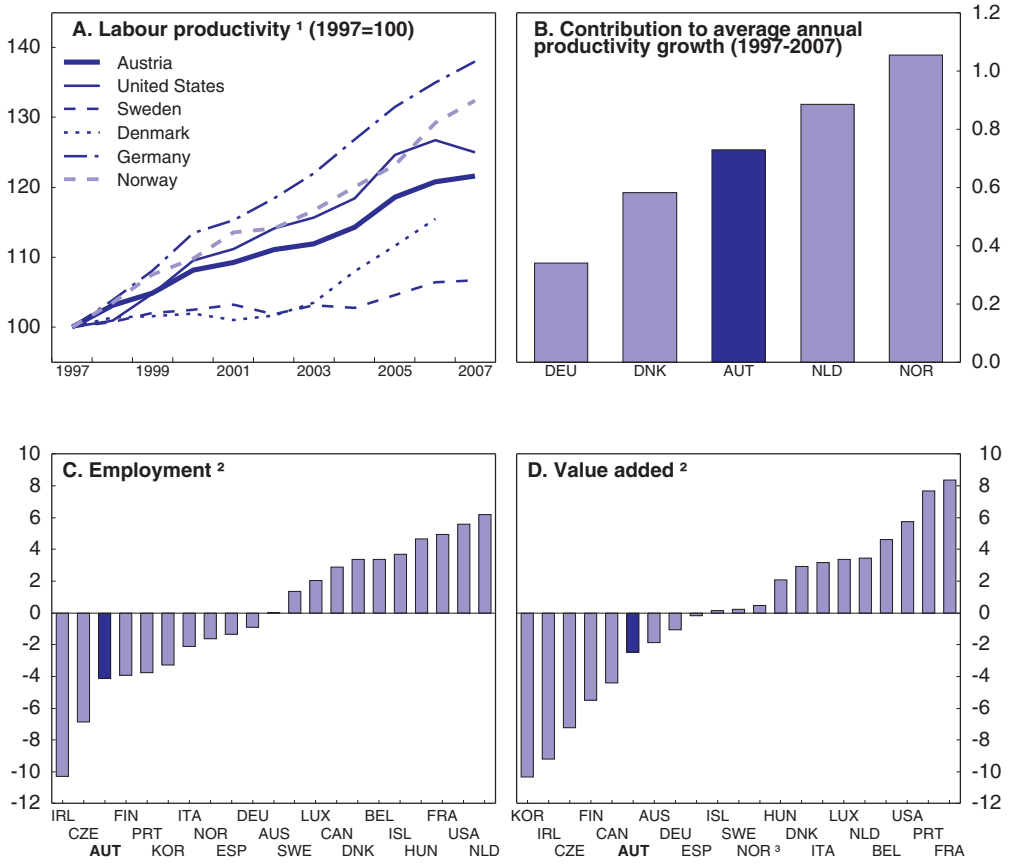
StatLink http://dx.doi.org/10.1787/645266078764

innovator in recent years (European Commission, 2007). A relatively generous tax treatment of business R&D spending, direct subsidies to innovation projects and a variety of public-private co-operation schemes have been put in place, as reviewed in the previous *OECD Economic Survey*. Their rapid implementation might have entailed some inefficiencies, but they appear to have promoted technological awareness and to have contributed to a swifter diffusion of innovations. To make innovation policies more effective, an evaluation of existing measures was recently initiated by the authorities.[1]

In contrast with the strong output and productivity performance of trade-exposed manufacturing, there is room for more competition, investment and productivity growth in services. Recent data confirm the findings of the previous *OECD Economic Survey* that productivity, output and employment performance in services fall short of the best-performing countries (Figure 2.6). As services account for the bulk of economy-wide employment and value-added, their relative lag is a drag on aggregate supply-side performance.

Figure 2.6. **The performance of services continues to lag**

Services, indexes and percentage shares



1. Measured as gross output, in volume, per person employed.
2. 2007 (or latest available), deviation of statistically expected service sector share in total economy on basis of GDP *per capita*.
3. For Norway, value added share is computed as a percentage of value added in the mainland.

Source: OECD, STAN database, National Accounts database and Economic Outlook database.

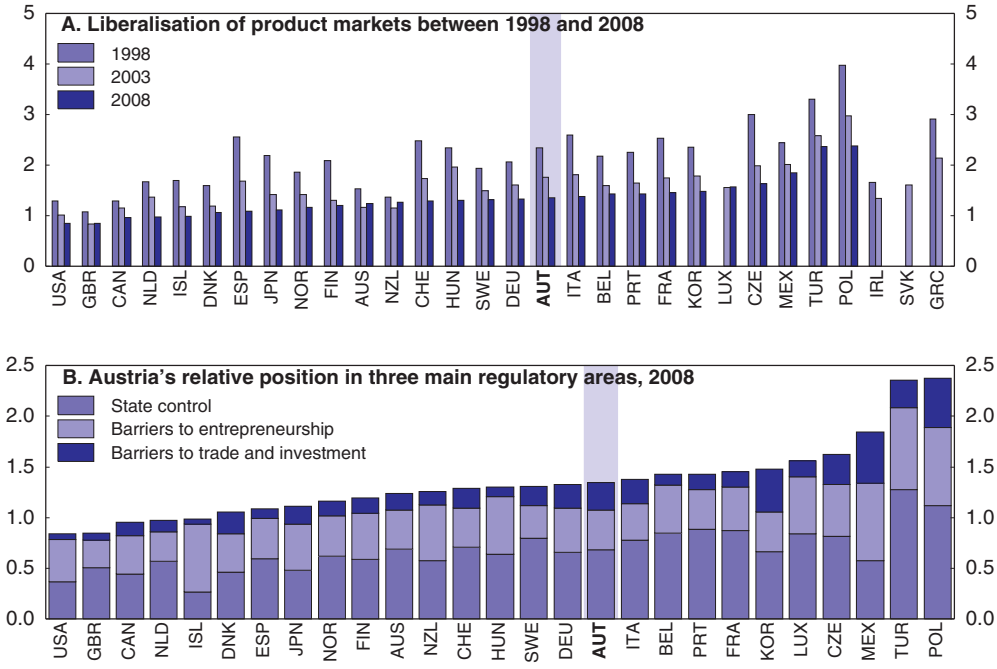
StatLink http://dx.doi.org/10.1787/645306108725

OECD ECONOMIC SURVEYS: AUSTRIA – ISBN 978-92-64-05439-4 – © OECD 2009

The regulatory and competition framework of services does not seem to have kept pace with rapidly-evolving OECD benchmarks. According to the latest vintage of OECD regulatory indicators (OECD, 2008a), despite important liberalisation initiatives in large sectors such as retail trade and telecommunications (Figure 2.7), the market environment of services lacks the incentives and disciplines of trade competition and remains more restrictive than in many other countries. In certain professional services strict entry rules which have been put in place with an aim to preserve the quality of services have probably had anti-competitive consequences. In the area of retail trade, the Austrian Trade Act was amended in 2002 and 2008, facilitating market entry and making shopping hours more flexible. The number of retail outlets increased and the total retail trade surface on a *per capita* basis is, today, one of the highest in the OECD. Even so, some of the regulations in this sector remain stricter than in other OECD countries, notably under regional planning rules concerning outlet size enforced by the *Länder* and in terms of shopping hours. More generally, the rules governing market entry, the creation of new enterprises and sectoral regulations in network services are less supportive of competition, and, as a result, of innovation and productivity growth.

Figure 2.7. **Regulatory and competition reforms have advanced but less than in some other countries**

Level in index points, 0 = least and 6 = most restrictive



Source: OECD Regulatory database, 2008.

StatLink http://dx.doi.org/10.1787/645322740736

The legal framework for competition is formally quite comprehensive, with very few sectoral exemptions from generally-applicable competition law. The 2005 reform of the Cartel Act, which entered into force in 2006, aligned Austrian law with the European competition law. However, competition policy does not appear to enjoy very wide support in society, and the Federal Competition Authority (FCA – *Bundeswettbewerbsbehörde*) is

vested with limited resources and powers. This restricts its success in enforcement and its competition advocacy role and has limited, so far, its capacity to undertake more in-depth market studies in important areas where market power is believed to be associated with competition problems As an example, an in-depth investigation of the retail sector was delayed by a lack of investigative power to enforce presentation of documents by companies; nevertheless, the investigation was completed in June 2007.

In terms of regulatory conditions for market entry across all sectors, whereas starting up sole proprietorships is fairly easy and many have been created in recent years, high minimum capital requirements for the creation of limited liability enterprises inhibit entrepreneurship. Also, in certain sectors, Austria's federal structure tends to work against national market integration and against efficient and competitive markets (such as in construction, with differences in building regulations across *Länder*).

Greater use of the tools of modern competition policy, including close investigations of pricing and other behaviour on the sole initiative of the competition authority would be welcome, to promote competitive markets in all sectors. Such a competition advocacy function would help defuse some looming public pressures for the activation of less appropriate policy instruments to counter risks of abuse of market power, such as recourse to administrative price controls. Indeed, the 1992 Price Act (*Preisgesetz*) allows to administratively regulate prices under certain circumstances upon advice of a Price Commission, which would admittedly be a heavy-handed and practically unsustainable substitute to market competition. Nonetheless this mechanism has been invoked in recent public discussions as a possible device to improve price restraint in retail trade.

More competition in network industries such as energy, transport and communications is important for economy-wide real incomes and cost-competitiveness. These services are characterised by large vertically-integrated concerns with high government ownership – to a greater degree than in other OECD countries. Government ownership reportedly continues to enjoy large public support, being seen as a source of quality and security of supply, but cost and price performance fall short of OECD benchmarks.[2] For example, electricity prices for industry generally exceed OECD averages, and while fees in telecommunication services are generally lower than OECD averages, fixed-line communication fees remain higher than in Germany, Switzerland and Sweden.[3] Sectoral regulators and the FCA should monitor market structures, behaviour and prices in particular in the following areas:

- *Wholesale and retail electricity*. A recent investigation of the electricity industry carried out by the Federal Competition Authority and the Energy Regulatory Authority (*E-Control*) found that the unbundling of energy companies, notably at the level of certain *Länder*, remains insufficient. Their all-inclusive pricing practices are also not sufficiently transparent. Electricity companies recently took voluntary commitments to "bring direct improvements" to consumers and to implement "less expensive co-operation" between suppliers and system operators. Costs and prices should be scrutinised against international benchmarks and access terms to distribution networks should also be monitored.
- *Gas*. The switching rate of consumers among alternative gas providers remains very low. However, the central competition issue in this sector is the diversification of cross-border supply sources, requiring more co-operation and action at the European level.

- *Rail passenger transportation*. This sector is open to competition, but no new entry has occurred. Comprehensive "public service obligations" should be re-assessed, and if necessary re-formulated, in more competition-facilitating ways.
- *Rail freight*. No new entry has occurred in this market either. There may be room for more pro-active policy initiatives to promote market entry and competition by European and regional providers.
- *Postal services*. The market is very competitive in newspaper and parcel deliveries, but remains monopolistic for standard letters. The post market is set to be fully liberalised by the end of 2010, in accordance with EU legislation.
- *Telecommunications*. This sector raises particularly challenging tasks for the regulator and the FCA. Services are provided under a mixture of monopolistic (fixed network), competitive (mobile) and bundled (Pay TV, ADSL, etc.) arrangements. In 2008 the Telecommunications Regulatory Authority (*Telekom-Control-Kommission*) found that Telekom Austria possessed significant market power in wholesale broadband internet access, as did all mobile operators in the termination of voice calls on their respective networks. As a consequence the Authority mandated cost-based tariff reductions. It must be noted that Austria, which until recently had broadband penetration above the OECD average, has started to lag as measured by the number of subscribers per 100 inhabitants. Prices, which on average tend to be high, are estimated to play a role in this. Access conditions to all network elements should continue to be closely monitored and more competitive access prices should be obtained.

Hindrances to competition in liberal professions have started to be addressed: regulations governing several professions, including accounting and auditing, have been amended (Berger *et al.*, 2007). Still, numerous self-regulations prevail, some of which are potentially anti-competitive. The FCA discussed, for example, the recommendations concerning fee calculations with the Austrian Chamber of Tax Accountants. The recommendation of the Chamber to its members in this area constituted an infringement of the Austrian and EU competition law. After intense discussions in 2008, the Chamber withdrew their recommendations, to avoid a legal procedure with the Cartel Court.

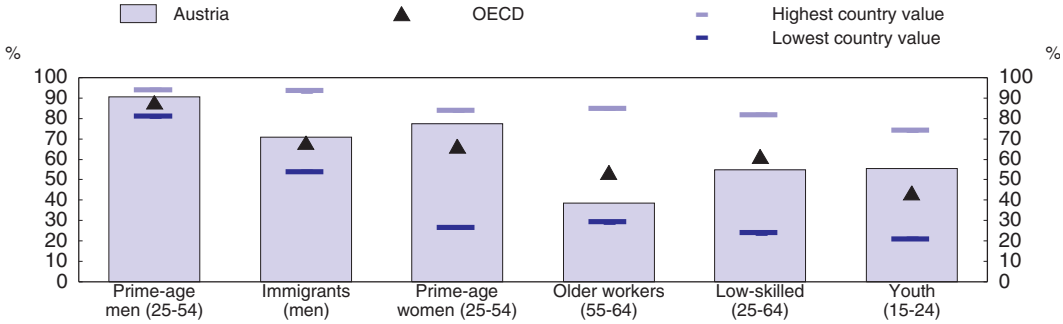
Labour utilisation is high but some weaknesses persist among vulnerable groups

Austria's overall labour market performance is strong, with a high employment and low unemployment rate, and it has remained so in the initial phase of the ongoing downturn until early 2009. At the same time, there is a significant difference between a large, well-performing core of the labour force, and some more vulnerable groups with lower employment rates (Figure 2.8). Better performance of the latter would boost economy-wide employment, potential output and social cohesion.

More specifically, male and female workers between 25 and 54 with at least upper secondary education, who represent 80% of the labour force, have a very high employment rate, unlike less-skilled and older workers. Among high-income OECD countries this contrast is particularly strong today in Austria (Figure 2.9 and Boxes 2.1 and 2.2).

Figure 2.8. **Labour utilisation differs across groups**

Employment rates, 2007[1]

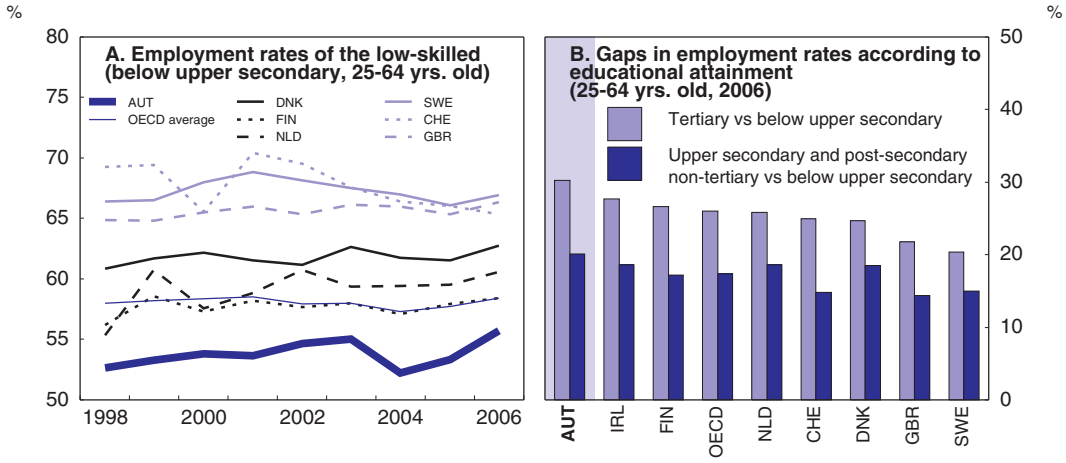


1. Some of the groups overlap. Data for the low-skilled are for 2006. Population-weighted averages for all OECD countries. For male migrants, it is an average of Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland (2006), Ireland (2004), Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, the Slovak Republic (2004), Spain, Sweden, Switzerland and the United Kingdom.

Source: OECD, Labour Force database, OECD, *Education at a Glance 2008* and Eurostat.

StatLink http://dx.doi.org/10.1787/645344320435

Figure 2.9. **Low-skilled workers fare poorly in the labour market**



Source: OECD, *Education at a Glance 2008*, Indicator A8.3.

StatLink http://dx.doi.org/10.1787/645437724781

Looking forward, the gap between skilled prime-age and less-skilled older workers will affect Austria's short- and longer-term employment performance through three channels:

- More vulnerable workers are generally the first ones to come under pressure when activity falls. In the light of the experience with previous slowdowns, the short-term prospects for the employment of these workers are bleak.
- A number of recent and ongoing policy initiatives may amplify adjustment challenges in vulnerable labour market segments. A hike in the guaranteed social minimum income and transition to a higher national minimum wage (both objectives currently pursued by the authorities) may, if not accompanied by supporting measures, undermine the supply and demand of low-skilled labour, not only in the short but also in the longer term.
- The employment challenges faced by vulnerable workers may increase in the future with the full liberalisation of the movement of workers from neighbouring new EU members. Exemptions from free movement of workers within the European Union

Box 2.1. **Low-skilled workers**

The employment rate of the low-skilled, at about 55%, is weaker than in most other high-income OECD countries. It is notably lower than in the United States, United Kingdom, Australia and New Zealand, as well as than in other small European countries such as Sweden, Denmark, Norway, the Netherlands and Switzerland.[1]

The share of the low-skilled in the working-age population is, however, diminishing. The weight of people with less than upper secondary education declined from almost 30% in 1996 to 18% in 2006. This decline, also observed in other high-income OECD countries, results from the higher educational attainment of younger cohorts.

The low-skilled are concentrated in certain social groups:

- *Older workers*. 30% of the 55-64 year olds are low-skilled, against 13% of the 25-34 group.
- *Immigrants*. The share of the foreign born in the labour force exceeds 15% – the highest in the European Union after Luxemburg. As a result of the geographical origin of past immigration, the educational level of immigrants is lower than for the natives (see below Figure 2.13).
- *Women*. The educational gap between men and women remains wide. In 2006, the shares of men and women with at least upper secondary education differed by 12 percentage points, against an OECD average of 3 percentage points. Women account for about 60% of the low-skilled working-age population.[2]
- *Workers in "atypical" employment forms*. The utilisation of non-standard labour contracts is higher for the low-skilled. While the share of the low-skilled in total employment was 17% in 2007, they represented 26% of manpower leasing and more than 50% of temporary employment.
- *The unemployed*. More than 30% of the unemployed were low-skilled in 2007. Among the long-term unemployed (with an unemployment spell of more than 12 months) their share exceeded 40%. In February 2009 the share of the low-skilled in total unemployment surged to 46%.
- *The inactive*. The low-skilled represent nearly 33% of all working-age inactive persons in Austria. About 38% of the low-skilled are inactive, whereas the corresponding rate for the entire population is 22%.

1. OECD, Eurostat and Statistics Austria data have been used in this Box.
2. As in other OECD countries, the employment rate of low-skilled women is lower than for low-skilled men. It is higher, however, than the OECD average. This may be attributed to the very rapid growth of female part-time employment over the past decade. In 2006, the employment rate for low-skilled women was 50% against an OECD average of 48%, whereas it was 66% for low-skilled men against an OECD average of 70%.

have limited the inflows of lower-skilled workers into Austria to date, except for jobs in home care, seasonal and commuting work. From 2011 onwards, these limitations will be removed, and workers from the region, including workers with higher skills and lower wage expectations than local low-skilled workers, may start to compete with them, at least for certain types of jobs.

OECD experience shows that the employment of the more vulnerable groups can be durably improved. Three areas deserve close consideration: *i)* the effective readiness to work (*i.e.* actual labour market availability) of low-skilled workers; *ii)* demand for such labour; and *iii)* up-skilling of this group.

Box 2.2. **Older workers**

Among OECD countries, Austria has a particularly low rate of employment of older workers aged 55 to 64, even though it has risen somewhat in recent years, as a result of measures tightening eligibility for early retirement. Specifically, it increased from 32% in 2005 (41% for men and 23% for women) to 41% in 2008 (50% for men and 28% for women[1]). The OECD average approaches 55%, however, and in Sweden, Switzerland and Denmark, the rate varies between 60% and 70%.

This situation results from the massive withdrawal of older workers from the labour force since the 1970s. Generous pension, early retirement and disability benefit schemes have provided large early exit avenues from the labour force. About 10% of the working-age population receives either old-age, early retirement or disability transfers – the highest incidence among OECD countries. Over one third of those retiring in 2005 did so on "disability" grounds. Benefit conditions for these schemes were tightened a few years ago, but cumulative cohort effects persist. In addition, some recent measures have weakened the participation incentives of older workers. The penalty on early retirement was reduced in 2007, with a cut in the discount rates on benefits applicable for each year of early retirement from 4.2% to 2.1%.[2] The implicit rate of taxation on continuing to work (after eligibility for retirement) remains high by international standards.

There are also some loopholes in the heavy work and disability schemes. Austria has indeed one of the highest incapacitation rates among older workers due to the "own occupation-based assessment of disability" (*Berufsschutz*). This implies that a worker can claim disability benefits after age 55 if the capacity to work in "one's normal occupation" is undermined. In contrast, most other OECD countries grant disability only in case of general incapacitation. Austrian social partners remained committed to this provision while other countries which used to have similar rules such as Germany, Italy, Norway and the Netherlands abolished them in the 1980s and 1990s. Even before the ongoing downturn, a worker becoming unemployed after 50 faced a low probability of returning to work. Only half of unemployed men and women above 50 exited unemployment through employment before the crisis. For workers between 55 and 59 this rate declined to 30% for men and 20% for women. The low *de facto* employability of older workers undermined their participation rates: the share of inactive persons who declare that they would prefer to work is particularly high in Austria (8.4% against an EU-25 average of 5.2%).

The detachment of older workers from the labour market is acknowledged by the Austrian authorities as a serious challenge, and new measures are under consideration to increase participation rates. In this context, it is important to phase in full all the provisions of the 2003-04 pension reforms.

1. 2007 figures for genders.
2. This amendment is to apply for a transition period lasting until 2050, and covers persons who are part of both the old and the new pension system: for persons whose first pension contributions start after 1st January 2005, and for disability pensioners, the reduction for each year of early retirement remains at 4.2%.

Labour supply incentives of low-income workers can be improved

The actual labour market availability of low-skilled workers, *i.e.* their readiness to work at prevailing market wages depends, among other things, on: *i)* the financial incentives associated with transition from inactivity to employment, and from part to full-time employment, and *ii)* the degree of administrative enforcement of the rules requiring that beneficiaries of social assistance take up appropriate work. There appears to be room for progress in Austria in both areas.

The combination of wage, tax and social assistance systems shapes the incentives of inactive and unemployed persons to take up work. Effective tax rates measuring the financial loss incurred by inactive or unemployed persons transiting to employment are presently particularly high for three main groups (see Annex 2.A2 for further details):

- *Low-skilled unemployed and inactive taking up work*. A single person who used to earn 67% of the average wage before unemployment in 2007 needed to earn at least 33% of the average wage in a new job to achieve any net financial gain. This provides particularly weak incentives for the unemployed finding and taking up part-time jobs. Effective taxation increases to much higher rates (of above 100% for certain family situations) if the person starts from a so-called "marginal" job position (that he/she can cumulate with unemployment benefits).
- *Inactive low-skilled women with two or more children*. This group faces higher effective taxation when taking up work. If a woman with two children aged two and three (eligible for childcare benefits) as a second earner in a family finds a job earning 67% of the average wage, 83% of the earnings from the new job will be taxed away (taking into account the child care costs that she will need to pay for two children aged two and three). To cope with this, three options in the utilisation of childcare benefits were introduced in 2008; the benefit is higher the shorter the benefit period and the cap for additional earnings was increased to € 16 200 per year. In 2009, an income tax allowance of up to € 2 300 per year was introduced, to cover the care costs of children below ten.
- *Workers transiting from part to full-time employment*. Due to the structure of the Austrian income tax regime, in which low-wage earners pay almost no income taxes, this group is also taxed at a high marginal rate. Raising earnings from 50% to 100% of the average wage, for example the transition of an average wage earner from half to full-time work, is taxed at 45% – one of the highest rates among OECD countries.

The changes in the tax and benefit system targeted in the new government programme will alter the effective taxation rates associated with employment transitions. The reform of the personal income tax system includes rate cuts for low-income individuals: the tax rate for individuals earning between € 10 000 and € 11 000 (the first tax bracket) is being reduced from 33% to 0% (Chapter 1) and this will reduce the taxation of those taking up work, strengthening work incentives. However, the adoption of a guaranteed means-tested minimum income of € 733 per month (announced in the government agreement of December 2008 but not yet adopted by Parliament) would combine several already existing social transfers of the different *Länder*, potentially weakening work incentives. This effect will be mitigated by the phasing-out of pay-back obligations for social assistance payments,[4] and the transition to a new national minimum wage floor of € 1 000[5] (even if the number of workers who will be directly affected remains unclear – see below). The extension of preferential tax treatment for dependent children will also improve work incentives. Finally, the planned adoption of additional in-work benefits for special groups will reduce their effective taxation rates.

The authorities announced that in-work benefits will be provided in the future by maintaining part of the social transfers to those taking up work at low income levels. Such measures had already existed, but were available only to very specific groups. The government plans to make them available to all long-term unemployed (including older and disabled workers, and the inactives returning to the labour market). The net effect of

this overhaul in the tax and benefit system cannot yet be precisely calculated but needs to be carefully analysed before implementation.

The rules enforcing labour market availability of recipients of unemployment benefits are among the strictest OECD-wide (Annex 2.A2). In practice, however, recipients of social assistance may face less compelling requirements. One challenge is that the administration of social assistance is a *Länder* responsibility, while the administration of job search and active labour market programmes is the Federal government's. Although all recipients of social assistance are in principle referred to job search and active labour market programmes, the actual enforcement of these programmes differs according to local conditions and *Länder* policies. The division of tasks between government levels in the administration of unemployment insurance, unemployment assistance (which is activated when insurance benefits expire), and of mainstream social assistance should be based on a clearer legal ground, and on a clearer assignments of responsibilities.

One solution in the short-term is to more effectively co-ordinate unemployment insurance, labour market and social assistance services. The authorities plan to enhance the enforcement of work availability in the context of the introduction of the new minimum social income. The Public Employment Service, already in charge of the administration of unemployment insurance, is expected to participate in the treatment of applications for social assistance, and in the assessment of the work capacity of applicants. These "activation" steps in the management of social assistance are needed and will be welcome. At the same time, in light of other countries' experiences, a fuller integration of public employment and social assistance services should also be considered (OECD, 2001).

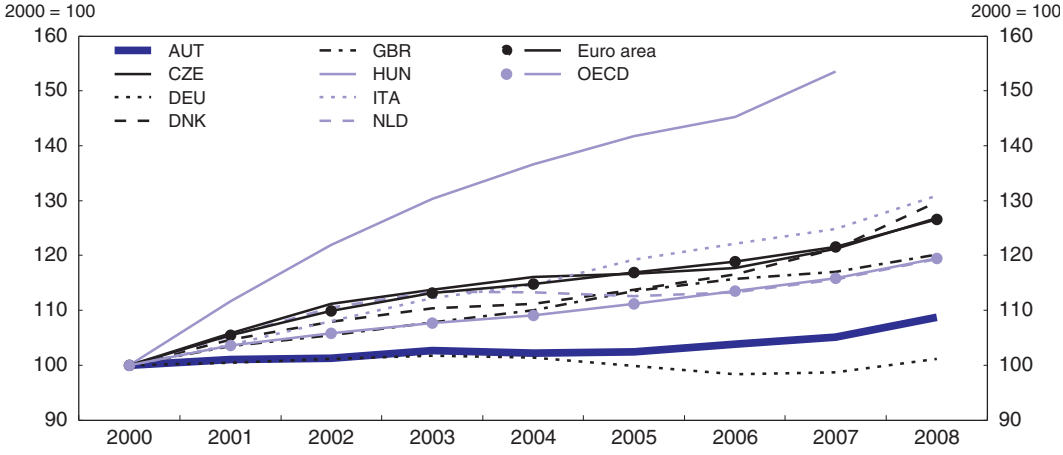
Demand for low-skilled labour appears to fall short of potential

Austria's labour costs have exceeded euro area averages since 2000, but remain lower than in Scandinavian countries, the Netherlands and Germany. They are several times higher than in CEE neighbours. Austria's co-ordinated wage bargaining system delivered a considerable degree of wage moderation in the past, especially in trade-exposed activities. Coupled with strong productivity gains, this helped preserve cost competitiveness. Even if wage growth will be strong in 2009, following negotiations in autumn 2008, it is expected that low inflation and a weak labour market will gradually help restore the moderation of labour costs (Figure 2.10 and Chapter 1).

Employment costs are, however, less flexible for low-skilled workers. A relatively high floor seems to have formed for their employment costs, at the risk of pricing them out of the labour market. Minimum wages are the main constituent of this floor. There is no officially legislated minimum wage, but hundreds of minimum wages negotiated at sectoral level. They differ across industries: from about 50% of the national average wage in metalworking and construction, to less than 35% for taxi drivers, hairdressers and ski instructors (Figure 2.11). Overall, the ratio of sectoral minimum wages to the national average wage exceeds the OECD average. In those sectors where minimum wages are relatively high, only workers attaining a minimum level of productivity are hired in regular jobs.

Since 2007 the government has encouraged social partners to agree on a minimum monthly wage of € 1 000. Due to the standard practice of 14 monthly wage payments per year, this new national minimum amounts to annual € 14 000. This new floor represents

Figure 2.10. **Unit labour costs have been kept under control**

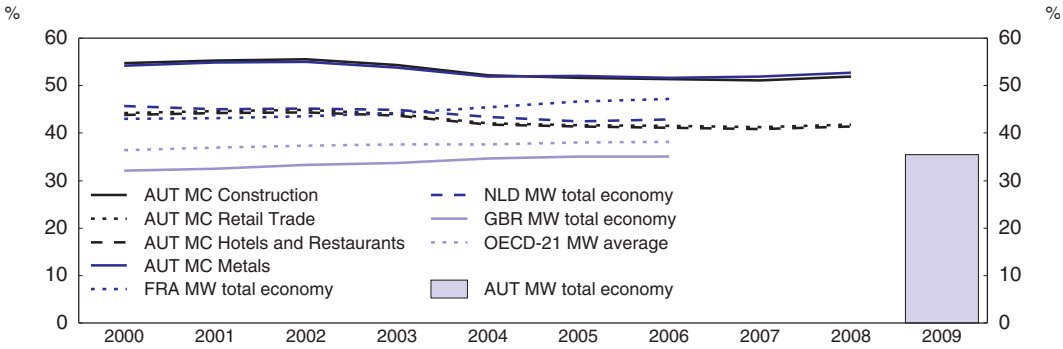


Source: OECD, Economic Outlook database.

StatLink http://dx.doi.org/10.1787/645472358328

Figure 2.11. **Sectoral minimum wage floors may be too high**

Minimum compensation[1] in selected collective agreements (MC) and statutory minimum wages (MW)
As a percentage of average national wage



1. Calculation is based on the lowest full-time wages agreed in the collective agreements of the selected sectors. A simple average of the lowest agreed wages for white and blue-collar workers in each sector has been used. Missing data has been estimated on the basis of current collective agreements and the closest available series from Statistics Austria.

Source: OECD, *Taxing Wages 2005/06*; Statistics Austria; sectoral collective agreements.

StatLink http://dx.doi.org/10.1787/645516378872

35% of the national average wage, much lower than the levels prevailing in the largest sectors in Austria. It was therefore easy to comply with this objective in most sectoral wage agreements in 2009. Only a very small proportion of the labour force (1% to 3%) was directly affected by the new wage floor.[6]

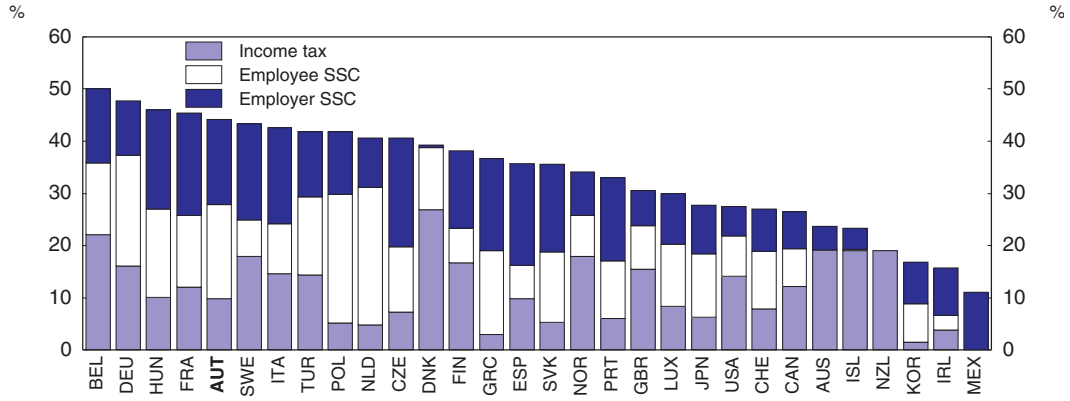
Still, the transition to a new national minimum wage floor might exert indirect effects on other wage agreements (notably if increased wages in traditionally low-pay sectors provide a higher basis for other agreements). Also, if social and political pressures grow in the future for the uniformisation of employment forms, the cost of "regularisation" of workers currently in atypical job positions will be higher. Finally, the potential employment costs of the currently inactive or unemployed persons will increase. Therefore, it will be important to monitor closely the economy-wide effects of this new floor, and contain any

unfavourable impacts on the employment prospects of the low-skilled, marginal and inactive persons.

Total compensation costs of the low-skilled are further increased by labour taxes. Labour tax wedges in Austria are among the highest OECD-wide, especially for low-income workers. While several countries with high tax wedges grant rate reductions or exemptions for low-income workers, such measures have not been introduced to date in Austria (with the exception of a limited reduction in the unemployment insurance premia of low wage workers in 2008 – see Box 2.3). The ongoing reductions in personal income taxes will reduce these wedges, but their main component remains compulsory social security contributions. As employer contributions account for the largest part of these wedges, they cannot be "absorbed" into employee take-home pay in the presence of sectoral wage minima, and amplify effective employment costs (Figure 2.12).

Figure 2.12. **Labour tax wedges for low-skilled workers are among the highest OECD-wide**

% of labour costs, 2007[1]



1. Single individual without children at the 67% income level of the average worker.

Source: OECD, Taxing Wages database, May 2009.

StatLink http://dx.doi.org/10.1787/645534752644

The impact of labour market rules on business sector demand for low-skilled labour should also be taken into consideration. OECD labour market regulation indicators show Austria as close to the average of other member countries (OECD, 2006). However, there are signs that labour rules may fail to provide the needed degree of flexibility for the hiring of low-skilled workers in regular jobs. For example, immigrants are often employed informally in construction, tourism and agriculture, possibly revealing the high level of sectoral minimum wages and/or shortcomings in regulations, despite the availability of a more flexible official regime for seasonal work in these sectors. Another sign is the massive ongoing recourse to non-standard contracts for the employment of low-skilled workers (Box 2.3). The adequacy of labour market regulations for the employment of low-skilled workers in regular jobs may need to be re-assessed.

The authorities have responded to the observed weakness of demand for low-skilled labour. A wide range of incentives have been introduced over the years for potential employers, including:

i) *The "combination wage"* (*Kombilohn*). This in-work benefit scheme was first introduced in 2006, to facilitate the employment low-skilled workers in specific age cohorts in very low paying jobs. In practice, the scheme subsidised part-time jobs only. The take-up rate remained very limited, however, and the government is extending its reach from July 2009. Eligibility will still be limited to specific groups of long-term unemployed (disabled, older workers above 50 and women entering the labour market). Jobs paying from 23% (€ 650) to 60% (€ 1700) of the average wage will be subsidised by € 150 per month for part-time positions (16-34 hours), or by € 300 for full-time positions. The yearly budget allowance of the scheme is set at € 10 million, but should demand surpass this amount extensions will be considered.

ii) *Support to long-term unemployed (Eingliederungsbeihilfe)*. Enterprises are subsidised for hiring long-term unemployed persons (defined as those who have remained unemployed for more than one year, or for six months for persons younger than 25), and persons deemed in danger of falling into that state. Subsidies can reach to up to 66% of the gross wage, and, in special cases, up to 100%.

iii) *Apprenticeship help*. Sizeable subsidies are offered to employers hiring apprentices to increase the supply of apprenticeship positions. The system was reformed in mid-2008. The creation of each new position is now supported by a lump-sum employer subsidy of three apprenticeship grants in the first year, two in the second, and one in the third and fourth years. Moreover, there are additional subsidies to help improve the quality of apprenticeship training (*e.g.* premia for apprentices with learning difficulties, or for good performance in apprenticeship final examinations).

iv) *Support to old-age part-time work*. This scheme permits an employee who is expected to reach the minimum early retirement age in no more than five years to reduce his/her working hours by 40% to 60%. The government compensates 50% of the income loss, if a previously unemployed individual or an apprentice is hired by the employer. Otherwise, the compensation is shared between the employer (25%) and the government (25%). The employee continues to earn 75% of his/her previous wage. The scheme has also a "blocked working time" option, which permits participants to work full-time for 2.5 years and retire 2.5 years early. In its first phase of application between 2000 and 2003 the scheme triggered a widespread shift of older workers to part-time work, and, through the "blocked time" option, to early retirement. Access conditions were tightened in 2004 with the introduction of an obligation to hire an additional worker in order for employers to obtain the full government subsidy, and for participating workers to be able to use the "blocked time" option.

v) *Support to short work hours (Kurzarbeitsbeihilfe)*. This scheme subsidises the shortening of work hours in cyclical downturns and helps enterprises keep employees on their payroll. It is massively used in current circumstances. Employees' wage losses are to a large extent (but not entirely) compensated. In February 2009, Parliament authorised a broader recourse to this scheme, on the basis of a new agreement between social partners. The maximum utilisation period was extended to 18 months, from six previously. Employers can introduce re-qualification or training programmes for potentially redundant workers. According to the new agreement the working hours can

be reduced by 10% to 90%. The Public Employment Service estimates that about 50 000 workers from 165 companies were already on this regime by April 2009. The Ministry of Labour declared that the total take-up is expected to reach 70 000 by end-2009 (25% of the number of registered unemployed in April 2009).[7]

These measures form an extensive apparatus of support to enterprises for hiring lower-productivity workers. Yet, and independently from the current downturn, they fall short for vulnerable groups. The government may need to consider even more far-reaching policies, such as substantial employer social security contribution cuts for low-wage earners, in order to nurture stronger demand for low-skilled labour. OECD experience suggests that, to be successful, such policies need to be tightly targeted and implemented as an integral part of a sound fiscal and tax framework (Box 2.3).

Box 2.3. **Reducing employer social security costs for low-wage workers**

The OECD *Jobs Strategy* stresses that the labour tax wedges are a key determinant of labour market demand, in particular for low-skilled workers (OECD, 2006b). It underlines that a combination of high minimum wages and a high tax wedge can price low-skilled workers out of jobs, and indicates that in such cases, policy measures to lower labour costs are in order. As discussed in the main text, cutting social contributions for low-wage workers would be one way to reduce the employment costs associated with minimum wages, which are relatively high in the largest sectors.

In countries that have implemented a reduction in employer social contributions for low-paid workers, OECD evaluations report significant positive impacts on employment, in particular for the low-skilled (OECD, 2003a). At the same time, reducing employer contributions for a sizeable part of the labour force poses major fiscal challenges. In parallel, evidence is strong that such measures enhance employment only if public spending restraint offsets the loss in receipts stemming from lower social contributions. Increasing other revenues is an alternative option to address fiscal sustainability problems, but if this augments other components of the tax wedge, the employment gains from the reform may be weakened.

To evaluate the possible employment, growth and fiscal impacts of a significant reduction in employer social security taxes, a simulation exercise was realised in co-operation with the Institute for Advanced Studies in Vienna (IHS). Using IHS's general equilibrium model for Austria (TAXLAB),[1] a halving of employer social security contributions, from 22% to 11% of gross wages, has been simulated for workers earning up to € 1 350 per month. This group of workers is the one targeted by the government in 2008 for reductions in employees' unemployment insurance premia.[2] These workers represent 20% of total employment and on average they earn about 37.5% of the average wage. The simulation assumes that revenue losses for the social security system (and therefore for general government) will be fully funded by spending cuts that will have no adverse implications for growth.

The results of the simulation are summarised in Table 2.1. The level of low-skilled employment (workers with less than upper secondary education) increases by around 1% and total employment by some 0.4%. The level of GDP is lifted by nearly 0.3%. Favourable impacts also obtain for unemployment and labour force participation rates.

Box 2.3. **Reducing employer social security costs for low-wage workers** *(cont.)*

Table 2.1. **A simulation of the macroeconomic effects of halving employer social security contributions for low-wage workers**

Effects on levels	Number of years after reducing contributions					
	1	2	3	4	5	10
(in percentage)						
GDP	0.24	0.27	0.29	0.31	0.32	0.36
Employment	0.37	0.40	0.41	0.42	0.42	0.43
Low-skilled	0.98	1.09	1.11	1.12	1.12	1.13
Medium-skilled	0.27	0.30	0.30	0.31	0.31	0.32
High-skilled	0.07	0.08	0.09	0.10	0.10	0.11
(in percentage points)						
Unemployment rate	–0.18	–0.21	–0.21	–0.22	–0.22	–0.22
Low-skilled	–0.44	–0.54	–0.55	–0.56	–0.56	–0.57
Medium-skilled	–0.14	–0.16	–0.16	–0.16	–0.16	–0.17
High-skilled	–0.04	–0.05	–0.05	–0.05	–0.05	–0.06
Participation rate (15-69 year-olds)	0.12	0.12	0.12	0.12	0.13	0.13
Low-skilled	0.30	0.30	0.30	0.30	0.31	0.31
Medium-skilled	0.08	0.09	0.09	0.09	0.09	0.10
High-skilled	0.02	0.02	0.03	0.03	0.03	0.03
Degree of self-financing (per cent)	68	72	74	75	76	79

Source: Institute of Advanced Studies (2009).

On the fiscal side, immediate general government revenue losses (at unchanged employment and output rates) are estimated at 0.5% of GDP. However, the second-round fiscal revenue gains arising from higher profits, employment and consumption offset the bulk of the first-round revenue losses. The degree of self-financing (the ratio of second-round fiscal gains to first-round social security receipt losses) is estimated to reach 70% fairly rapidly following the introduction of the measure, and to rise to close to 80% over a decade.

An earlier OECD cross-country estimation (Bassanini and Duval, 2006) suggested that a 10 percentage point reduction in the tax wedge in an average OECD country may reduce equilibrium unemployment by 2.8 percentage points, though with a potentially higher impact in countries where the ratio of minimum wages to average wages remains high.[3]This estimation, however, concerned a tax wedge cut across all categories of workers at all income levels, and the effects and fiscal costs were therefore higher than in the simulation presented here.

1. Background information on the TAXLAB model is provided in Berger *et al.* (2006), and Berger *et al.* (2009).
2. Unemployment insurance premia (amounting to 3% of gross wages) were reduced in 2008 to 2% for workers earning between € 1 200 and € 1 350 per month, to 1% for those earning between € 1 100 and € 1 200, and eliminated for those earning less than € 1 100.
3. OECD evaluations report significant positive impacts on employment, in particular for the low-skilled (OECD, 2003a).

The comparison of employment trends of low-skilled workers in Austria with recent developments in comparable countries suggests that, should framework conditions change, their employment prospects may improve. The authorities should further investigate the policy and other sources of better outcomes achieved in other countries in this area (Box 2.4).

Box 2.4. **Potential for additional low-skilled job creation**

A statistical analysis of the volume, structure and trends of low-skilled job creation in six high-income OECD countries, including Austria, provides a number of interesting results.[1]

Total low-skilled labour inputs (measured by hours worked) represent one fifth of total labour utilisation in Austria, less than in Germany and Denmark, but more than in the United States, Netherlands and Sweden. It declined strongly in Austria between 1990 and 2005, by nearly 10 percentage points, at a rate similar to Sweden and Denmark, but markedly higher than in the United States and Netherlands.

In Austria low-skill intensity (the ratio of low-skilled work hours to total work hours) varies a lot across sectors. It is highest in agriculture and forestry – where almost 40% of all hours worked are low-skilled. Other activities with a substantial low-skill intensity (above 20%) are hotels and restaurants, retail trade, transportation, construction and manufacturing. The share of low-skilled work is lowest in education, health, public administration and financial intermediation.

Between 2000 and 2005 the volume of low-skilled work rose in Austria in three areas: wholesale and retail trade, hotels and restaurants, and real estate services. A shift-share analysis[2] suggests, however, that this resulted from the strong increase of total hours worked in these activities. Their low-skill intensity declined, as in all other sectors.

Such a systematic decline of low-skill intensity across all sectors of the economy was found only in Austria and the Netherlands. In Denmark, four sectors experienced an increase in low-skill intensity, in the United States six sectors did, and in Sweden two. In Germany the share of low-skilled labour increased in the large majority of sectors.

Developments in Germany are of particular interest to Austria. They suggest that there might be additional potential for further low-skilled job creation in three sectors:

- *Household services*: 40% of the hours worked in the service of German households are low-skilled, compared with less than 20% in Austria. The sector is officially larger in Germany, with a share of more than 1% in total hours worked, as against less than 0.2% in Austria. The difference may partly reflect the weight of informal immigrant workers in this area in Austria.
- *Real estate and business services*: the share of low-skilled work in total labour inputs amounts to 40% in Germany, versus 15% in Austria. Given the large size of the sector, even a slight increase in low-skill intensity may generate substantial additional job creation.
- *Other services:* This mixed group includes sanitation, cultural, recreational, sport and media services. Their low-skill intensity in Germany (40%) is more than double than in Austria (19%). As the sector is very large (5% of total hours worked in the economy) it could offer considerable employment opportunities to the low-skilled.

These comparisons do not take into account broader general equilibrium conditions characterising individual national economies, such as differences in consumer preferences and in the supply of low-skilled labour. They only provide a description of the international differences. They call for a full-fledged investigation of the policy and other underlying factors.

1. The overview, carried out for this *Survey*, was based on the EU KLEMS database. The trend and structure of work hours provided by high-, medium- and low-skilled workers in six OECD countries (Austria, Denmark, Germany, the Netherlands, Sweden and the United States) between 1990 and 2005 have been analysed for NACE 2-level sectors.
2. Shift-share analysis decomposes the percentage change in low-skilled hours worked in each sector into *i)* the growth of total hours worked in the overall economy ("share"), *ii)* the relative growth or decline of total hours worked in the sector in question ("mix"), and *iii)* the relative change in the share of low-skilled hours worked within the sector, that is, its skills intensity ("shift").

OECD ECONOMIC SURVEYS: AUSTRIA – ISBN 978-92-64-05439-4 – © OECD 2009

Improving the skills of vulnerable workers

Low-skilled workers are a highly heterogeneous population and span a particularly large spectrum in Austria, ranging from persons with practically nine years of compulsory education, to people who stayed in school a few years or less. The special geographical structure of immigration has played a role in creating further heterogeneity in Austria (see next section). In these circumstances, upgrading the skills and labour market prospects of the low-skilled is a multi-faceted task.

Three main policy tools can be used in this area:

i) *Lifelong learning*. This is increasingly utilised in Austria for up-skilling, but so far it has mainly concerned already-qualified workers. Workers with a weak basic educational background participate much less (OECD, 2004). Today's challenge is to develop approaches and tools to make lifelong learning more relevant for low-skilled workers.

ii) *Active labour market policies* (ALMPs). ALMPs have been a priority area in recent years, as evidenced by the significant increases in budgetary resources devoted to them.[8] ALMPs are in principle available for all unemployed, including the low-skilled. However, there is evidence that effective utilisation depends, among others, on the earlier background of participants. Women returning to the job market after taking care of their children are the most effective users, possibly because they have the needed basic human capital. They utilise such programmes to refresh and update their skills. The challenge for the authorities is to adapt the programmes to the needs and educational backgrounds of different groups of low-skilled workers. As these programmes claim large resources, labour market outcomes should be monitored and analysed to identify best practices.

iii) *Improving the school background of all pupils*. Reinforcing the basic education of all pupils, and reducing the drop-out rates is the first-best avenue to reduce the skills gap in Austria. It is also the best way to endow all new labour force entrants with a basic ability to update and improve their qualifications later. The government emphasises that improving the education system, and in particular reducing the excessive proportion of youth leaving school with no qualification, is a priority. Chapter 4 discusses the related challenges and policies.

Migration-related labour market challenges

Austria has received and continues to absorb sizeable immigration flows. This raises additional challenges for the effective functioning of the labour market. The share of the foreign-born in the labour force stood at 16% in 2006 – the highest rate in the European Union after Luxembourg. This is the result of 40 years of immigration policies, which went through different phases (Box 2.5).

Austria's accession to the European Union in 1995 opened the labour market to workers from the other 14 members. However, this did not lead to any significant rise in labour immigration. In contrast, when the EU was enlarged by ten new member states in 2004, immigration pressures became much stronger, as a result of the concentration of new members in a small geographical region bordering Austria, with very large wage differentials. Three "transition stages" (2004-06, 2006-09, and 2009-11) were then included in the Accession Treaty, permitting member states to limit the free movement of workers. Austria has availed itself of this possibility during the first two transitional phases, and

Box 2.5. **Past phases of immigration**

Distinct phases of immigration policies and inflows have shaped the geographical origin, socioeconomic composition and educational background of today's immigrant population and labour force.

Austria was a net emigration country until the early 1960s, with substantial worker outflows to Germany and Switzerland. The phase of active recruitment of immigrant workers started in 1961, with inflows stemming mainly from Turkey and what was at the time Yugoslavia. The first peak of immigration was reached in 1973, when about 300 000 foreigners were living in Austria, representing 4% of total population. Their labour force participation rate was very high (about 75%), reflecting immigration policies focused on labour market needs. The majority of immigrants were deemed to be temporary residents and few families accompanied them.

Immigration policies became more restrictive after the 1974 oil shock. Total foreign employment declined. However, the foreign resident population, as a result of a growing number of family unifications, continued to increase from the mid-1980s.

Conflicts in former Yugoslavia, together with strong economic growth in Austria, led to a new wave of immigration between 1989 and 1993. During this period, the foreign population living in Austria soared and the share of foreign workers in the labour force rose from 6% to 9.5%. The increase was mainly driven by workers from former Yugoslavia, but also from Turkey. Restrictive legislation was introduced in 1993 in response to this acceleration, and inflows slowed down. However, starting from 1998, as a consequence of stronger labour demand and new legislation promoting the integration of long-term residents, foreign employment increased again.

plans to do so also for the last one, on the grounds of "serious disturbances in the labour market or a threat thereof".

However, these restrictions do not imply a total closure of the Austrian labour market to immigrants from new Member states. A policy of "selective opening according to labour market needs for key workers" applies, giving free access to immigrants in 67 selected professions with domestic labour supply shortages. There is a growing consensus in Austria for more open immigration policies responding to economic needs. The new government considers abolishing the quotas for highly-qualified workers, and replacing them with more flexible "points-based" immigration authorisations. This approach is actively supported by employer organisations.

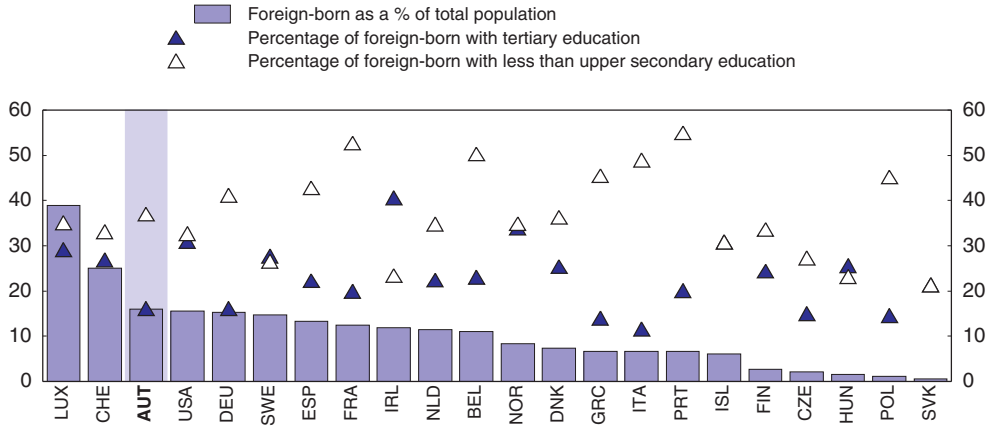
Overall, with Austria's accession to the European Union and subsequent EU enlargement, the nationality and skill composition of immigration inflows are changing substantially and nowadays certain immigrant groups have higher education levels than the native population. The share of EU citizens in the foreign work force has increased. In particular, the share of German citizens rose from 4% in 1994 to 14% in 2006. Over the same period, the share of workers from former Yugoslavia fell from 44 to 27%. Similarly, the share of Turkish workers declined from 23% in 1989 to 14% in 2006.

Despite ongoing changes in the educational background of immigrants, the labour market is faced with two important challenges related to low-skilled immigration. First, the average educational attainment of the immigrant population remains one of the lowest in the OECD. The foreign-born represented more than 25% of the low-skilled labour force in 2007, and 45% of the low-skilled aged 25 to 29. This large outstanding stock of a low-

skilled immigrant population (Figure 2.13) raises specific education and labour market policy challenges, including for second-generation cohorts born in Austria, as discussed in Chapter 4. Secondly, the consequences of the opening of the labour market to worker movements from new EU Member states remain unknown at this stage. As mentioned above, any acceleration in the inflow of workers with higher skills and lower wage expectations than local low-skilled workers could raise additional adjustment challenges for incumbent workers. Such an acceleration would also call for additional measures to absorb and accompany the new inflows.

Figure 2.13. **Immigrant populations and their educational attainment**

All those over 15, 2007



Source: OECD, *Migration Outlook 2008*.

StatLink http://dx.doi.org/10.1787/645538080647

Policy recommendations

Box 2.6 summarises the policy recommendations arising from the analysis in this chapter.

Box 2.6. **Policy recommendations to lift potential growth**

Product markets

- Facilitate the opening of sheltered service sectors to domestic and international competition, while preserving service quality and consumer protection.
- Fully implement the EU directives relating to services.
- Carry out in full the planned thorough evaluation of competition policy and its institutional framework.

Labour markets

- Re-examine the new tax-benefit position of low-income workers, taking into account all ongoing changes in the tax-benefit system, with a view to ensure that their incentives to join or stay in the labour force are maximised.
- More substantial reductions in employer social security contributions for low-income workers should be considered, to reduce their employment costs. These cuts should be funded by other permanent sources.

Box 2.6. **Policy recommendations to lift potential growth** *(cont.)*

- Continue to strengthen the up-skilling and re-qualification programmes for low-skilled workers. Evaluate the results and concentrate resources on the most effective schemes.
- Ensure that high-quality up-skilling programmes are also available for workers presently in the "shorter working time" (*Kurzarbeit*) scheme.
- Fully implement past pension reforms. The transition period to the new system should not be extended, and the conditions of this transition should not be relaxed further.
- Continue to develop high-quality and low-cost early child care services to support working parents.
- Prepare for the full integration of the labour market with the new EU members from 2011.

Notes

1. Early findings from this evaluation suggest, reportedly, that: *i)* the R&D tax incentive scheme is effective and its costs remain affordable *ii)* there are too many direct funding programmes, hence their consolidation would be desirable; and *iii)* the governance architecture of measures must be streamlined, with a better clarification of political and administrative responsibilities in their management. Recent fiscal developments suggest that resources available for these programmes may be reduced in the future, calling for a careful evaluation of the costs and benefits of different measures in order to concentrate resources on the most economically valuable schemes.
2. This is generally consistent with outcomes observed in other countries with similar ownership structures. OECD work – Boylaud and Nicoletti (2000) and Steiner (2000) –confirmed that cross-country differences in ownership played a role in explaining efficiency and price gaps in network industries.
3. According to OECD-wide comparisons, electricity prices for industry in the third quarter of 2008 were $ 0.160 per kWh in Austria, against 0.093 in Switzerland and 0.074 in the United States. The average 2007 price was $ 0.134 per kWh in Austria against 0.116 in OECD Europe and 0.094 in the OECD area as a whole (IEA, 2008). In telecommunications, average fees for a residential fixed-line basket in 2006 were slightly below the OECD average but above Germany's, Sweden's and Switzerland's. The same price patterns prevailed for business fixed-line baskets, mobile communications and broadband internet services.
4. The government plans to eliminate the existing legal requirement for all beneficiaries of social assistance to reimburse the aid that they have received in the past when they start up work. This requirement was not applied in practice, but its formal removal will constitute a welcome clarification. Impacts on work incentives will be ambiguous: on the one hand, the recipients of social assistance will be less reluctant to receive social aid, which may reduce work incentives; on the other hand, the elimination of the potentially large "one-off" charge on those taking up work will increase work incentives.
5. This is also a measure in the new government programme. This threshold takes the form of a floor in new sectoral wage negotiations. However, the largest sectors already have higher sectoral minimum wages.
6. On the basis of a special survey, Statistics Austria estimated in early 2009 that about 112 000 persons (excluding apprentices and those working less than 12 hours a week) earn less than the hourly equivalent of the targeted minimum wage (€ 5.77). This estimate concerns nearly 3% of total employment – approximately three times the estimate of the Federal Economic Chamber. The difference is attributable to atypical employment forms not included in collective agreements monitored by the Federal Economic Chamber: *i)* regular contracts not covered by collective agreements, *ii)* informal employment, *iii)* service contracts (*Werkverträge*), and *iv)* work as independent contractors (*Freie Dienstnehmer*). Although there are no exact estimates of the relative volumes of these employment forms, the number of employees outside present collective agreements and for whom the new wage floor would be "biting" if they were employed in standard forms is not negligible. Based on an earlier estimate by BMSK (2008b), the groups most affected are

young workers (27% of the 15-19 year old employees are affected) and young adults (20-29 years old, 7% of whom are affected).

7. The initial annual budget allocation for the scheme was about € 220 million, but actual take-up rates and budget costs are expected to increase through 2009-2010.

8. Total public resources dedicated to ALMP programmes represented about 0.6% of GDP (OECD, 2007d).

Bibliography

Bassanini, A. and R. Duval (2006), "Employment Patterns in OECD Countries: Reassessing the Role of Policies and Institutions", *OECD Social, Employment and Migration Working Paper*, No. 35, Paris.

Berger, J. and J. Bock-Schappelwein, C. Bremberger, R. Hierländer, P. Huber, K. Knittler, H. Hofer, M. Miess, L. Strohner (2009), *Die ökonomischen Wirkungen der Immigration in Österreich 1989-2007*, WIFO Research Report, No. 308, jointly with the IHS, Vienna.

Berger, J. *et al.* (2007), "Evaluation of the Austrian National Reform Programme – An Update with a Special Focus on Employment, Liberal Professions and International Competition", IHS, Vienna.

Berger, J., B. Felderer, U. Schuh and L. Strohner (2006), *Steuerreformvorschläge für Österreich*, IHS, Vienna.

Biffl, G. (2007), "Sozialhilfe – Armutsbekämpfung an der Schnittstelle zum Arbeitsmarkt", *WIFO Monatsberichte*, 9/2007.

Biffl, G. (2008), "Verteilung der Haushaltseinkommen aus einer Gender-Perspektive", *WIFO Monatsberichte*, 10/2008.

Bock-Schappelwein, J. (2006), "Ungleiche Ausbildungsstruktur unter der ausländischen Wohnbevölkerung in Österreich: Herausforderungen für den Aus- und Weiterbildungsmarkt", *Wirtschaftspolitische Blätter*, 53(2).

Boylaud, O. and G. Nicoletti, "*Regulatory Reform in Road Freight and Retail Distribution,*"*OECD Economics Department Working Papers,* No. 255, Paris.

Bundesministerium für Soziales und Komsumentenschutz (BMSK) (2008a), *Fakten und Trends bei den Invaliditätspensionen*, Vienna.

Bundesministerium für Soziales und Konsumentenschutz (BMSK) (2008b), *Österreichischer Bericht über Strategien für Sozialschutz und Soziale Eingliederung*, Vienna.

Bundeswettbewerbsbehörde (2009), *Annual Report on Competition Policy Developments in Austria*, Vienna.

Dörfler, S. and N. Neuwirth (2007), "Zuverdienstgrenze zum Kinderbetreuungsgeld", Studienverlag, Innsbruck.

EC (2007), *Community Innovation Survey*, European Commission, Brussels.

Geisberger, T. (2006), "Verdienststrukturerhebung 2006 – Ergebnisse im Überblick", *Statistische Nachrichten*, 9/2008.

Guger, A. (2007), "Arbeitsmarktflexibilität und soziale Absicherung", *WIFO White Paper on Growth and Employment*, Vienna.

Guger, A. and M. Marterbauer (2007), "Langfristige Tendenzen der Einkommensverteilung in Österreich – An Update", *WIFO Working Papers,* No. 307/2007.

Hofer, H. and A. Weber (2006), "Active Labor Market Policy in Austria: Practice and Evaluation Results", *Vierteljahrshefte für Wirtschaftsforschung*, No. 75.

Hofer, H., R. Sellner and A. Weber (2008), "Evaluating Job Search Programmes in Austria – Further Evidence", *IHS Working Paper*, Vienna.

Immervoll, H. (2008a), "In-Work Benefits and Making Work Pay in OECD Countries: An Update", forthcoming as an *OECD Social, Employment and Migration Working Paper*, Paris.

Immervoll, H. (2008b), "Rights and Responsibilities in the Context of Minimum-Income Benefits: Policies and Issues", *Working Paper for OECD Working Party on Social Policy*, Paris.

International Energy Agency (2008), *Energy Prices and Taxes, Fourth Quarter*, Paris.

Janger, J. (2008), "Supply Side Triggers for Inflation in Austria", *Monetary Policy and the Economy Q2/2008. Quarterly Review of Economic Policy*, OeNB, Vienna.

Lalive, R., J. van Ours and J. Zweimüller (2006), "How Changes in Financial Incentives Affect the Duration of Unemployment", *Review of Economic Studies*, Vol. 73, No. 4.

Lechner, M., R. Miquel, S. Werner and S. Wiehler (2008), *Mikroökonometrische Evaluierung der Instrumente der Aktiven Arbeitsmarktpolitik in Österreich*, Projektbericht des Schweizer Instituts für Aussenwirtschaft und Angewandte Wirtschaftsforschung (SIAW).

Lutz, H. (2001), "Betriebliche Eingliederungsbeihilfen als Instrument der Integration von älteren Arbeitslosen", *WIFO Monatsberichte*, 6/2001, Vienna.

Mikrozensus-Arbeitskräfteerhebung (Labour Force Survey), Various Issues, Statistics Austria, Vienna.

OECD (2001), *Labour Market Policies and the Public Employment Service*, OECD, Paris.

OECD (2003a), *Employment Outlook*, OECD, Paris.

OECD (2003b), *Economic Survey Austria,* OECD, Paris.

OECD (2004), *Adult Learning in Austria*, OECD, Paris.

OECD (2005a), *Employment Outlook*, OECD, Paris.

OECD (2005b), *Ageing and Employment Policies – Austria*, OECD, Paris.

OECD (2005c), *Babies and Bosses – Reconciling Work and Family Life,* OECD, Paris.

OECD (2006), *Boosting Jobs and Incomes: Policy Lessons from Reassessing the OECD Jobs Strategy*, OECD, Paris.

OECD (2007a), *Employment Outlook*, OECD, Paris.

OECD (2007b), *Benefits and Wages – OECD Indicators*, OECD, Paris.

OECD (2007c), *Babies and Bosses – Reconciling Work and Family Life,* OECD, Paris.

OECD (2007d), *Economic Survey Austria,* OECD, Paris.

OECD (2007e), *Taxing Wages*, OECD, Paris.

OECD (2008a), Indicators of Product Market Regulation: *www.oecd.org/document/1/0,3343,en_2649_34323_2367297_1_1_1_1,00.html.*

OECD (2008b), *Growing Unequal?*, OECD, Paris.

OECD (2009), *Going for Growth*, OECD, Paris.

Pesendorfer, K. (2008), "Steuern und Wachstum in Österreich", *Geldpolitik und Wirtschaft* Q3/08.

Rille-Pfeiffer, C. and O. Kapella (2007), "Kinderbetreuungsgeld – Evaluierung einer familienpolitischen Maßnahme", Studienverlag, Innsbruck.

Statistics Austria (2009), *Einkommen, Armut und Lebensbedingungen – Ergebnisse aus EU-SILC 2009* (Survey on non-standard employment practices), Vienna.

Steiner, F. (2000), "Regulation, Industry Structure and Performance in the Electricity Supply Industry,"*OECDEconomics Department Working Paper,* No. 238, Paris.

Türk, E., ed. (2008), "Invalidität: Aktuelle Debatten – Lösungsvorschläge", Chamber of Labour, Vienna.

WIFO (2005), "Evaluierung der österreichischen Arbeitsmarktförderung 2000-2003", WIFO, Vienna.

WIFO (2006), "Alternde Dienstleistungsgesellschaft", WIFO, Vienna.

WIFO (2008), "Mittelfristige Beschäftigungsprognose für Österreich und die Bundesländer – Berufliche und sektorale Veränderungen 2006-2012", WIFO, Vienna.

ANNEX 2.A1

Government follow-ups to past OECD recommendations

Recommendations of the previous Survey	*Action taken since 2007*
Enhancing regional integration	
Reduce to a minimum bureaucratic hurdles and red tape for multinational companies seeking to operate out of Vienna.	Some actions regarding managers and their relatives have been taken (see below).
Invest in road and rail connections with key Central and Eastern European commercial locations.	There has been progress in the planning (S3, S8) and construction (A5) of roads towards CEE. One road connection (A6, towards the Slovak Republic) has been completed.
Reform the immigration system to encourage the entry of highly-skilled and well-qualified workers who meet the requirements of the domestic labour market.	Since 2008, access to the labour market has been facilitated for skilled personnel from new EU member states. Entrance regulations for researchers, scientists and managers have been eased. Quotas for "key personnel" were increased, and eligible occupations were expanded. The list currently covers over 50 professions.
Adopt active labour market policies, including vocational training and re-training programmes, to reintegrate into the labour market workers who have been displaced as a result of globalisation.	Active Labour Market Policies area now better adapted to individual or group specific needs.
Overcoming labour market segmentation	
Strengthening work incentives of less active groups	
Pension system and early retirement: Keep phasing in all provisions of the pension reform. Do not reduce the discount rates applicable before the legal retirement age. Administer "heavy work" criteria for early retirement purposes very parsimoniously.	The provisions of the 2003 pension reform are still being phased in (harmonisation of pension systems across private, public, federal and *Länder* levels, increase of women's retirement age to the level for men, etc.). In 2007, the discount rate on benefits prescribed by the 2003 reform for each year of early retirement was reduced from 4.2% to 2.1% for a transition period. In September 2008, the transition period for retirement rules for certain groups was extended to 2013.
Disability pensions: Ensure that disability pensions are only used by people unable to work. Keep claimants of disability benefit who can perform other jobs than their initial profession in the labour force (by dismantling "own-occupation" restrictions in the disability scheme). Decouple applications for medical and vocational rehabilitation and vest vocational rehabilitation with the national employment service.	An "activation approach" started to be implemented with respect to applications for a disability pension. In September 2007, a task force was set up to reform the disability pension scheme, which will provide its recommendations by June 2009.
Family benefits: The implicit marginal taxation of mothers of young children returning to work should be minimised. Family support schemes should remain neutral and not discourage activity. The replacement of child care allowances by child care vouchers and kindergarten services, especially for children under three, would encourage activity.	From July 2008, work incentives of parents in lower income brackets were increased by raising the personal income tax allowance, and by exempting them partly or fully from employee unemployment insurance contributions (see details below). In 2008, a new system of child benefits was also introduced, offering different combinations of rates and lengths of allowances adapted to different work situations. In January 2009, child allowances were further increased.
Social income and poverty trap: The authorities should closely monitor the impact of the planned increase of the "means-tested national minimum social income" on labour force participation. Part-time workers should not be discouraged from shifting to full-time work. The authorities should strictly enforce the planned work availability tests and monitor their efficiency.	The introduction of a means-tested minimum income was postponed several times and may be implemented in 2010 at the earliest. The changes mentioned above in personal income tax allowances and employees unemployment insurance contributions will increase the work incentives of social benefit recipients.

Recommendations of the previous Survey	*Action taken since 2007*
Reducing employment costs	
Minimum wages: The government should pay close attention to the risks raised by the planned minimum wage hike. The minimum wage should not be set on a centralised and politicised basis. Concerns about poverty at work can be better addressed with in-work benefits.	The agreement by social partners and policy makers on a minimum wage of € 1 000 for a full-time job continues to be implemented by sectoral collective agreements. To date, only a small share of workers has been affected by minimum wage increases and no impact was observed on other wage negotiations. No lay-offs were recorded due to the increase of minimum wages. The ongoing extension of the *Kombilohn* scheme will provide wider benefits to a larger group of workers.
Labour taxes: Social security contributions should be reduced for vulnerable groups in the labour market. Cuts should be targeted on groups with low chances of reintegration, *i.e.* those with low or obsolete skills. They should not be used as a one-off sweetener for minimum wage increases.	In 2008, the unemployment insurance contributions of workers earning less than € 1 100 per month (3% of their gross wages) were abolished, and those of workers earning between € 1 100 and € 1 350 per month were reduced.
Making innovation policies more effective	
Simplifying the institutional framework for innovation policy	
Merge the Science Council and the Council for Research and Technology or enhance cooperation between them, to achieve more coherent policy advice, and strengthen its influence on policies in order to increase spending efficiency.	The new government programme explicitly mentions the need to re-define the role of the Council for Research and Technology in science, technology and innovation policy. In 2008, a consortium of research institutions was asked by the government to evaluate the existing public incentive system for research, development and innovation. The consortium will provide their conclusions in May 2009.
The policy-advising bodies and ministries involved in innovation policies should broaden their perspective by considering the impact of general framework conditions on innovation, such as the availability of human capital, financial constraints and product market competition.	The evaluation will also deal with the interaction of innovation policies within the broader framework conditions for innovation.
The responsibility for specific innovation policies should lie with a single ministry. Task sharing between agencies and ministries should be ended, with the operational running of innovation support programmes confined to agencies.	The new government decided not to merge the competences for research and innovation into one ministry, but to streamline the governance structure in order to bring policy strategy and policy implementation more in line. In this respect, the responsibility for the FWF (Austrian Science Fund) was assigned to a single ministry, and the responsibility for the Climate and Energy Fund (KLIEN) to two ministries (formerly four) in 2009. The division of tasks between agencies and ministries is now clarified: strategic decisions are made mainly by ministries, and implementation measures are enforced by agencies.
The pooling of programmes of the various agencies (such as AWS, FFG and CDG) should be considered.	The ongoing evaluation of public incentives to innovation is investigating how to avoid overlaps between programmes.
Ensuring the efficiency of innovation subsidies	
Ensure the efficiency of R&D subsidies including tax incentives by regular independent evaluations.	The ongoing evaluation exercise is targeting this need. In the area of tax incentives, laws were adjusted in 2007.
Further strengthen links between public research centres and the business sector to ensure diffusion of innovation generated in public research.	Improving the co-operation between public research institutions and the business sector has been at the core of innovation policies over the past decade, supported by increased budget resources, and many initiatives to strengthen the links between science and industry have been launched. Since 2008, major public research centres have been going through additional reforms to intensify their cooperation with the private sector.
Improving product market competition	
Proceed with reforms to simplify the system of competition policy (in particular merge the Federal Cartel Attorney with the Federal Competition Authority) and to strengthen enforcement.	The programme of the new government for 2008-13 includes an evaluation of competition policy, with the objective of strengthening the Federal Competition Authority (FCA) competencies, and reforming the institutional set-up of competition law enforcement. Representatives of government ministries, the FCA, the Competition Council, the Cartel Court, regulatory authorities and the competition law community will be involved in the evaluation. A strengthening of FCA's resources is also envisaged.

Recommendations of the previous Survey	*Action taken since 2007*
Further foster competition, in particular in professional services and distribution. Implement EU directives relating to postal services and services in general.	Several EU directives concerning the certification of professional qualifications were recently transposed in Austria. FCA initiated discussions with the Chamber of Tax Consultants and Tax Accountants to obtain the withdrawal of their recommendations concerning the calculation of service fees. A "Services Law" implementing the cross-sectoral aspects of the EU Services Directive is to be finalised by autumn 2009. A screening of the legal *acquis* in this area at federal, regional and local level will be finalised by end-2009. The Crafts, Trade, Service and Industry Act was amended in February 2008 to facilitate entry in several professions. Work is ongoing on a new Postal Market Act to fully transpose EU Postal Directive into the Austrian law. The market will be fully opened to competition from 2011.
Reduce FDI regulations regarding foreign ownership in the liberal professions and other areas.	There is no intention to lift restrictions with regard to the acquisition of shares by foreigners in liberal professions due to the specific personal responsibilities associated with the practice of these professions.
Improving conditions for start-ups	
Simplify and reduce the cost of firm creation, including minimum capital requirements.	Several steps were recently taken to facilitate firm creation, including: the authorisation of electronic legal submissions by Austrian notaries to the Companies' Register since July 2007; the availability of unemployment insurance to entrepreneurs on a voluntary basis since January 2009; the creation of a "one-stop-shop" for start-ups in almost every district. In addition, an amendment of the law on private limited companies (*GmbH-Gesetz*) is in preparation, including the reduction of minimum capital requirements, and simplifying establishment procedures. The on-line creation of companies through electronic applications to the Companies' Register is also under consideration.
The convergence of the income tax regime for the self-employed and for corporations should be envisaged for their neutral tax treatment and in order to encourage entrepreneurial activities.	Tax allowances for the self-employed will be increased in 2010.
Create new structures for venture capital funds which conform to international best practice, including even treatment and full openness to international venture capital investors.	The law on small and medium-size enterprises (*Mittelstandsfinanzierungsgesellschaften*) was amended in 2007 in order to facilitate the entry of third-party investors in their capital. Additional improvements of legal conditions for private equity/venture capital investment (*Kapitalmarktstärkungs- und Innovationsgesetz*) are under consideration.
Strengthening the fiscal framework	
Health care and pension reform	
Biannual evaluations of the reforms outlined in the 2005 Health Reform Act should be carried out in a timely, independent and comprehensive fashion, and the results fully taken into account in future public health care policy.	No further action taken.
The pension schemes for civil servants of the *Länder* and municipalities should be harmonised with the general pension scheme, thereby bringing about a complete harmonisation of public sector pensions.	The new government works towards harmonising the pension regulations of the public administration on the basis of the general pension scheme of the *Bund*. Several *Länder* have already established fairly comparable schemes.
The "heavy workers" channel into early retirement should be restricted to well-justified cases.	Following the completion of a report on the life expectancy of "heavy workers" in summer 2009, their early retirement scheme will be re-organised, in combination with the disability pension scheme.
Consideration should be given to making binding and more precise the envisaged demographic correction mechanism for pensions (the "sustainability" factor).	In addition to the existing (non-automatic) consideration of "demographic sustainability" in the management of the pension system, the government envisages to introduce clear quantitative indicators and new analytical methods to assess long-term sustainability.
More selective targeting of social spending	
Housing subsidies should be scaled back and better targeted towards those who really need them, *e.g.* low-income families. The policy of subsidising energy-saving housing investment expenditures should be reviewed.	The policy of subsidising energy-saving housing investments was reviewed in 2007, and a stronger emphasis was put on the reduction of CO_2 emissions. Housing subsidies are re-evaluated at regular intervals according to underlying social objectives.

Recommendations of the previous Survey	*Action taken since 2007*
The earmarking of revenues for the Family Burden Equalisation Fund (FLAF) should be abolished.	The programme of the new government for 2008-13 foresees a re-organisation of the FLAF. However, there is no intention to change the earmarking principle.
Making the tax structure more pro-growth	
Payroll taxes and social security contribution rates should be reduced for targeted groups of workers with weak employment prospects.	Unemployment insurance contributions were reduced in 2008, and income taxes for low-income earners are being reduced in the context of personal tax reform.
The valuation of real estate and property for tax purposes should be updated regularly and brought to market levels. The abolition of the inheritance tax and other wealth-related taxes such as the gift tax should be reconsidered.	No action taken. The inheritance tax and the gift tax expired as of August 2008.
Excise duties on alcohol, mineral oil, and tobacco and cigarettes should be raised. Petrol prices at the pump should be raised to the higher levels prevailing in neighbouring countries. Government permits for the emission of CO_2 and other greenhouse gases should be auctioned.	Excise duties on diesel and gasoline were increased in mid-2008. Minimum price levels for cigarettes were set according to EU legislation. In the trading period 2008-12, 1.3% of the CO_2 permits will be auctioned and the first auction took place in March 2008. From 2013 auctions will be the main instrument of allocation of emission permits.
A complete list of all current exemptions from personal and corporate income tax, as well as VAT, should be compiled, and tax expenditures cut wherever feasible.	A detailed analysis of exemptions from income and corporate taxes is currently pursued within the OECD's Working Party 2 on Tax Policy.
Pursuing public expenditure management and budgetary reforms	
Public expenditure management and budgetary reforms (relating in particular to budget formulation, execution, and monitoring and reporting) should urgently be pursued. The focus of these reforms should be on: *i)* the adoption of a medium-term budgetary framework; *ii)* the introduction and implementation of output-based budgeting (at least in certain key areas such as education and training, R&D/ innovation support and active labour market policies); and *iii)* the adoption of new accounting rules.	Parliament adopted a Federal Budget Reform Law in December 2007. The first stage, which includes a legally binding four-year expenditure framework and an explanatory strategy report, started to be implemented in 2009. The second stage, currently under preparation, will take effect in 2013 and involves a new budget structure, performance budgeting, accrual accounting and budgeting, as well as result-oriented management of state bodies.
The recommendations of the 2005 OECD *Economic Survey* relating to reform of fiscal federal relations should be given serious consideration during the next round of negotiations over the Fiscal Equalisation Law. In particular, a better harmonisation of financing and spending responsibilities across all levels of government, and giving more responsibility and accountability to all public sector spending agencies, would help promote good governance and better management of public finances.	The Fiscal Equalisation Law was re-negotiated in early 2008. Some streamlining was achieved by turning direct transfers into shared tax revenues.

OECD ECONOMIC SURVEYS: AUSTRIA – ISBN 978-92-64-05439-4 – © OECD 2009

ANNEX 2.A2

Financial and administrative incentives for labour market participation

The actual labour supply of low-skilled workers is influenced by financial as well as administrative incentives. Financial incentives arise from the tax and benefit system, and administrative incentives from rules and regulations concerning the labour market availability of recipients of unemployment benefits and social assistance.

Financial incentives

Effective tax rates are calculated by the OECD to measure the gap between the gross and net incomes of individuals taking up work (OECD, 2007b). This gap arises, on the one hand, from explicit and direct taxation of work-related incomes, and, on the other, from implicit and indirect loss of social benefits and other costs incurred (such as child care costs) by persons taking up work.

Table 2.A2.1 presents the effective taxation rates associated with transitions between selected labour market statuses. Individuals considered in their starting position are either fully inactive or unemployed (*i.e.* having no average income), or are in "marginal employment" (persons earning up to € 358 – *i.e.* 10% of the average wage in 2009 – without losing their unemployment benefits). The table shows how much of new work-related income is lost when they take up work at different wage levels (36%, 67% or 100% of the average wage), depending on family status and spouses' earnings.

The effective tax rates presented in the table do not take into account ongoing changes in the tax and benefit system, resulting from the initiatives of the new government (established in late 2008). These are: *i)* the establishment of a uniform social minimum income scheme (see main text), *ii)* the phasing-out of the pay-back obligations of the social assistance received (see main text), *iii)* the reform of the personal income tax scheme (brought forward from 2010 to 2009, with rate cuts mostly in lower brackets, see Chapter 1), *iv)* the extension of preferential tax treatment for dependent children, and *v)* planned extensions of in-work benefits. The very first of these initiatives will augment the effective tax rates, the second will have ambiguous effects, and the others will tend to reduce effective taxation. The net impact can only be clarified after the compilation of the new effective tax rates on the basis of the new parameters of the tax and benefit system.

Table 2.A2.1. **Effective tax rates for selected employment transitions**

Per cent, AW = average wage

Transitions (starting position >> earnings when taking up work)	No children			2 children aged 4 and 6		
	Single	One-earner married couple	Two-earner married couple 2nd earner	Lone parent	One-earner married couple	Two-earner married couple 2nd earner
Employment transition						
36 >> 67% AW	40	45	40	40	62	40
36 >>100% AW	43	45	43	43	53	43
Short-term unemployed, previous job at 67% of AW, recipient of social assistance and housing benefits if eligible						
0 >> 36% AW	91	100	100	100	100	108
0 >> 67% AW	68	74	72	72	82	77
0 >> 100% AW	60	65	63	63	70	66
10 >> 36% AW	126	123	135	139	116	149
10 >> 67% AW	79	80	83	85	87	90
10 >> 100% AW	67	67	69	70	71	73
Inactive recipient of social assistance and of housing benefits if eligible						
0 >> 36% AW	85	100	20	97	100	22
0 >> 67% AW	64	74	29	71	82	31
0 >> 100% AW	58	65	35	62	70	35

1. Including the reductions in unemployment insurance contributions for employees in the low-income range enacted in 2008 (see Table 2.A2.2).

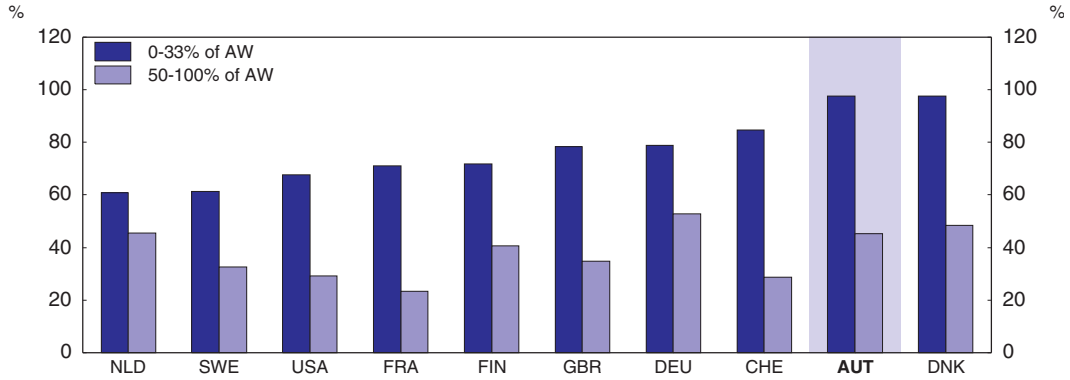
Source: OECD Tax and Benefit Models.

On the basis of the parameters in force at the end of 2008, the three main low-income groups which faced the highest effective taxation rates when taking up work were:

i) *The low-skilled unemployed*. The replacement rate for single individuals losing their job, at 55%, is not high in international comparison. This reduces the effective taxation of those returning to work, provided that they can earn their previous wage levels. If this is not the case, *i.e.* if they can only find lower-paying or less than full-time jobs, effective taxation increases. A single unemployed individual previously earning 67% of the average wage needs to earn at least 33% of the average wage to achieve any financial gain. This provides particularly weak incentives for those finding and taking up part-time jobs. The rate of effective taxation is even higher for individuals who were previously in "marginal employment" (earning less than 11% of the average wage – *i.e.* less than € 360 per month in 2009). This occurs because once earnings surpass the 11% level there is both a discontinuation of unemployment insurance benefits, and the onset of liability for social security contributions. The persons concerned must find a job paying at least 46% of the average wage – well above the minimum wage – to achieve any net financial gain (Figure 2.A2.1).

ii) *Social assistance recipients*. For persons in need who are not eligible for unemployment benefits, social assistance can be paid out for an unlimited duration. Including housing benefits, it is only slightly below the level of unemployment benefits. Therefore, the effective taxation of a social assistance and housing benefit recipient who takes up work is in principle of the same order as for a beneficiary of unemployment benefits (with the same individual characteristics). Still, social assistance is administered by the *Länder*, while unemployment insurance is managed by the federal government, and certain specific provisions of social assistance alter the tax-benefit parameters. Most importantly, social assistance is granted on a means-tested basis, implying that,

Figure 2.A2.1. **Effective taxation of the low-skilled in employment transitions**
International comparison, 2007[1]



1. Single person without children. Transition from 0 to 33% of the average wage (AW) for an unemployment benefit recipient with previous income of 67% of average worker, and transition from 50 to 100% of the AW. Social assistance, housing, and in-work benefits included.

Source: OECD Tax and Benefit Models.

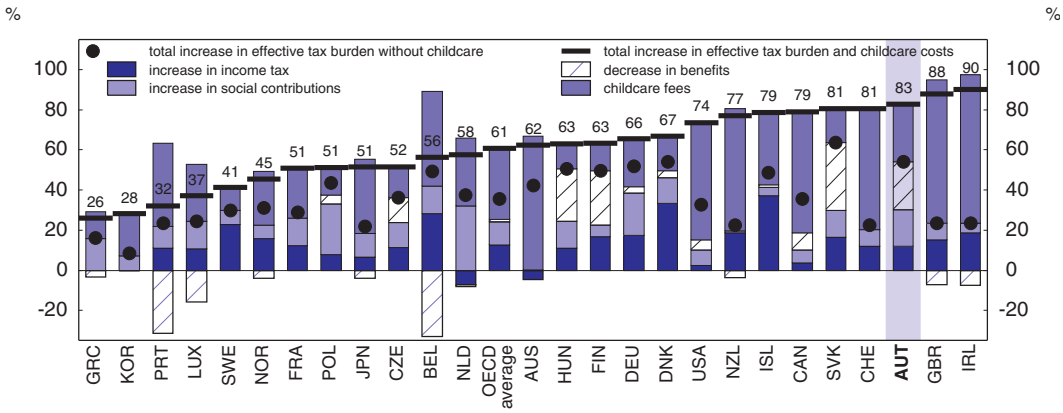
StatLink http://dx.doi.org/10.1787/645564186772

notably in families where there is another breadwinner, an unemployed second earner having exhausted unemployment insurance cover may not receive any replacement income. This reduces effective taxation rates and increases work incentives. On the other hand, social assistance is granted formally as a "bridge loan", implying a payback obligation by those returning to work. Even if this liability is not enforced in practice, it generates a high rate of "potential taxation" and a degree of uncertainty (see above). Also, contrary to unemployment benefits, social assistance cannot be cumulated with "marginal" forms of employment – except in two *Länder* (Salzburg and Upper Austria). This reduces work incentives of social assistance recipients who might otherwise be able to approach the labour market through this channel.

iii) *Low-skilled women with children.* Family benefits in Austria are more generous than in the other OECD countries on average. They come in various forms, some being independent from the income level of parents, while others are only available to families below given revenue thresholds.[1] In particular, the maximum income threshold for childcare benefits (at about 40% of the average wage) increases effective taxation rates for certain categories of parents taking up work, although recent adjustments have improved the situation.[2] Low-skilled women, as second earners, with two or more young children are particularly concerned. This is partly due to the fact that placing children in kindergarten is disproportionately penalising at low income levels.[3] As a result of all these parameters, effective taxation for women with children entering employment at 67% of the average wage is one of the highest in the OECD (Figure 2.A2.2). The government is now introducing a set of measures to reduce these rates – in particular by granting additional subsidies and tax allowances for childcare costs. The net impact of these changes has not yet been calculated.

Figure 2.A2.2. **Effective taxation of a low-skilled second earner taking up work**

Components of effective taxation in international comparison, 2007[1]



1. Second earner with two children aged 2 and 3 years moving from inactivity to a full-time job at 67% of the average wage.

Source: OECD, Benefits and Wages, 2007.

StatLink http://dx.doi.org/10.1787/645571685660

Administrative rules

Beside financial parameters, the enforcement of labour force participation rules as a condition for accessing unemployment-insurance and social-assistance benefits helps preserve work incentives. Even a social protection system with high replacement and effective taxation rates can achieve high labour force participation if administrative rules and requirements are well-enforced.

Table 2.A2.2 reviews the most important activation measures for recipients of unemployment insurance in Austria, in comparison with peer countries. Overall, the enforcement of work availability rules appears strict. Also, the Public Employment Service (PES) directly refers the recipients of unemployment insurance to active labour market programmes, which evaluate their qualifications against labour market needs, and direct them to short training programmes refreshing and completing their skills. Sanctions applied in case of non-compliance with these rules (internationally comparable data are not available on these sanctions) appear strict as well. Unemployment benefits may be withdrawn for at least six weeks – if the periodical reporting requirement is not fulfilled, a suitable job is not accepted, or participation in a training measure is refused. Conditions for accepting a new job were recently tightened, and new mandatory job search programmes were introduced. Following these various enforcement activities, about 14 000 unemployed among 180 000 (nearly 6%) have been sanctioned in 2007 for failing to comply with labour market availability rules – a relatively high number.[4]

For social assistance recipients the enforcement of work availability is generally less stringent. As noted, social assistance is managed by the *Länder* and distributed by municipalities. Anecdotal evidence indicates that if local labour market conditions become problematic, notably for the difficult-to-integrate individuals, the work availability rules may not be actively enforced. The division of tasks between government levels in the management of unemployment insurance, unemployment assistance (which is activated when insurance benefits expire), and of mainstream social assistance is not based on formal assignments. In principle, all recipients of social assistance are registered and treated as unemployed jobseekers, and are included in the placement goals of the PES.

Table 2.A2.2. **Activation requirements from beneficiaries of unemployment insurance**
International comparison

	Austria	Germany	Netherlands	Denmark	Sweden
Regular reporting of status (R), in-person attendance (P), length of interval	R, P, usually weekly	No regular declaration	R, every month	R, every month	R, every two weeks
Timing of detailed registration interview	60% of cases at first jobseeker's first contact with PES	About 14 days after first contact	Normally at first contact with Centres for Work and Income; then again after allocation to private service provider	Up to a month or longer	Up to a month or longer
Timing of individual action plan	Within 1 month after registration	Usually within 10 days of unemployment status	"Re-integration advice" set up for hard-to-place clients within one month	After 6-9 months of unemployment duration (depending on age of jobseeker)	Within 30 days of registration
Reporting frequency of job-search activities	Once a month	Six times a year on average	Every four weeks	At least once every three months	On average every six weeks
Intensive interview schedule during unemployment spell	At least every three months	Six per year (estimated average)	Wide variation	Every three months	Every six weeks on average
Annual number of direct referrals to vacant job per registered unemployed (year); reporting requirement on application outcomes required from employer (ER) and/or jobseeker (JS)	8.1 (2006); ER, JS	ER, JS	ER	2.4 (2005) ; ER, JS	2.8 (2006) ; JS
Compulsory participation after some set of unemployment duration (period); compulsory when referred by PES	No; yes	No; yes	Yes (one month/six months (start of "reintegration trajectory"); yes	Yes (nine months for unemployed aged 30-60; six months for others); yes	Yes (at 28 months at the latest); yes
Continuing job-search requirement (R) and verification (V) during participation in ALMPs	No	Variable		R	R, V

Source: OECD Employment Outlook, 2007.

However, sanctions in case of non-compliance are under the competence of sub-central authorities and vary regionally. The involvement of social assistance recipients in active labour market programmes is also less systematic.

The authorities intend to improve the enforcement of work availability rules in the context of the introduction of the new minimum social income (details in the main text). The PES is expected to participate in the treatment of applications for social assistance and in the assessment of the work capacity of applicants. These "activation" steps in the management of social assistance are welcome. At the same time, international experience suggests that this will likely require more specific skills and performance objectives in employment services (Immervoll, 2008b):

i) The characteristics and labour market challenges of social assistance recipients are more heterogeneous than those of standard unemployment insurance recipients. This requires more personalised services and more customised placement goals;

ii) Work availability rules should be enforced with the help of time-limited sanctions, including reductions in benefits, while avoiding drifts in poverty. This policy should be combined with efficient job-search assistance;

iii) Commercial job-search programmes may offer additional prospects for special groups, and could be experimented with.

Under these caveats, and in the light of other countries' experiences (OECD, 2001), the full integration of social assistance and public employment services could be considered.

Notes

1. The first component is the family aid (*Familienbeihilfe*), which is lump sum and covers dependent children in all families. The second is the childcare benefit (*Kinderbetreuungsgeld*), which is granted for children at and below three, and is subject to a maximum income threshold of about 40% of the average wage. In addition, there is a children's tax credit and a sole parent's tax credit. Unemployment benefits, social assistance benefits and housing benefits are also supplemented in line with the number of children.
2. First, the original rule of a complete withdrawal of child benefits for those surpassing the income threshold has been replaced by a phasing-out rule. Second, the original scheme granting about 13% of the average wage (€ 440 in 2009) for 30 months was supplemented by two alternative options with shorter entitlement periods but higher contributions. This wider "menu" of child benefits improved work incentives by offering choices adapted to different work and family situations.
3. Childcare costs are relatively high in Austria, and exceeded OECD averages in 2004 (OECD, 2007b).
4. Another 26 000 recipients of unemployment insurance benefits, and 43 000 recipients of unemployment assistance benefits also faced interruptions in the disbursement of their allowances, due to neglect in status reporting.

ISBN 978-92-64-05439-4
OECD Economic Surveys: Austria

Chapter 3

Medium-term fiscal policy challenges

During the economic expansion, Austria made progress with fiscal reform, notably on pensions and with respect to the spending framework, although there was also some backtracking. However, much remained to be done even before the global financial crisis, which is now compounding the challenges. With the recession, the fiscal position is set to deteriorate sharply, as in other OECD countries. Significant fiscal consolidation will therefore be needed once the economic situation improves, all the more so as the fiscal stimulus imparted to cushion the downturn has mainly involved permanent measures. Unlike in many other OECD countries, projected age-related fiscal pressures seem to be relatively small, primarily thanks to past pension reforms. In these circumstances, the authorities should focus on changes in the spending and tax structure conducive to economic growth, alongside further reforms of the fiscal framework and improvements in the efficiency of public spending, especially on health care and education. Genuine progress in these areas, however, is difficult to achieve without fiscal federalism reforms.

As the global financial crisis unfolded, fiscal policy initiatives were primarily geared to economic stabilisation. Looking ahead, however, other goals of fiscal policy – safeguarding long-term public finance sustainability and supporting long-run economic growth – deserve attention. Against this background, this chapter briefly summarises recent fiscal reforms, discusses consolidation strategies in the context of the recession-induced deterioration of public finances and analyses age-related public spending pressures. It then moves on to the structure of expenditure and taxation and to fiscal rules. To conclude, the main recommendations for fiscal policy are set out.

Institutional context and recent reforms

In Austria fiscal policy is shared between the federal government, nine states (*Länder*) and 2 357 municipalities. *Länder* carry out around 30% of all public expenditure but receive only around 5% of all tax revenues. *Länder* and municipalities therefore receive large transfers from the federal government. The division of competences and fiscal relations between three levels of government are complex and associated with overlapping responsibilities, co-administration and co-financing at all levels of government. Accordingly, inefficiencies have been identified in some areas of public services, in particular primary and secondary education, health care and the social safety net (OECD, 2005; Austrian Court of Audit, 2007, 2009).

Fiscal federal relations in Austria are enshrined in the constitution and governed by two agreements – the Fiscal Equalisation Law (FEL) and the Domestic Stability Pact (DSP).[1] The FEL is a multi-year agreement on revenue sharing and transfers negotiated between the federal government, *Länder* and municipalities. The current FEL was extended to six years (from four), now covering 2008-13. The FEL rules remain somewhat complex and opaque, despite the following improvements introduced in 2008 (Schratzenstaller, 2008). From 2008 onwards, major transfers from the federal government to *Länder* and municipalities are no longer set as fixed amounts, but are based on shares in overall tax revenue, and some of them are no longer earmarked. Complex transfer rules were simplified for investment subsidies for housing, environment and infrastructure. From 2011, the new FEL also envisaged changes in the rules governing transfers to municipalities at the *Länder* level, which would favour smaller municipalities, and the harmonisation of the *Länder* and local authorities' pension schemes with the general pension scheme.

The DSP sets medium-term fiscal balance targets for all three levels of government (OECD, 2005). In the past, the DSP targets have not always been met, especially at the level of *Länder* (Schratzenstaller, 2008). The current DSP overlaps with the FEL period. It stipulates that municipalities should have balanced budgets and that *Länder* should achieve budget surpluses (0.5% of GDP), while allowing the federal government to run small budget deficits. The current recession will make it difficult to meet these targets.

In recent years, Austria implemented several important fiscal reforms. On the expenditure side, the 2003-04 pension reforms were key as they substantially improved the sustainability of public finances (see below and OECD, 2005, 2007a). The reforms, among other things, changed the way the benefits are calculated (by reducing the annual accrual rate and by extending from 15 to 40 years the accounting period for calculating the pension base), established individual accounts, decided on a gradual increase of the statutory retirement age and its equalisation for women and men to 65 years, and harmonised pensions schemes for different occupational groups. The transition to the new system is gradual, spread over several decades. The reforms implied a reduction in pensions benefits compared with the previous system. Initially, these losses were capped at 10%, but in 2004 the cap was lowered to 5% and set to increase linearly by 0.25 percentage point each year until reaching 10% in 2024. The reforms envisaged two early retirement options – "corridor" pension and "heavy workers" schemes. The first scheme entitles people with at least 37.5 years of work experience to retire before the statutory age, which initially involved a loss in pensions of 4.2% per year. The scheme is symmetric, implying that the pensions of people working after the statutory retirement age are increased at the same rate. This discount rate was reduced to 2.1% in 2007, in order to reduce pension income losses. The early retirement scheme for "heavy workers" reduces the retirement age by three months per year recognised as "heavy work". In 2008, the scheme for the long-term insured (*Langzeitversicherte*) was extended to 2013. The labour market impacts of recent developments in early retirement are discussed in Chapter 2.

Austria also embarked on far-reaching budgetary reforms to address some of the deficiencies of the existing framework (Steger, 2008; Meszarits and Seiwald, 2008). These include excessive focus on public spending *per se* and not enough on outcomes, the lack of a medium-term financial management framework, weak accountability and no autonomy of state bodies. The reforms required amendments to the constitution, which were adopted by Parliament in December 2007. The reforms comprised two stages. The first one, which came into force in 2009, involved the introduction of a multi-annual government expenditure framework. The second one will involve global budgeting, results-oriented management of state bodies, accrual accounting and budgeting, and performance budgeting (see below).

The multi-annual government expenditure framework is based on fixed expenditure ceilings set for four consecutive years, on a rolling basis, at the federal level only. The framework stipulates that the budget law (*Bundesfinanzrahmengesetz*) be accompanied by a strategy paper that spells out the details of the multi-annual budget plan. Both documents, and any changes to them, have to be accepted by Parliament, limiting room for *ad-hoc* changes by the government. The law does not allow the government to exceed the limits.

The expenditure ceilings are set for five expenditure headings and for the underlying budget chapters.[2] The first set of ceilings is binding for four years, while the second set is limiting only for the following year – the ceilings for the remaining three years are merely indicative. Around 80% of total expenditure is fixed in nominal terms. Several spending categories (like unemployment benefits and contributions to social security funds) are allowed to vary with the economic cycle, in line with legal entitlements. Expenditures funded by the European Union and the transfers to local authorities, which depend on the amount of taxes at the federal level, are exempted from fixed limits. The framework grants more autonomy to all ministers in administering the funds, including retaining unspent appropriations without any earmarking.

In addition, various reforms were undertaken on the tax side. In 2004-05, the tax structure was adjusted with a view to enhance Austria's attractiveness as a business location (OECD, 2007a). The corporate tax rate was lowered from 34% to 25%; corporate group taxation and more tax incentives for small and medium-sized enterprises to form equity capital were introduced; the tax burden on labour was reduced; and environmental taxes were increased somewhat. The personal income tax reform that came into effect in 2009 increased the tax brackets and slightly reduced the marginal rates, leading to some further lowering of the overall tax burden on households (Chapter 1).

Finally, Austria also initiated health reforms in 2005. Their main goals were to improve planning, organisation and financing in this sector and to ensure a more equitable regional provision of medical care (OECD, 2005). A Federal Health Agency was set up, as well as nine health platforms at *Länder* level, with an aim to enable the states and the health insurance funds to coordinate service provisions and to enhance the integration of service delivery. On the finance side, health insurance contributions were increased (by 0.15 percentage point, in 2008) and expenditure reductions of € 150 million were agreed (mainly on medication, administrative costs, doctors' compensation and rehabilitation). The 2005 reforms also envisaged measures to reduce administrative costs and to promote an efficient allocation of resources. Several organisational and procedural changes have been introduced since then (Austrian Federal Ministry of Health, 2009). Moreover, in May 2008 the government presented draft legislation with proposals to address the financial problems of health insurance funds.[3] They mainly concerned new and more flexible standards for contracting with doctors and dispensing drugs. This legislation, however, was not passed before the government stepped down. Overall, the financial situation of the health funds and hospitals remains difficult, calling for continued reform efforts.

Fiscal consolidation challenges

In view of the expected increase in the budget deficit and gross public debt (Chapter 1), it is imperative to ensure that long-term fiscal sustainability not be jeopardised. Most recent discretionary fiscal measures adopted in Austria are permanent, addressing structural needs, especially in the case of personal income tax cuts. Consequently, the sustainability of public finances will require offsetting measures down the road. The latest available government projections assume that the budget deficit will decrease from 4.7% of GDP in 2010 to 3.9% in 2013 (Austrian Government, 2009). The government has announced its intention to reduce the deficit below 3% by 2012 but it has not specified the required corrective measures.

As the government does not intend to increase taxes in the coming years, consolidation will require expenditure restraint. In principle, this is a more efficient way of consolidating than tax increases (Cournède and Gonand, 2006; OECD, 2007b).[4] However, in practice expenditure cuts are difficult to implement. Indeed, traditionally, fiscal policy in Austria has tended to be pro-cyclical in upturns as spending was not adequately kept in check (OECD, 2003; Brandner *et al.*, 2006). As to what type of expenditures to cut, there is a case for sparing growth-enhancing outlays, *e.g.* on investment, R&D and education, to avoid the past mistakes of many EU countries (Barrell *et al.*, 2002). Expenditure cuts will be also required to finance many of the new government's important initiatives, especially on education and labour policies.[5] Moreover, successful consolidation will be critical in the light of age-related public spending pressures (see below).

Risks to long-term sustainability

Austria, like many other OECD countries, will experience population ageing in the coming decades and related changes in spending on pensions, health and long-term care and education. The old-age dependency ratio in Austria (the ratio of people aged 65 or more to the working-age population) is projected to double by 2050 (EC, 2009b). Thanks to the past reforms, pension spending as a percentage of GDP in Austria is expected to increase only modestly, in contrast to many other EU countries (Table 3.1).[6] In this context, it is essential to avoid any further backtracking on pension reform. In particular, the transition period to the new system should not be extended and the conditions of this transition should not be relaxed further. Moreover, the harmonisation of the rules governing public sector pensions for the *Länder* and local authorities should be completed, as assumed in the FEL for 2008-13 (see above).

Table 3.1. **Age-related public expenditure pressures in Austria are small compared to the euro area**

Increase in spending between 2007 and 2050, % of GDP

	Pensions	Health care	Long-term care	Education	Total
Euro area	2.9	1.4	1.2	–0.2	5.3
Austria	**1.2**	**1.6**	**1.1**	**–0.6**	**3.3**
Belgium	4.7	1.2	1.3	–0.1	7.1
Finland	3.3	1.0	2.4	–0.4	6.3
France	1.2	1.2	0.8	0.0	3.2
Germany	1.9	1.8	1.3	–0.5	4.5
Greece	12.3	1.3	1.7	–0.2	15.1
Ireland	4.0	1.5	1.0	–0.4	6.1
Italy	0.7	1.1	1.1	–0.3	2.6
Luxembourg	13.4	1.2	1.6	–0.8	15.4
Netherlands	3.7	1.1	4.3	–0.1	9.0
Portugal	1.9	1.7	0.1	–0.4	3.3
Slovak Republic	2.6	2.1	0.3	–1.0	4.0
Spain	7.1	1.6	0.8	0.0	9.5
Other EU countries					
Denmark	0.5	1.0	1.5	0.3	3.3
Sweden	–0.5	0.8	1.8	–0.4	1.7
United Kingdom	1.5	1.7	0.4	–0.1	3.5

Source: EC (2009b).

The pension spending projections are sensitive to many parameters and therefore also highly uncertain. Under different combinations of plausible key parameters, pension expenditure by 2050 may differ by as much as 8% of GDP. In the worst-case scenario, they may reach around 18% of GDP in 2050, implying an increase of around 5% of GDP (Table 3.2 and IMF, 2007). Against this background, particular attention should be paid to the underlying assumption concerning eligibility to pensions. Between 2004 and 2007, there was a strong increase in inflows into retirement via early retirement due to partial disability and the long insurance period. Moreover, inflows into early retirement due to disability were sustained at a relatively high level. If these trends endure, the eligibility ratio is set to increase. In this respect, early retirement programmes should be avoided and exits to retirement due to disability limited. In a similar vein, special early retirement

Table 3.2. **Alternative projections of age-related public expenditure in Austria**

	Spending, % of GDP		Increase in public spending by 2050, % of GDP					
			OECD scenarios[1]		EC scenarios[2]		IMF scenarios[3]	
	2004	2007	Best	Worst	Best	Worst	Best	Worst
Pensions	13.4	12.8	–	–	0.2	5.5	–3.0	5.0
Health care	5.3	6.5	1.9	3.8	0.9	2.4	–	–
Long-term care	0.6[4]	1.3[4]	1.2	2.0	0.9	1.4	–	–
Education	5.1	4.8	–	–	–0.6	0.3	–	–
Total	24.4	25.4	–	–	1.5	9.6	–	–

1. Compared with 2005.
2. Compared with 2007.
3. Compared with 2004.
4. In 2004 long-term care spending contains only federal cash benefits (*Bundespflegegeld*), while in 2007 it refers to total public spending, including also *Länder* cash benefits and budget contributions to long-term care institutions.

Source: OECD (2006), EC (2009b) and IMF (2007).

programmes for public sector workers should be terminated and the "heavy workers" channel into early retirement should be restricted to well-justified cases.

Another strong assumption is that pensions are indexed to inflation and not to wages. This may be politically unsustainable, triggering a change in the indexation system which would imply higher pension spending.[7] On the positive side, pension parameters can be adjusted if certain pension determinants evolve differently than projected, implying higher budgetary costs (OECD, 2005). Every three years a national commission assesses whether changes in demographic projections necessitate amendments in the pension system. If this is the case, the commission proposes corrective measures concerning benefit levels, payroll contributions, accrual rates, retirement age and general government budgetary transfers. However, these procedures are vague and not binding, and thus potentially ineffective. The commission may recommend similar corrections, when changes to the projections of other key parameters (like productivity growth and labour market trends) imply higher pension spending, but is not obliged by law to do so. Thus, it is advisable to make the procedures more precise and binding, by stipulating clear and simple adjustment rules and implementation procedures, and to extend them to key non-demographic pension determinants.

The projections of health and long-term care costs are also subject to large uncertainty (Table 3.2). This partly relates to non-demographic factors of health and long-term care spending, notably the fact that a wider range of pathologies can be treated and the rising relative price of health and long-term care. As health and long-term care costs contribute most to the increase in age-related public spending (Table 3.1) and there has been limited progress with health care reforms in recent years (see above), the authorities should act decisively on this front. Following recommendations in the previous *Survey* (OECD, 2007a), it is essential to clearly specify and implement cost-cutting measures. To this end, the biannual evaluations of the reforms outlined in the 2005 Health Reform Act should provide the main guidelines. These evaluations should be undertaken in a timely, independent and comprehensive fashion. The Austrian Structural Health Plan should also be further improved by using the experience of the ongoing pilot projects. Finally, the implementation of the agreed provisions on changes in the organisation and financing of the health system should be accelerated and work on new health care legislation should continue.

Spending on education is expected to decline in Austria by 0.6% of GDP by 2050, in line with shrinking school-age populations (Table 3.1). Similar trends are expected in other EU countries. However, if compensation per teacher, or the ratio of teachers to students or attainment rates in tertiary education turn out higher than assumed in the baseline scenario, education spending may actually increase by 2050 (EC, 2009a, 2009b).

Combining all age-related spending projections, it turns out that the resulting pressures in Austria, unlike in most EU countries, seem to be relatively small (Table 3.1), even though Austria's comparative advantage – both in relative and absolute terms – has diminished compared with the previous vintage of projections (EC, 2006). Austria has been classified as a low-risk country in terms of public finance sustainability (EC, 2006, 2008; OECD, 2007b). Nonetheless, the high uncertainty of these estimates should not be ignored. If risks did materialise, more significant consolidation efforts would be needed to ensure sustainability. In this context, initial conditions play an important role as they matter for sustainability gaps – *i.e.* the difference between the actual primary balance and the primary balance needed to stabilise public debt. Prior to the significant deterioration in the global economic outlook, EC (2008) showed that the sustainability gap for Austria in 2007 was broadly closed: with a favourable initial position, Austria could accommodate increasing age-related spending. However, unless the current fiscal stimulus, which mainly involves permanent measures, is offset in the future, the primary balance in Austria is set to worsen, leading to a deterioration of the sustainability gap (OECD, 2009b).

Strengthening fiscal structures and institutions

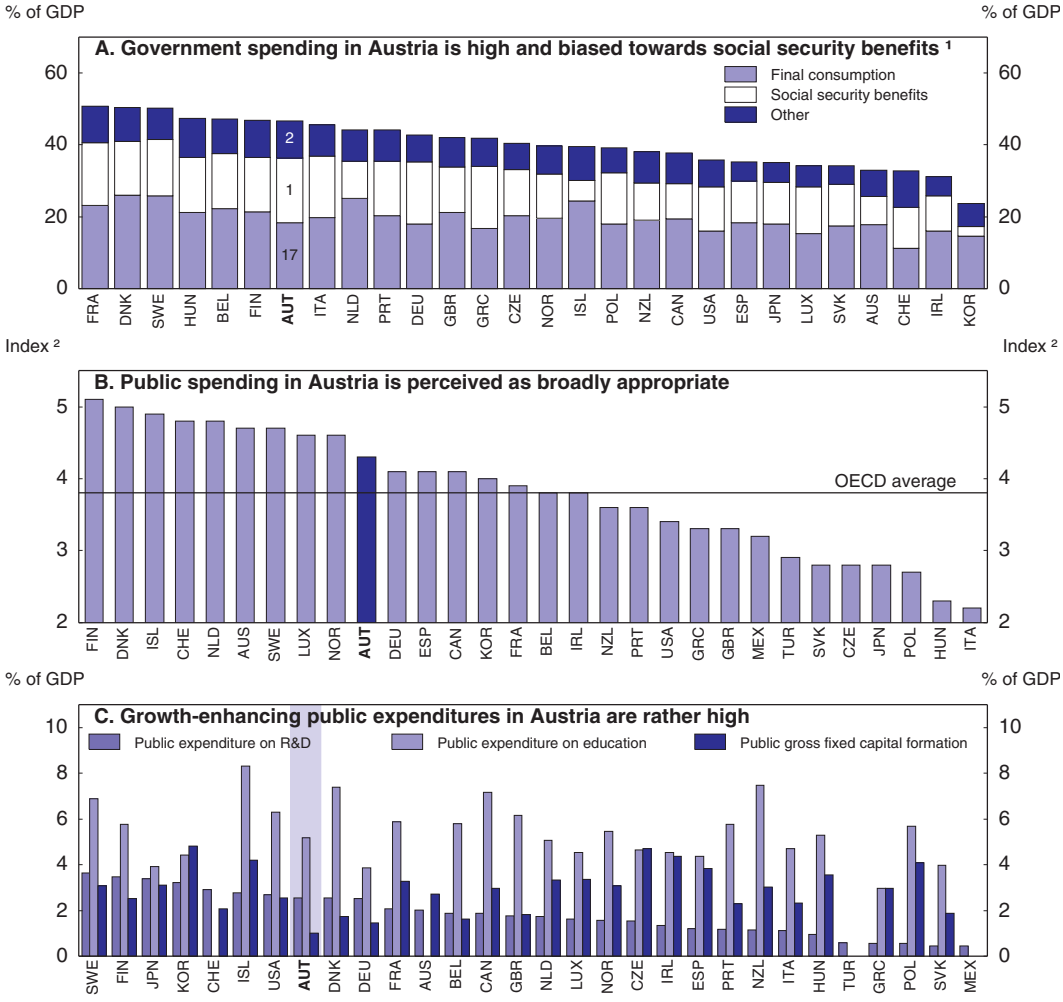
In view of the relatively limited age-related fiscal pressures in the long run, the key priority for Austria should be improving the structure and effectiveness of public spending and taxes, the fiscal rules as well as the size and effectiveness of the public sector.

The structure and efficiency of public spending

The structure of public spending reflects the society's choices and budget constraints. To the extent this structure can be changed towards expenditure with a positive feedback on growth, fiscal policy can be improved. Investment in human capital, technical progress and public infrastructure are among the key areas in this respect, in the light of the growth literature's empirical findings. Public spending in Austria is dominated by social security benefits, but there is a general perception that it is broadly appropriate, and public expenditures on R&D and education are relatively high by international standards (Figure 3.1).

High public spending on specific areas may not lead to higher GDP, depending among others on the effectiveness of spending. Thus, a key goal should be to ensure value for money in spending programmes. More efficient spending would allow lower taxation and could help contain expenditure (especially in areas where it is expected to increase substantially in the long run, like health care), while meeting social objectives. A systematic international benchmarking of public expenditure efficiency is inherently difficult due to measurement problems. Bearing this in mind, Austria is found to be one of the least efficient countries regarding health care spending based on technical and cost efficiency estimates (EC, 2008). The apparent inefficiency can be attributable to the complex infrastructure and governance of health care services, especially in the case of hospitals, as decision making and financing are divided among different levels of government (OECD, 2005, 2007a). This creates inefficiencies and duplications, and

Figure 3.1. **Public spending in Austria**
2007 or latest available



1. Figures shown in the bar for Austria indicate Austria's rank for each category of spending (1 – highest, 28 – lowest).
2. Index ranking from 1 to 7 is based on the executive opinion survey: 1 – "public spending in your country is wasteful", 7 – "provides necessary goods and services not provided by the market".

Source: OECD, Economic Outlook database; World Economic Forum, *Global Competitiveness Report 2007-2008*; OECD National Accounts database and OECD, Main Science and Technology Indicators database.

StatLink http://dx.doi.org/10.1787/645608112477

complicates the reform process. Regarding the efficiency of education spending, Gonand *et al.* (2007) place Austria in the least efficient group of 26 OECD countries in the segment of primary and secondary education. In a broader assessment of education efficiency, based on three different studies, EC (2008) ranks Austria in the middle two quartiles of the efficiency distribution among EU countries (Chapter 4). In contrast, Austria seems to be among the most efficient countries regarding spending on public order and safety (Eugène, 2008).

Fiscal rules have improved, but further changes are in order

Sound fiscal rules, institutions and budgetary procedures help strengthen budget discipline and supervision, while increasing public finance transparency, accountability

OECD ECONOMIC SURVEYS: AUSTRIA – ISBN 978-92-64-05439-4 – © OECD 2009

and predictability (IMF, 2007; EC, 2008). Austria has improved in these areas over recent years.[8] The introduction of a new four-year expenditure ceiling framework in 2009 (see above) stands out. It is expected to help prevent pro-cyclical spending sprees in good times, enhance the functioning of automatic stabilisers and avoid cuts in public investment.

As the four-year expenditure ceiling framework has just started operating, it is too early to judge its effectiveness. Its success will depend crucially on how well transparency and public clarity is enforced, which may turn out to be more important than pure numerical targets (Ljungman, 2008) as well as on the authorities' ability to establish a strong track record and broad political support (IMF, 2007). Political commitment to the expenditure ceilings is essential to ensure their continuity at times of changes in government. In the future, the authorities may also consider strengthening the framework by explicitly combining it with long-term fiscal objectives (*e.g.* those required under the provisions of the Stability and Growth Pact), which is currently not the case. This would ensure greater consistency of fiscal planning and add credibility.

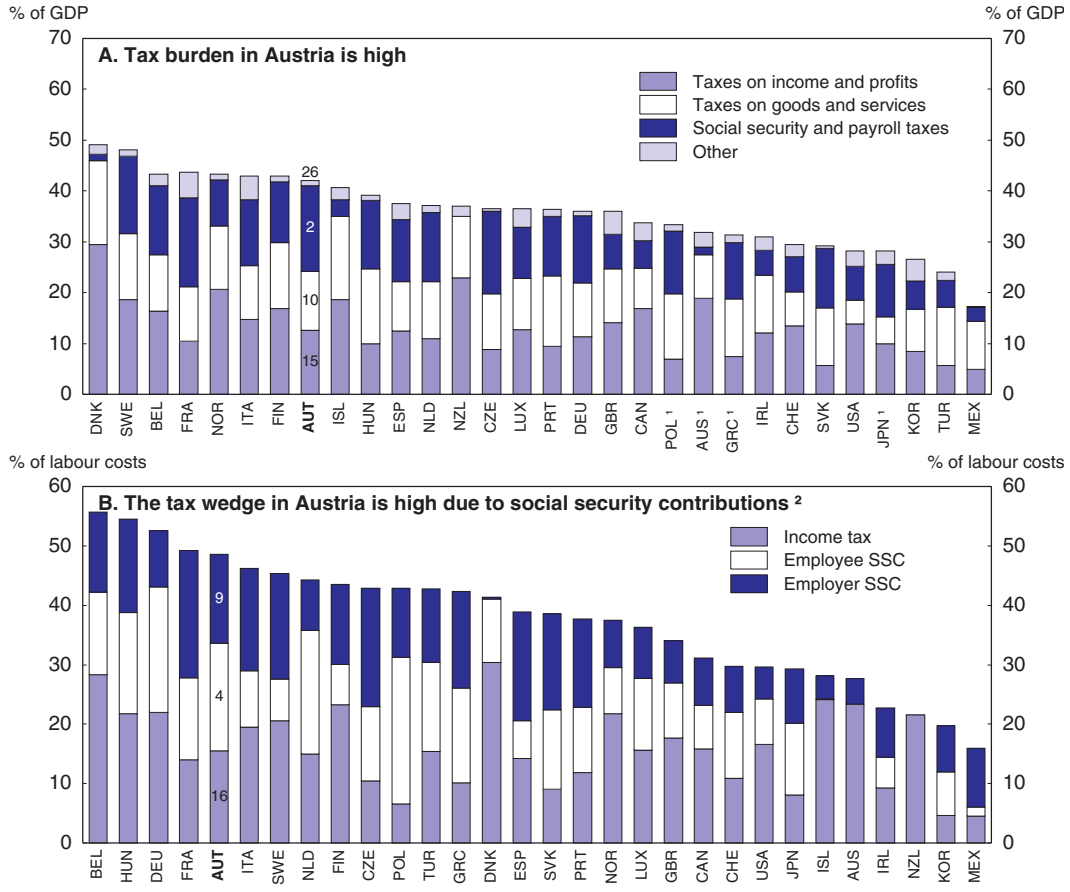
International experience shows that a multi-year expenditure framework is more likely to be successful if accompanied by a broader set of public governance reforms (IMF, 2007; EC, 2008). Thus, the government's plans to introduce output-based budgeting and to modernise the accounting system of public finances are very welcome. These reforms were initially expected to be introduced in 2011 (Austrian Federal Ministry of Finance, 2005), but have since been put off to 2013 at the earliest. Given the expected benefits of these reforms, their implementation should not be further delayed. Output-based budgeting links budgetary financial and personal resources to outcome indicators. It thus forces public sector agencies to specify and measure their output, to conduct cost-benefit analyses, and to improve management skills. This leads to more informed discussions on competing budget priorities and promotes transparency in the budget process, which in turn improves public spending efficiency and may promote cost cutting. The implementation of output-based budgeting raises several practical challenges (OECD, 2007a, 2007c; EC, 2008). The main ones relate to setting the right incentives and to avoiding excessive reliance on detailed targets and their monitoring.

The plans to modernise and harmonise the accounting system at various levels of government is another welcome initiative, especially as currently three different accounting systems co-exists – the cash, accrual and cost accounting systems. Their seemingly distinct objectives are rather unclear in practice (Meszarits and Seiwald, 2008). The reconciliation of information among these systems is complicated, making a fair and transparent assessment of the financial situation in the public sector difficult. This also creates obstacles to establishing a conceptual link between financial accounting, budgeting and performance assessment processes.

The tax structure needs to better support economic growth

There is growing empirical evidence about the effects of particular tax types on economic growth (OECD, 2008, 2009a). Taxes on property, especially recurrent taxes on land and buildings, are found to hamper growth least as they do not interfere directly with labour, physical and human capital. The share of these taxes in Austria is very low by international standards (Figure 3.2) and the decision to repeal inheritance and gift taxes in 2008 did not help to change this situation. In this context, OECD (2007a) and Aiginger *et al.* (2008) recommended increasing revenues from real estate taxes, which would require upgrading the market valuations of properties as they are outdated (OECD, 2005, 2007a;

Figure 3.2. **Taxes in Austria**
2007



Note: Figures shown in the bar for Austria indicate Austria's rank for each category of taxes/tax wedges (1 – highest, 30 – lowest).

1. Data for 2006.
2. Single individual without children at the income level of the average worker.

Source: OECD, Revenue Statistics database and OECD, Taxing Wages database, May 2009.

StatLink http://dx.doi.org/10.1787/645610083833

Aiginger *et al.*, 2008). Higher land taxes could increase the tax autonomy of sub-national governments, which is small by international standards (Blochliger, 2006; Schratzenstaller, 2008).

Another finding on the links between economic growth and taxes is that consumption taxes create fewer distortions for growth than direct taxes. Leibfritz *et al.* (1997) show that shifting taxes from labour towards consumption taxes has positive effects on employment and GDP. In general, consumption taxes are more neutral towards saving and investment, and they do not discriminate between foreign and domestic goods and services. In this context, the income tax reform of 2009 is a step in the right direction as it reduced the labour tax burden. Even so, the wedge between official wages and take-home pay will remain large due to high social contributions (Figure 3.2). This wedge has a negative impact on employment, in particular of less productive workers (OECD, 2007a). Thus, lowering income taxes and/or social contributions further could be beneficial (Chapter 2), but would

require raising other taxes or reducing public expenditure. If lowering tax rates further is not feasible, then indexing tax brackets could be envisaged to offset fiscal drag. As the tax brackets are indexed neither to inflation nor to wages, the tax burden increases gradually over time with the rise in nominal wages. Extrapolating the past average growth of nominal wages, it would take nearly four years for earners at the lowest pre-2009 tax bracket to reach the new lowest bracket, and over six years for the earners at the highest pre-2009 tax bracket to reach the highest new bracket. The inflation adjustment of tax brackets is among the options of the tax reform advocated by WIFO (Aiginger *et al*., 2008).

Raising taxes, and in particular consumption taxes, is currently not on the government's agenda. This is understandable given the current weakness of domestic demand. However, once the economic situation improves, such an option would merit consideration. Environmental taxes are one of the areas where consumption tax increases would be warranted (Aiginger *et al*., 2008). This would not only contribute to the relative rebalancing of labour and consumption taxes, but also help environmental causes. There is a clear case, in particular, for further increasing fuel taxes, even though they were already increased in 2008. Fuel pricing policies are a more efficient means to save energy and reduce CO_2 emissions than subsidising energy-saving housing investments, which are common in Austria (OECD, 2004, 2007a). Higher fuel taxes would also help to reduce persisting fuel price differentials between Austria and some of its neighbouring countries, especially Germany and Italy,[9] and the ensuing "fuel tourism". The large scale of fuel tourism increases CO_2 emissions, which is all the more worrisome as Austria is set to overshoot its 2008-12 Kyoto target (Austrian Court of Audit, 2008). The government should also envisage eliminating the preferential tax treatment of diesel purchased for agriculture purposes. Aiginger *et al. (*2008) also advocate introducing a CO_2 tax on fossil energy sources and raising electricity taxes. Besides environmental taxes, raising excise duties on tobacco and alcohol could be considered (OECD, 2007a; Aiginger *et al*., 2008).

Any positive growth effects of the tax structure depend also on the administrative efficiency, simplicity, transparency and stability of the revenue system, which may be conducive to higher tax compliance and lower administrative costs (EC, 2008). Thus, unifying VAT tax rates should be considered in Austria. Currently, Austria lags behind the most VAT-efficient OECD countries (OECD, 2009a).

Public employment rationalisation should continue

Successful fiscal policy implementation also depends on the effectiveness and management of public administration staff. In efforts to increase public administration effectiveness, Austria has reduced the number of public employees in recent years. The government's plans to continue with staff rationalisation are welcome (Austrian Government, 2008). However, staff reductions should not come at the cost of the quantity and quality of public services. In this respect, increasing the staff resources of the consumer protection and competition regulatory authorities would be particularly welcome (Chapter 2).[10] Moreover, manpower controls in the public sector (*Stellenplan*) need to be reformed. *Stellenplan*, as a part of the budgeting process, fixes at a detailed level the number of public posts at specific grades. This causes unnecessary inflexibility in managing posts between and within ministries (Blöndal and Bergvall, 2007; Meszarits and Seiwald, 2008). Finally, there is considerable room for rationalising public administration at lower levels of government, which is related to fiscal federalism reforms.

Limited progress with fiscal federalism reforms

The effectiveness of public spending and governance in Austria would benefit from further fiscal federalism reform. The 2005 OECD Economic Survey made the following recommendations: *i)* improve tax-sharing arrangements across levels of government; *ii)* strengthen the tax-setting powers of sub-national governments; *iii)* improve the transparency and targeting of transfers between levels of government; *iv)* exploit returns to scale in services provided by municipalities; *v)* reform the income replacement schemes run by sub-national governments; *vi)* overcome fragmentation in decision-making, *e.g.* in the running and financing of hospitals and in the design, financing and delivery of social assistance benefits; and *vii)* revise the budgetary framework at all levels of government. Since 2005, many more detailed recommendations on how to improve the management and efficiency of fiscal federal relations have been put forward (Austrian Court of Audit, 2007, 2009). As of early 2009, 38% of the 206 recommendations of the Austrian Court of Audit (2007) had been implemented and 22% were in the pipeline. In 2009, the Austrian Court of Audit increased the number of recommendations to 315.

The government is committed to the federalism reforms. In February 2009, it appointed a high-level working group on administrative reform (*Konsolidierungsarbeitsgruppe*) to facilitate the reform process. The group is headed by the Federal Chancellor and the Minister of Finance and comprises representatives from different levels of the government, including the high-rank representatives of *Länder*. The group deals with reforms pertaining to the whole public sector. Reform proposals are being developed by an expert group from outside the administration, which are then evaluated by an expert group formed by experts from the administration. First concrete reform proposals concerning the efficiency of administration, especially in education, were expected to be revealed around mid 2009.

The slow progress with fiscal federal reforms was also due to the fact that constitutional reforms have been in limbo, with the lack of a political consensus at various levels of government, an intricate federal structure and related difficulties in reforming key public services being the main obstacles. To make headway on this front, efforts should be stepped up to engage more actively in a dialogue with the stakeholders in order to reach a consensus. Exchanging more information about the implications of such reforms would help, as stakeholders at various levels of government seem to understand them differently.

Policy recommendations

The permanent discretionary fiscal measures taken in the context of the current recession will require consolidation once the economic situation improves. This is essential to maintain sound and sustainable public finances, both for the sake of the effectiveness of the demand-boosting initiatives and in the face of age-related pressures. The current government plan to reduce the deficit below 3% of GDP by 2012 lacks detail and thus credibility. It is important to specify soon the areas where action will be taken. These measures should principally take the form of expenditure restraint and, if necessary, of increases in non-distortive taxes. The long-term public spending pressures related to population ageing are relatively contained, but additional improvements could be achieved. Beyond these challenges, there is room for the structure of spending and taxes to adjust and become more growth-friendly. This should be combined with greater spending efficiency, in particular in health care and education. Genuine progress in these areas will not be possible without reforms of fiscal federalism. A summary of specific recommendations is provided in Box 3.1.

Box 3.1. **Fiscal policy recommendations**

Keeping an eye on long-run sustainability

- The ongoing deterioration in public finances will require substantial consolidation down the road. It is important to specify soon the areas where action will be taken. These measures should principally take the form of expenditure restraint and, if necessary, of increases in non-distortive taxes.

Containing age-related spending

- The authorities should not backtrack from the past pension reforms. In particular, the transition period to the new system should not be extended and the conditions of this transition should not be relaxed further.
- The pension schemes for civil servants of the *Länder* and municipalities should be harmonised fully and more rapidly with the general pension scheme.
- Special early retirement programmes for public sector workers should be terminated. The "heavy workers" channel into early retirement should be restricted to well-justified cases.
- Consideration should be given to making the correction mechanism of pensions with respect to demographic developments and other key pension determinants (productivity, labour force participation) more precise and binding, by stipulating clear and simple adjustment rules and implementation procedures.
- Health care reform should be continued and health care expenditures rationalised. The biannual evaluations of the reforms outlined in the 2005 Health Reform Act should be carried out in a timely, independent and comprehensive fashion, and the results of the evaluations fully taken into account in future public health care policy. Work on legislation improving the financial situation of the health insurance funds should continue.

Improving the fiscal policy framework and governance

- The reforms of the public finance framework should be continued, especially those related to output-based budgeting and the adoption of new accounting rules, and their implementation should not be delayed.
- The rationalisation of government employment should be continued, and the mobility of government staff should be increased by eliminating manpower controls (*Stellenplan*).
- Fiscal federal relation reforms should be advanced in line with the recommendations of previous *OECD Economic Surveys*. In particular, a greater harmonisation of financing and spending responsibilities across all levels of government, and granting more responsibility and accountability to all public sector spending agencies, would help promote good governance and better management of public finances.

Changing the tax structure

- The tax structure should be further rebalanced from income to consumption. Excise duties on petrol should be raised further to limit fuel tourism arising from prices differences with some neighbouring countries. Raising excise duties on tobacco and alcohol should be considered.
- Real estate taxes should be increased. The valuation of real estate for tax purposes should be updated regularly and brought to market levels.

Notes

1. Austrian fiscal federal relations are discussed in detail in OECD (2005).
2. The five main expenditure headings are: general government affairs, court and security; employment, social services, health and family; education, research, art and culture; economic affairs, infrastructure and environment; and financial management and interest. Budget chapters represent the portfolios of ministers.
3. Estimates presented by the Austrian social partners in April 2008 indicated that under unchanged policies, the total deficit of the health insurance funds would increase to € 0.6 billion in 2012 (Hofmarcher, 2008).
4. The OECD (2007b) simulations suggest that when feedback effects from taxes to GDP growth are taken into account, fiscal consolidation is far better achieved by spending cuts than tax increases. Taxes and transfers reduce incentives to work and save and thus lower GDP growth. The model, however, does not assume any positive effects of public spending on GDP growth.
5. Austrian Government (2008) contains many policy measures that will be implemented only if sufficient financing is provided.
6. Pension spending is expected to peak at 14% of GDP in 2050 and then to moderate to 13.6% of GDP in 2060.
7. Given the retirement age (65 for women and men) and life expectancy (89 years for women and 77 for men) and assuming average inflation of 2% and average wage growth of 3%, the ratio of average pension to average wage would decline by 16% for women and 11% for men during retirement.
8. Barrios and Schaechter (2008) note that an index of the quality of fiscal rules improved markedly for Austria between 1995 and 2005, but remained well below the EU average. This index measures the coverage and strength of national numerical fiscal rules, using information on the statutory base, the nature of the body in charge of monitoring and enforcing the rule, enforcement mechanisms and media visibility of the rule.
9. In April 2009, the prices of euro-super 95 in Germany and Italy were approximately 25% higher than in Austria, and for diesel prices this difference was approximately 10%.
10. This goal is on the government agenda (Austrian Government, 2008), but its implementation is contingent on the availability of budget resources.

Bibliography

Aiginger, K., H. Handler, *M. Schratzenstaller* and *G. Tichy (2008),* "Ziele und Optionen der Steuerreform. Plädoyer für einen anspruchsvollen Ansatz", *WIFO Monographien*, WIFO, Vienna.

Austrian Court of Audit (2007), "Vorschläge des Rechnungshofes zur Verwaltungsreform und zum Bürokratieabbau", *Die Broschüre Positionen*, Reihe 2007/1, Austrian Court of Audit, Vienna.

Austrian Court of Audit (2008), "Umsetzung der Klimastrategie Österreichs auf Ebene des Bundes", *Berichte*, Bund 2008/11, Austrian Court of Audit, Vienna.

Austrian Court of Audit (2009), "Vorschläge des Rechnungshofes zur Verwaltungsreform und zum Bürokratieabbau. Neuauflage 2009", *Die Broschüre Positionen*, Reihe 2009/1, Austrian Court of Audit, Vienna.

Austrian Government (2008), *Programme of the Austrian Federal Government for the 24th Legislative Period*, Vienna.

Austrian Government (2009), *Bundesfinanzrahmengesetz*, 21 April, Vienna.

Austrian Federal Ministry of Finance (2005), *Austrian Stability Programme for the Period 2005 to 2008*, Austrian Federal Ministry of Finance, Vienna.

Austrian Federal Ministry of Health (2009), *Österreichischer Strukturplan Gesundheit 2008. Gemäß Beschluss der Bundesgesundheitskommission vom 6. März 2009*, Bundesministerium für Gesundheit, Vienna.

Barrell, R., I. Hurst and Á. Pina (2002), "Fiscal Targets, Automatic Stabilisers and their Effects on Output", *in* Banca d'Italia (ed), *The Impact of Fiscal Policy*, Rome.

Barrios, S. and A. Schaechter (2008), "The Quality of Public Finances and Economic Growth", *Economic Commission Economic Papers*, No. 337, Brussels.

Blochliger, H. (2006) "Fiscal Autonomy of Sub-Central Governments", *OECD Network on Fiscal Relations across GovernmentsWorking Papers*, No. 2, OECD, Paris.

Blöndal, J. and D. Bergvall (2007), "Budgeting in Austria", *OECD Journal on Budgeting*, Vol. 7, No. 3.

Brandner, P., L. Diebalek and W. Köhler-Töglhofer (2006), "Budget Balances Decomposed: Tracking Fiscal Policy in Austria", paper presented at a workshop in Brussels on "Fiscal Indicators in the EU budgetary surveillance" on 22 September 2006.

Cournède, B. and F. Gonand (2006), "Restoring Fiscal Sustainability in the Euro Area: Raise Taxes or Curb Spending?", *OECD Economics Department Working Papers*, No. 520, OECD, Paris.

EC (2006), "The Impact of Ageing on Public Expenditure: Projections for the EU25 Member States on Pensions, Health Care, Long-Term Care, Education and Unemployment Transfers (2004-2050)", *European Economy Special Report*, No. 1, European Commission, Brussels.

EC (2008), *Public Finances in EMU – 2008,* European Commission, Brussels.

EC (2009a), "The 2009 Ageing Report: Economic and Budgetary Projections for the EU-27 Member States (2008-2060)", *European Economy*, 2/2009 (provisional version), European Commission, Brussels.

EC (2009b), "The 2009 Ageing Report: Economic and Budgetary Projections for the EU-27 Member States (2008-2060). Statistical Annex", *European Economy*, 2/2009 (provisional version), European Commission, Brussels.

Eugène, B. (2008), "The Efficiency Frontier as a Method for Gauging the Performance of Public Expenditure: A Belgian Case Study", *National Bank of Belgium Working Paper Research*, No. 138, Brussels.

Gonand, F., I. Joumard and R. Price (2007), "Public Spending Efficiency: Institutional Indicators in Primary and Secondary Education", *OECD Economics Department Working Papers*, No. 543, OECD, Paris.

Hofmarcher, M. (2008), "Ensuring Financial Sustainability for Health Care", *IHS Health Policy Monitor*, No. 11, Institute of Advanced Studies, Vienna.

IMF (2007), "Austria: Selected Issues", *IMF Country Report*, No. 07/143, IMF, Washington.

Leibfritz, W., J. Thornton and A. Bibbee (1997), "Taxation and Economic Performance", *OECD Economic Department Working Papers*, No. 176, OECD, Paris.

Ljungman, G. (2008), "Expenditure Ceilings – A Survey", *IMF Working Paper*, No. 08/282, IMF, Washington.

Meszarits, V. and J. Seiwald (2008), "Budgetary Reform in Austria: Towards Tighter Coupling within the Financial and Management System", *Federal Ministry of Finance Working Paper*, No. 3/2008, Federal Ministry of Finance, Vienna.

OECD (2003), *Economic Outlook*, No. 74, OECD, Paris.

OECD (2004), *Sustainable Development in OECD Countries: Getting the Policies Right*, Chapter 3, OECD, Paris.

OECD (2005), *OECD Economic Surveys: Austria*, Vol. 2005/8, OECD, Paris.

OECD (2006), "Projecting OECD Health and Long-term Care Expenditures: What Are the Main Drivers?", *OECD Economics Department Working Papers*, No. 477, OECD, Paris.

OECD (2007a), *OECD Economic Surveys: Austria*, OECD, Paris.

OECD (2007b), *OECDEconomic Surveys: Euro Area*, OECD, Paris.

OECD (2007c), *Performance Budgeting in OECD Countries,* OECD, Paris.

OECD (2008), "Tax and Economic Growth", *OECDEconomics Department Working Papers*, No. 620, OECD, Paris.

OECD (2009a), *Going for Growth*, OECD, Paris.

OECD (2009b), *Interim Economic Outlook*, OECD, Paris.

Schratzenstaller, M. (2008), "The New Revenue Sharing Act 2008 to 2013: Fundamental Reform Again Postponed", *WIFO Quarterly*, No. 1/2008, WIFO, Vienna.

Steger, G. (2008), "Ziele und Umsetzung der Haushaltsrechtsreform des Bundes", *Das öffentliche Haushaltswesen in Österreich*, Heft 1-2, Vienna.

World Economic Forum (2008), *The Global Competitiveness Report 2007-2008*, Geneva.

ISBN 978-92-64-05439-4
OECD Economic Surveys: Austria

Chapter 4

Re-inventing the education system

Austria's growth performance hinges inter alia on the quality of its education system. While the latter has long equipped the Austrian labour force with good vocational skills, it now faces major challenges. It has to provide youth with new, higher and more generic skills called for by technological change, international competition, and aspirations for a more equitable distribution of human capital. The education sector faces difficulties in responding to these demands. The new government has an ambitious education reform agenda. This chapter suggests that the authorities should emphasise: i) increasing the participation of all children in pre-school education from age three onwards, with a particular focus on pupils with weak socioeconomic and immigration backgrounds; ii) overcoming the excessively early streaming of students in compulsory education, by encouraging the development of the recently introduced new secondary schools (Neue Mittelschule)*; iii) rationalising the present school infrastructure, class sizes and teaching personnel, and re-investing the freed resources into improving teaching quality; and iv) allowing universities to select their students and charge tuition fees, while avoiding socioeconomic segregation with the help of a comprehensive grant and income-contingent loan system.*

The Austrian education system has had a successful record in the post-war period. It has promoted mass education and delivered good vocational qualifications. Yet, it is now facing the daunting task of providing youth with new and more generic skills, in changing economic and social circumstances. New skill requirements become more sophisticated as a result of technological change and the pressures of international competition, but also as a result of democratic aspirations for more equitable distribution of human capital. Families' educational roles also evolve, calling for a greater role of the education system as regards socialisation and education early in life.

The Austrian education system faces major challenges in responding to these new demands. It is organised as a large, highly regulated and costly public service. Its human and physical resources are difficult to reallocate, management is more input- than output-oriented, and policy decisions have to cope with powerful interest groups. Moreover, it has a particularly complex federal structure with central, *Länder*, and local governments fulfilling politically independent but functionally interdependent roles. While major resources have been dedicated to the improvement of educational outcomes, Austria more than a number of other OECD countries faces the challenge of re-inventing its education system.[1]

This chapter first summarises the strengths of Austria's education system and highlights in which areas it is faced with new challenges (Section 1). Section 2 reviews recent policy initiatives. Section 3 argues that reform efforts, to deliver their full potential, call for more systematic adjustments in the governance and funding structures of the education system. Section 4 sets out policy recommendations.

A successful education system facing crucial challenges

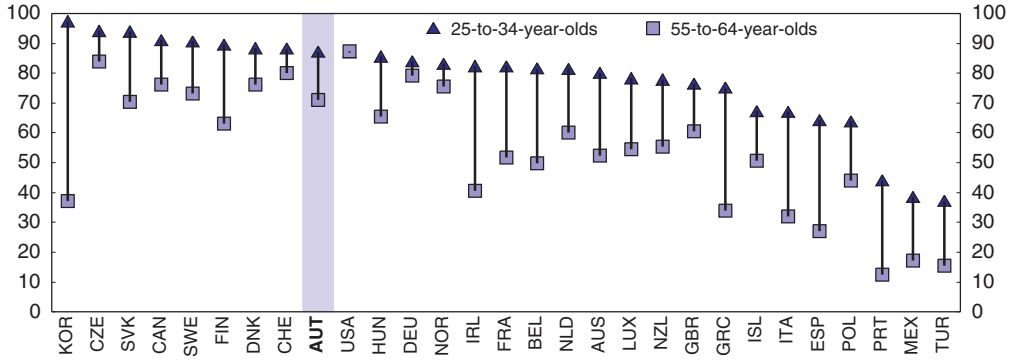
The vocational core of the system has performed well to date

Austria has put in place a strong compulsory education system since 1945, covering all children permanently residing in the country between ages 6 and 15. Since the late 1960s, education policy has also emphasised the development of university education. Following the country's entry into the European Union in 1995, new steps were taken to develop continuing education for adults. Beside academic and technical skills, Austrian education aims at providing the population with a broader culture.[2]

Compulsory education includes four years of basic primary education, followed by five years of secondary education. Secondary education includes a relatively narrow path of "academic" secondary education (*Gymnasium*), which concerns less than 30% of students (34% for the lower cycle) and prepares them for university. Most students are oriented to the so-called "general education" (*Hauptschule*), which prepares them mainly for various types of vocational programmes. Around 1% of pupils suffer physical or intellectual handicaps, and attend "special schools" (*Sonderschule*) for all nine years of their school career (Annex Figure 4.A1.1). Overall, the system has allowed Austria to achieve a high graduation rate from upper secondary education (Figure 4.1).

Figure 4.1. **Graduation rates from upper secondary education are high**

%, by age group, 2006



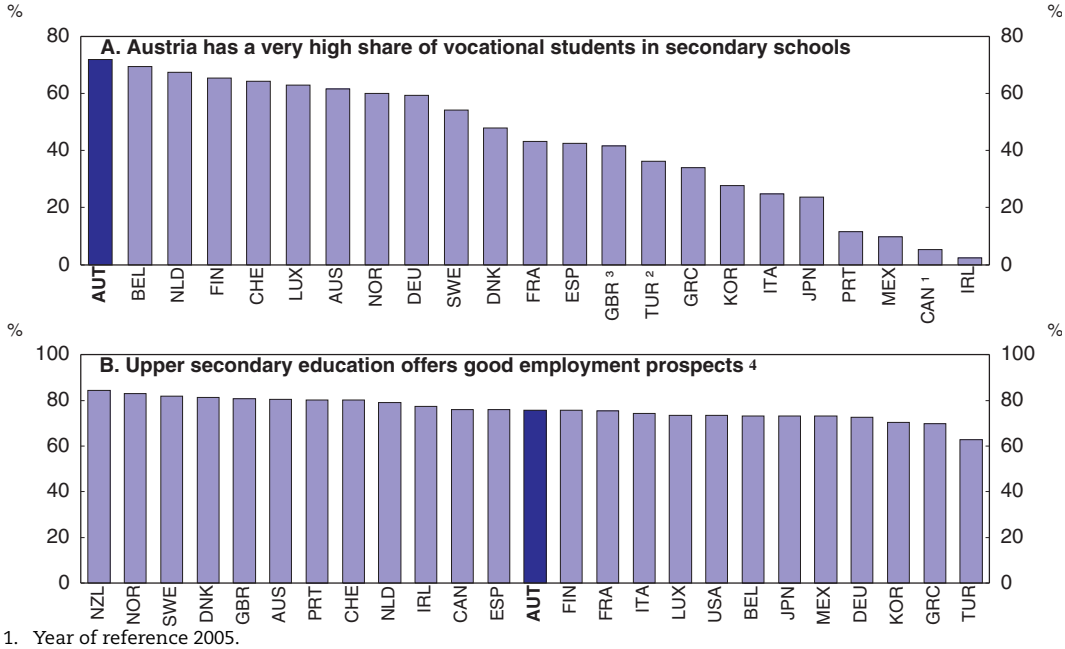
Note: Countries are ranked in descending order of the percentage of the 25-to-34-year-olds who have attained at least upper secondary education.

Source: OECD, *Education at a Glance 2008*, Table A1.2a.

StatLink http://dx.doi.org/10.1787/645636825666

The education system is centred on vocational education. Amongst OECD countries, Austria has the highest share of vocational students in the secondary student population (Figure 4.2). The quality of this training is internationally recognised and provides the economy with a directly productive human resource base. The main strengths of Austrian vocational education include a serious theoretical foundation, practical training content, well-adapted training equipment and market responsiveness of the types of qualifications provided (OECD, 2008e). Graduates entering the labour market with an upper secondary background achieve very high employment and very low unemployment rates.

Figure 4.2. **The vocational core of the system is strong and successful**



1. Year of reference 2005.
2. Excludes ISCED 3C.
3. Includes post-secondary, non-tertiary education.
4. Employment rates of 25-to-64-year-olds in upper secondary and post-secondary non-tertiary (%, 2006).

Source: OECD, *Education at a Glance 2008*, Tables C1.1 and A8.3a.

StatLink http://dx.doi.org/10.1787/645645010336

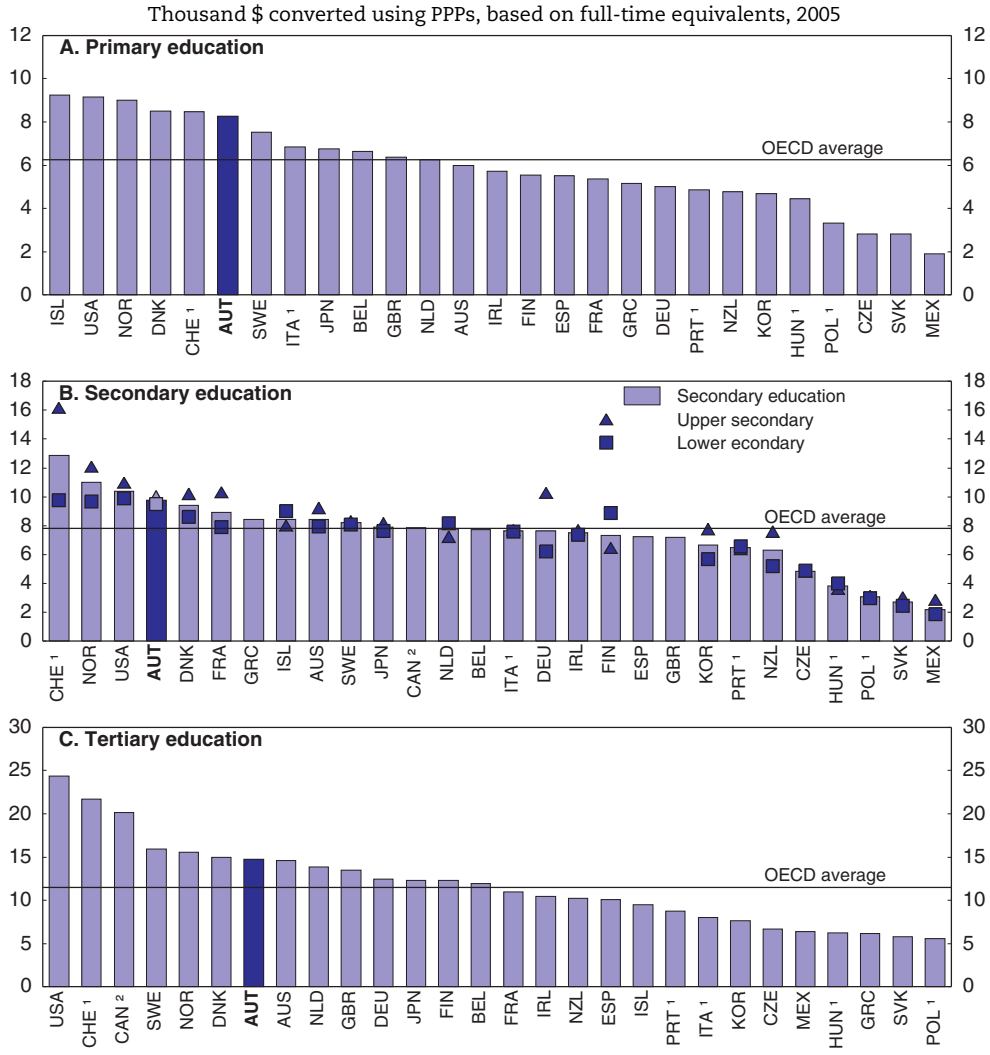
Vocational graduates have further qualification prospects. An academic examination gives them access to tertiary education (*Berufsreifeprüfung*). They can also transform their professional experience into higher education credentials, by writing essays and passing an examination. Thus, the education system offers various avenues for market-relevant professional development to the vast majority of the population.

Considerable resources are dedicated to education

Austria dedicates very significant resources to education. Spending per student is among the highest in OECD countries in terms of current spending (on a purchasing-power-parity basis) and cumulatively over the course of each student's education.[3] This is most evident in primary and secondary education. University students also obtain greater resources on a *per capita* basis than in OECD countries on average, but less than in those with the most sophisticated university systems. Nonetheless, because of the high drop-out

Figure 4.3. **Yearly spending per student is high**

Thousand $ converted using PPPs, based on full-time equivalents, 2005



1. Year of reference 2004.
2. Public institutions only (for Canada, in tertiary education only).

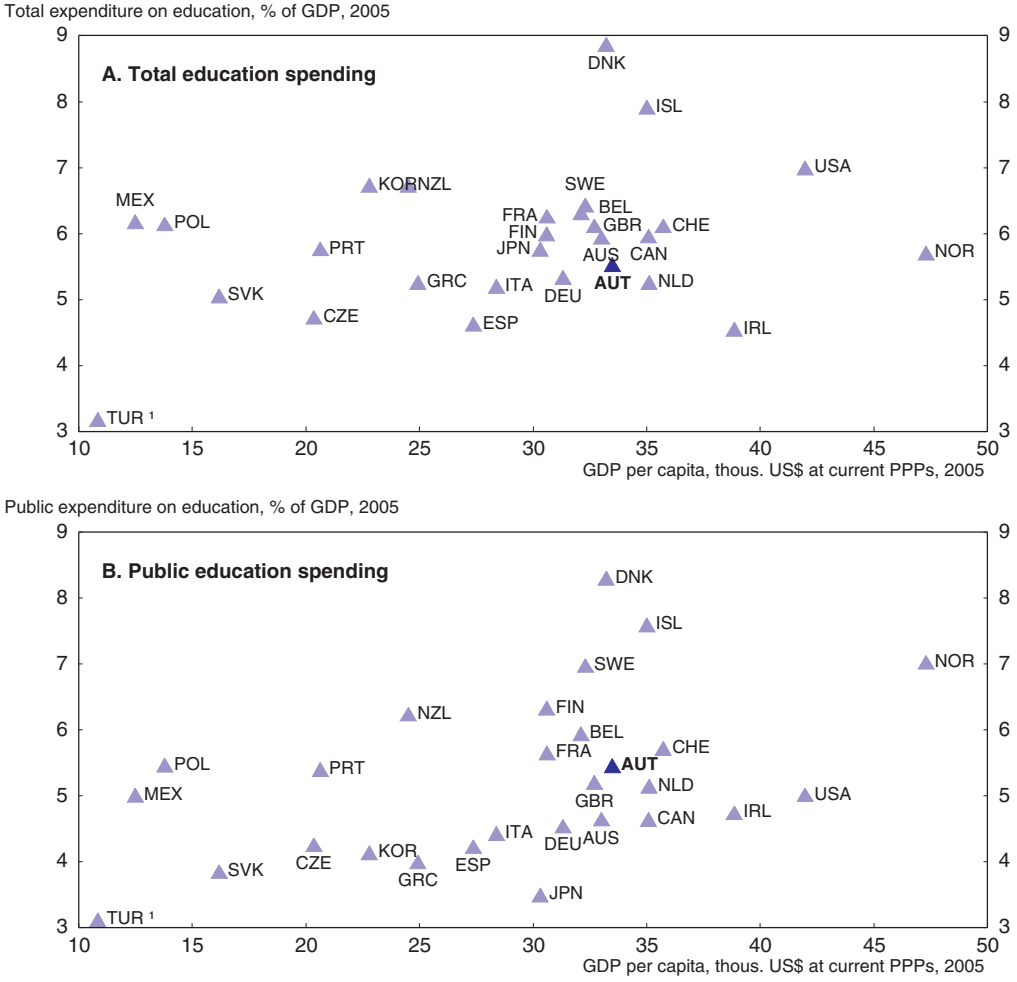
Source: OECD, *Education at a Glance 2008*, Table B1.1a.

StatLink http://dx.doi.org/10.1787/645653878540

rates in tertiary education, which approach 29%, net costs per university graduate are also among the highest in the OECD (Figure 4.3).

While large resources are spent per student, total expenditure on education as a share of GDP remains close to the OECD average. This stems from low enrolment rates in tertiary education. If tertiary enrolment rates had converged with other high-income countries at existing per student costs, the share of education spending in GDP would be considerably higher (Figure 4.4).

Figure 4.4. **Total education spending remains average due to composition effects**



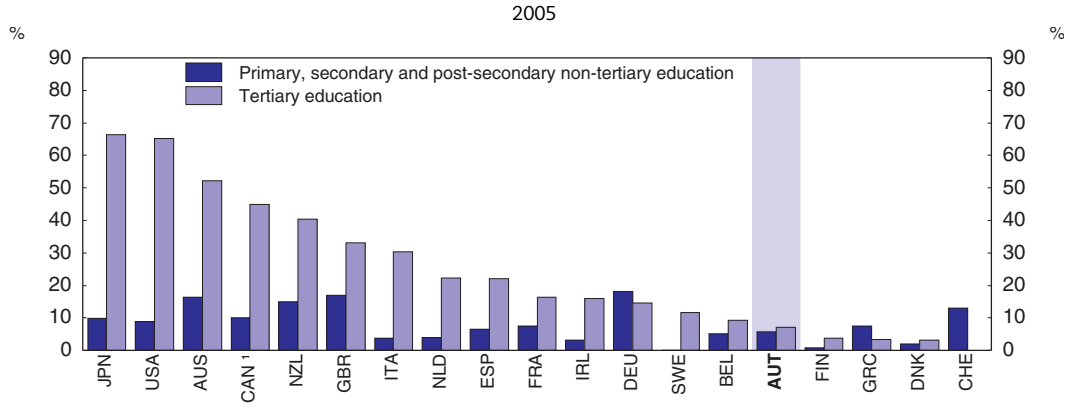
1. Total and public spending on education refer to 2004.

Source: OECD, Education and Training database and Economic Outlook database.

StatLink http://dx.doi.org/10.1787/645743511057

Education is practically free at all levels from age six onwards. The direct contribution of households to the funding of education institutions is marginal in international comparison (Figure 4.5).[4] Households contribute nonetheless to the financing of early childhood and pre-school care.

Figure 4.5. **Direct private funding of education remains very marginal**



Note: Countries are ranked in descending order of the share of private expenditure on educational institutions for tertiary education.

1. Year of reference 2004.

Source: OECD, *Education at a Glance 2008*, Chart B3.1.

StatLink http://dx.doi.org/10.1787/645755101845

Weaknesses are serious in certain key areas

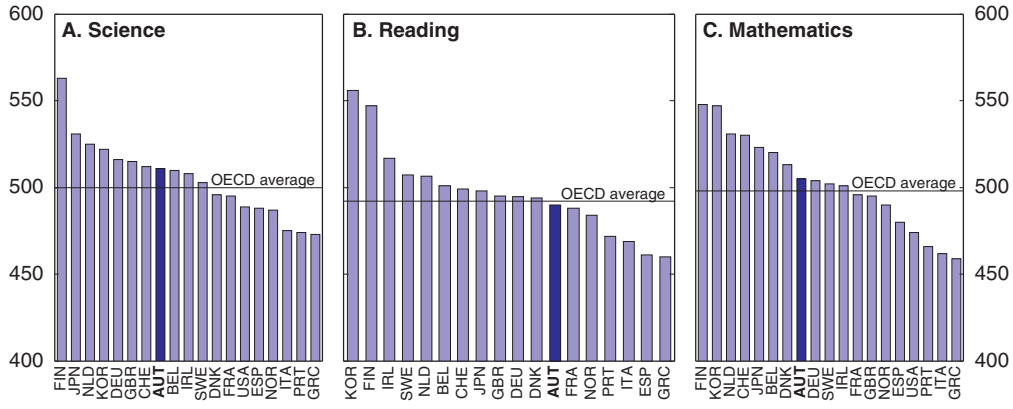
The education system's present performance and operations suffer recognised weaknesses in five areas: *i)* the average academic level of students; *ii)* the reliance of the education system on family support; *iii)* the early streaming of children into different education routes; *iv)* the low tertiary enrolment rates; and *v)* immigrant students' underperformance.

The average academic level of students is disappointing

The average academic level of students, measured with PISA tests at age 15, is average in international comparison (Figure 4.6). They fall short of Austria's ambitions concerning the quality of its secondary education system, considering the amount of resources invested per student (Figure 4.7). After extensive domestic discussions on the significance of the results of the PISA tests (administered in 2000, 2003 and 2006), a consensus emerged in the Austrian education community and among Austrian policymakers that they do reveal a discomforting academic weakness in the school system.

Figure 4.6. **Student achievement is average in international comparison**

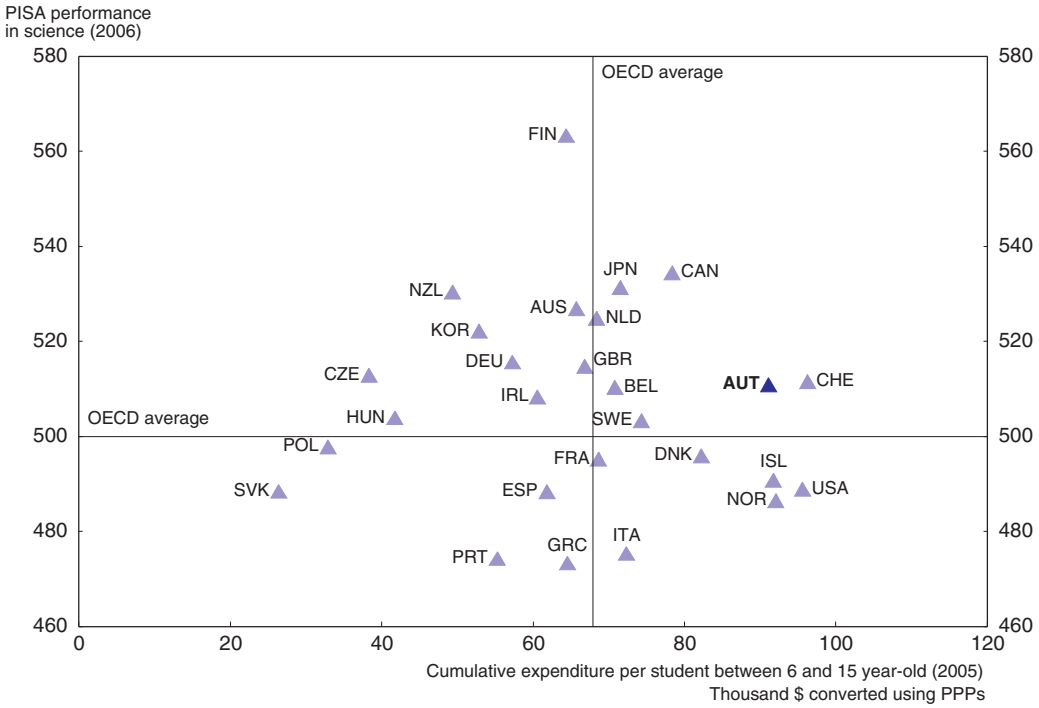
Mean score in the OECD 2006 PISA study



Source: OECD (2007), *PISA 2006: Science for Tomorrow's World*, Vol. 1, OECD, Paris.

StatLink http://dx.doi.org/10.1787/645816452350

Figure 4.7. **The gap is particularly disappointing with regard to the invested resources**



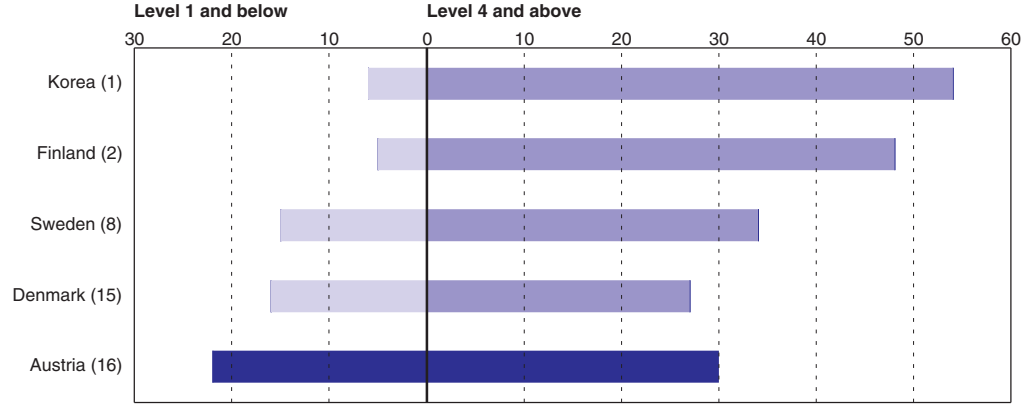
Source: OECD, *Education at a Glance 2008*, Chart B7.2.

StatLink http://dx.doi.org/10.1787/645845077054

Austria's performance is being held back by the relatively large number of students attaining a very low academic level (Figure 4.8). This finding is consistent with international surveys showing that countries with highly heterogeneous student performance tend to achieve poorer average results (OECD, 2007; Brook, 2008). At the same time, Austria appears to do somewhat better than would be implied by its particularly strong dispersion of results, thanks, probably, to the consistently strong performance of its

Figure 4.8. **Average results are held back by a large group of underperformers**

Percentage share of students achieving high and low results on the reading scale



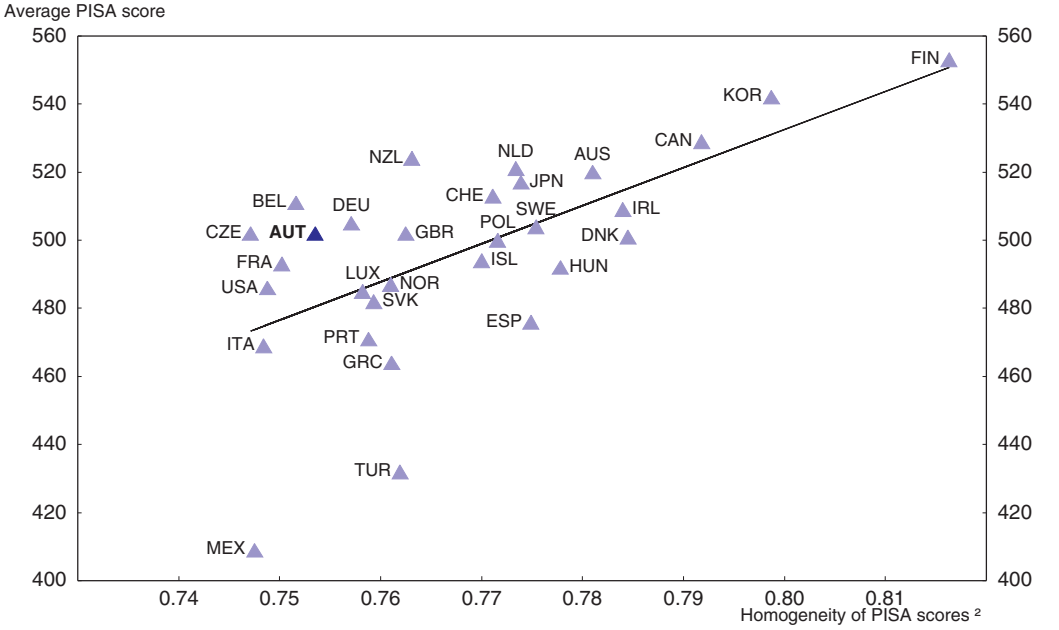
Note: Numbers in brackets indicate the rank of the country within OECD countries of the mean PISA score on the reading scale.

Source: OECD (2007), *PISA 2006: Science for Tomorrow's World*, Vol. 2, OECD, Paris.

StatLink http://dx.doi.org/10.1787/645856245781

well-performing student groups (Figure 4.9). Accordingly, Austrian students' academic achievements exhibit a bi-modal distribution, with one group of strong academic performers and another group of weak performers (see also below).

Figure 4.9. **Results are better than implied by their high dispersion**
2006[1]



1. 2003 data for reading for the United States.
2. Measured by the ratio of the average score of the 25th percentile to that of the 75th percentile (the higher the ratio, the greater the homogeneity in student performance).

Source: OECD (2007), *PISA 2006: Science for Tomorrow's World*, Vol. 2, OECD, Paris.

StatLink http://dx.doi.org/10.1787/645885203628

Education relies excessively on family support

As in all countries, parents play an important role in education but the Austrian education system solicits them relatively more extensively, especially at the primary school level. Formal teaching hours are shorter than in other countries – primary schools mostly operate half-day – and homework supervised by families plays an important role. Most families do fulfil these responsibilities, but those who do not themselves have the required educational background or face other material constraints, such as working obligations, may fail to do so.[5] This is one of the factors helping differentiate children's achievements from the very early school years (Box 4.1).

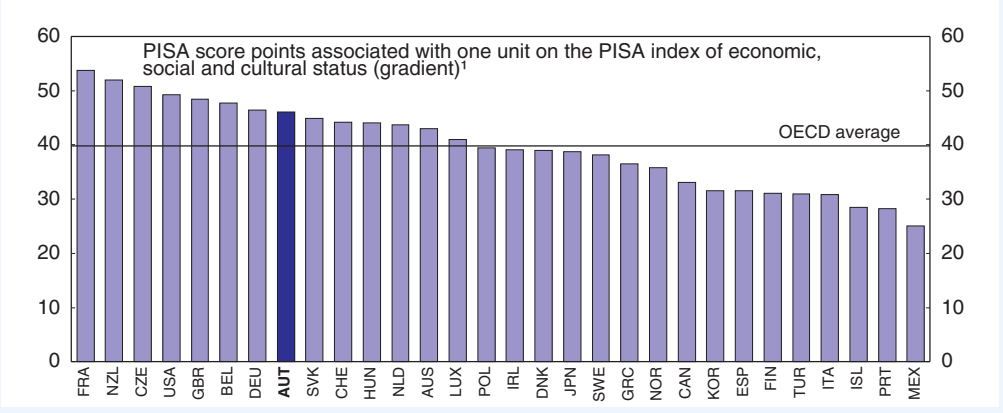
There is also evidence that even before school age, children's intellectual development is particularly strongly influenced by their family environment in Austria, as the pre-school care system (kindergarten) plays a very limited role in reducing the impact of initial socioeconomic differences. Kindergarten fees vary across *Länder*,[6] and enrolment is influenced by parents' socioeconomic background. While nearly 100% of university-educated parents send their children to a pre-school facility for at least a year, the proportion is lower for less educated families, including certain immigrant groups.[7] This amplifies the impact of socioeconomic and family backgrounds on child development.

Box 4.1. **The impact of socioeconomic and family backgrounds on student performance**

Wroblewski (2006) analysed how academic achievements of 15–year–old Austrian students are influenced by their socioeconomic origins. PISA 2000 data was used to estimate academic achievement as a function of individual characteristics, family background, school characteristics, and individual motivation. socioeconomic and family backgrounds were found to affect student achievements very significantly, via two channels: *i)* each family's social capital influences the intellectual development of their children; and *ii)* parents' social background bears heavily on the type of school they select for their children, in turn determining the quality of education they receive and therefore their subsequent academic achievements. This study also confirmed that native Austrian students perform better than students with a first or second-generation immigration background. Immigrant students' academic achievements are in fact weaker than implied by their lower socioeconomic background.

A more recent cross-country OECD analysis confirmed the particularly strong influence of socioeconomic factors on Austrian schoolchildren's academic development. Using the 2006 PISA results, OECD (2007) found that Austria is one of the member countries where students' academic achievements are most affected by their families' socioeconomic background (Figure 4.10 and Table 4.1). Other recent OECD work (Field *et al.*, 2007) confirms that this impact is amplified in Austria by the two channels of direct intellectual influence, and school choice.

Figure 4.10. **The impact of socioeconomic backgrounds on student achievements is particularly high**



1. Student performance is measured by PISA 2006 mean score in science.

Source: OECD (2007), PISA 2006: Science for Tomorrow's World, Vol. 1, OECD, Paris.

StatLink http://dx.doi.org/10.1787/646008572681

Recent Austrian surveys confirm that if pre-school education starts at a sufficiently young age and in a high-quality institution, it gives a substantial push to the development of children from weak socioeconomic backgrounds (Stanzel-Tischler, 2009). Unfortunately this is a relatively rare occurrence.

Box 4.1. **The impact of socioeconomic and family backgrounds on student performance** *(cont.)*

Table 4.1. **Differences in children's academic achievements**

Per cent

	Main breadwinner in household with			Main breadwinner in household			
	Mainly vocational education (ISCED 3B,C or less)	Academic upper secondary education (ISCED 3A, 4).	Tertiary education (ISCED 5 or higher)	Born in Austria	Born abroad	Languages of former Yugoslavia spoken at home	Turkish spoken at home
Children at level 1 or less in mathematics in the 2006 PISA test	23	11	18	16	37	32	68
Children at level 2 to 4 in mathematics in the 2006 PISA test	64	65	65	66	54	63	31
Children at level 5 or 6 in mathematics in the 2006 PISA test (Estimates)	13	24	17	18	9	5	1
Total (children at all levels)	100	100	100	100	100	100	100

Source: Ministry of Education, Statistics Austria, BIFIE.

Early streaming of students is becoming counterproductive

The "streaming" of students at ages 10 and 14 into different education routes is at the core of the pedagogical strategy and administrative organisation of the Austrian education system (Annex, Figure 4.A1.1). At age 10 students are streamed into either "academic" or "general" education avenues, and at age 14 they are selectively channelled between a wider set of programmes. Austria is the OECD country where the first streaming takes place at the earliest age.[8]

This double-streaming system had traditionally enjoyed broad social consensus and political support. However, it starts to be questioned on grounds of technical efficiency and democratic legitimacy. A growing body of research tends to document that premature and excessive streaming may undermine both equality of opportunity and technical efficiency in the education system (Box 4.2).

Early streaming has also become more controversial inside Austria. In large cities in particular, early streaming is no longer considered as an efficient way of orienting children according to their genuine abilities. It is seen as reflecting more directly the socioeconomic background of families (Table 4.2). In such a context, parents try to avoid lower streams as undesirable "traps" for their children – *i.e.* as unhelpful environments where the company of pupils with weaker social capital would fail to contribute to their progress (Rosenkranz, 2009). Families in urban areas, especially native Austrian ones, then aspire to send their children exclusively to superior education streams.

This pressure forces local authorities to administer formal tests to select students in ways parents cannot legally challenge – instead of joint decisions made in co-operation between parents and teachers as in the past. Many families also opt for private schools to escape streaming. Private schools have grown in recent years, now enlisting nearly 10% of

Box 4.2. **The impact of early streaming on education system performance**

OECD (2007) finds, on the basis of a multilevel regression analysis of the 2006 PISA science results, that early streaming increases the impact of socioeconomic background on student achievement, but has no effect on aggregate system performance (approximated by average PISA scores). In a review of other empirical literature, Meier and Schütz (2007) reach the same conclusion: early streaming reduces the equality of education opportunities, but does not have a significant effect on average achievement. They nonetheless stress that both theoretically and empirically the relative advantages of streaming and de-streaming depend on when streaming is effected, the initial composition of the student population, and various institutional features. Bauer and Riphahn (2006), using data from 26 Swiss cantons, find that making the streaming decision early significantly increases the lead of the children with highly educated parents. Early streaming also magnifies the influence of socioeconomic background on students' later tertiary education enrolment (Brunello and Checchi, 2006; Meghir and Palme, 2005).

More focused OECD research on 10 countries (Field *et al*., 2007) also finds that the lower the age at which academic selection into different streams begins, the less favourable the PISA performance. This study concluded that a unified stream of education is preferable and recommended that countries limit early streaming and postpone academic selection.

Table 4.2. **Socioeconomic background bears on school streaming**

Per cent

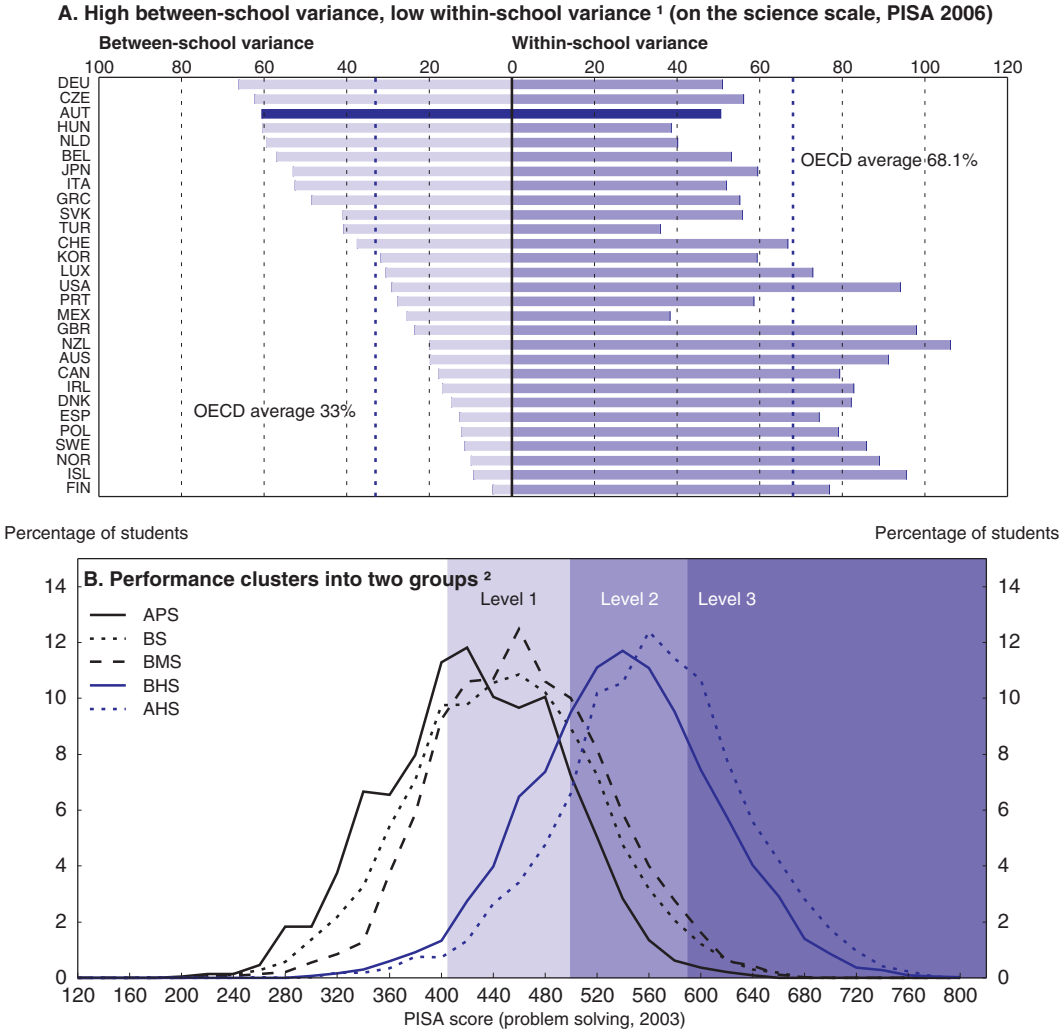
	Highest educational attainment of father or mother			Total (all families)	Mother tongue of student					Total (all mother tongues
	with compulsory education or less	with upper seconddary educ.	with higher education		German	Other than German	CEE languages	Former Yugoslavia	Turkish	
Children in academic lower secondary education aged 11-14	n.a.	n.a.	n.a.		86.7	13.3	2.5	5.3	1.9	100
Children in general lower secondary education aged 11-14	n.a.	n.a.	n.a.		80.4	19.6	1.8	8.5	6.3	100
Children in "special" lower secondary education aged 11-14	n.a.	n.a.	n.a.		72.2	27.8	1.9	11.2	10.6	100
Children in academic upper secondary education aged above 15	4.6	50.8	44.6	100	88.6	11.40	2.5	3.4	1.6	100
Children in higher vocational colleges above 15	6.5	66.8	26.7	100	90	10	1.6	3.8	2.0	100
Children in intermediary vocational schools above 15	13.3	70.0	16.7	100	84.8	15.2	1.4%	5.8	4.5	100

Source: Ministry of Education, Statistics Austria.

the total student population. The proportion is higher in urban areas where many private schools are located, in response to parents' search of more supportive school environments. In Vienna alone the share of students attending private schools increased from 15% in 2004 to 18% in 2008 (*Die Presse*, 2009).

In fact, all publicly-available evidence underscores that pupils' development diverges markedly according to the school types they are streamed to. The variance of academic achievements between schools is very high, in contrast to countries where opportunities are more equally distributed, such as Finland (Figure 4.11). As expected, students'

Figure 4.11. **Student achievements are very uneven between school types**



1. The between-school variance measures PISA scores dispersion on the science scale between schools within a single country. The within-school variances measures PISA scores dispersion on the science scale within a representative school in a given country.
2. AHS: Academic secondary schools; BHS: Higher technical and vocational colleges; BMS: Intermediary technical and vocational colleges; BS: Vocational schools for apprentices; APS: Polytechnics (one-year vocational schools).

Source: OECD (2007), *PISA 2006: Science for Tomorrow's World*, Vol. 2; Haider and Schreiner (2006), *Die PISA-Studie: Österreichs Schulsystem im internationalen Wettbewerb*.

StatLink http://dx.doi.org/10.1787/646014647883

performance varies considerably depending on the type of schools they have been streamed to – academic schools and high vocational colleges, on the one hand, intermediary vocational and apprenticeship schools, on the other (Figure 4.11).

The downsides of exhaustive streaming at age 14 have also become more apparent. Students qualifying for higher streams starting from grade 10, such as academic upper secondary schools and higher technical colleges are assured of good professional prospects. In contrast, those oriented to the "lower" stream (*Polytechnische Schulen*) face much weaker prospects.

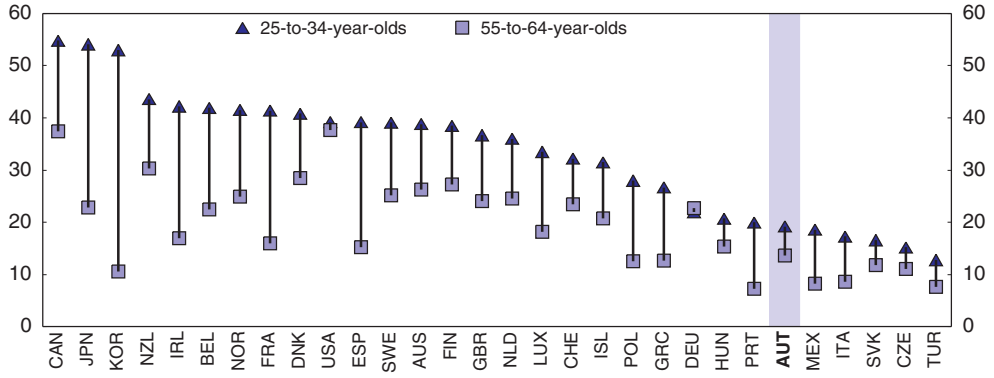
The benefits of this second stage of streaming for the overall efficiency of the education system are also questioned. There is a risk today that 15 year-olds trained in

overly narrow areas (there are at present 270 different vocational streams in secondary education) may find themselves confined to highly specialised segments of the labour market although recent initiatives aim at broadening education towards more generic skills.

University enrolment and graduation rates fall short of other high-income countries

Austria is a clear outlier among OECD countries in the relationship between GDP *per capita* and tertiary enrolment and graduation rates (Figure 4.12). The proportion of the working-age population with tertiary education is particularly low in stock terms.[9] Equally, the flow of new university graduates in young age cohorts remains small, but has risen in recent years. Despite their recent increase, graduation rates in science and engineering remain low in international comparison (Figure 4.13).

Figure 4.12. **University graduation rates are low**
%, by age group, 2006

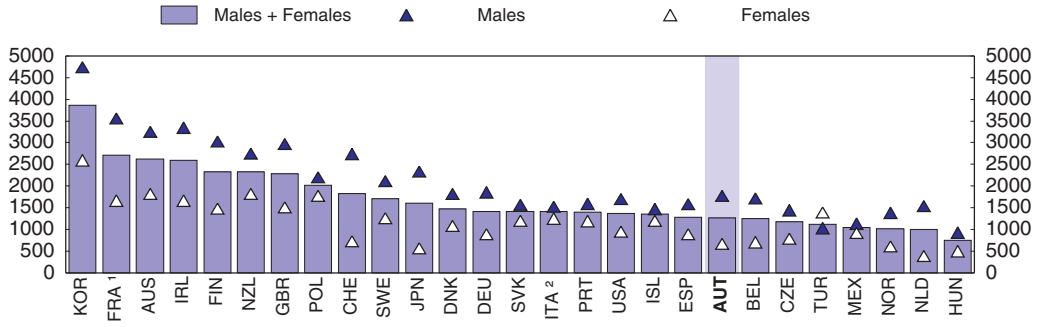


Note: Countries are ranked in descending order of the percentage of the 25-to-34-year-olds who have attained tertiary education.

Source: OECD, *Education at a Glance 2008*, Table A1.3a.

StatLink http://dx.doi.org/10.1787/646025312268

Figure 4.13. **Graduation rates in science and engineering are particularly low**
Number of tertiary science graduates per 100 000 employed, 25-to-34-year-olds, 2006



Note: Countries are ranked in descending order of the number of tertiary science graduates in tertiary type A programmes per 100 000 employed 25-to-34-year-olds.

1. Year of reference 2005 for the number of science graduates.
2. Advanced research programmes refer to 2005.

Source: OECD, *Education at a Glance 2008*, Table A3.6.

StatLink http://dx.doi.org/10.1787/646065700604

Taking into account the determinants identified in OECD research as influencing tertiary education attainment,[10] three factors seem to keep university enrolment rates low in Austria:[11]

i) High-quality secondary education continues to be seen by many students and their families as a shorter, cheaper and at times better alternative to university education. Even if average earning differentials between upper secondary and tertiary graduates are not negligible, net returns on university education are low in international comparison. The employment performance of upper secondary and university graduates is remarkably similar. High-level technical colleges are well-resourced and appear to actively respond to evolving labour market needs.

ii) On the whole, universities are reportedly perceived by the Austrian public as less effective than upper secondary institutions, reflecting overcrowded courses, long study times, and excessively high student drop-out rates. In certain institutions and fields, teaching standards are up to international benchmarks, but they are the exception more than the rule. A recent OECD assessment singled out the Austrian university sector as one of the less efficient ones in OECD, on the basis of the estimated flexibility of inputs, outputs and market accountability (Oliveira Martins *et al.*, 2007).

iii) University students appear to face more serious financial constraints than in most other OECD countries. According to the same OECD study, these constraints are due to a combination of high living expenses and under-supply of financial support such as student grants and loans. Budget allocations for student grants have been raised in recent years and the expenses of students from the lowest income families are now well covered, but support is more limited for other social groups.[12] The controversial issue of tuition fees plays a limited role in students' financial constraints. Many students work and study simultaneously, which tends to extend their study length and reduce academic achievement (Figure 4.14).

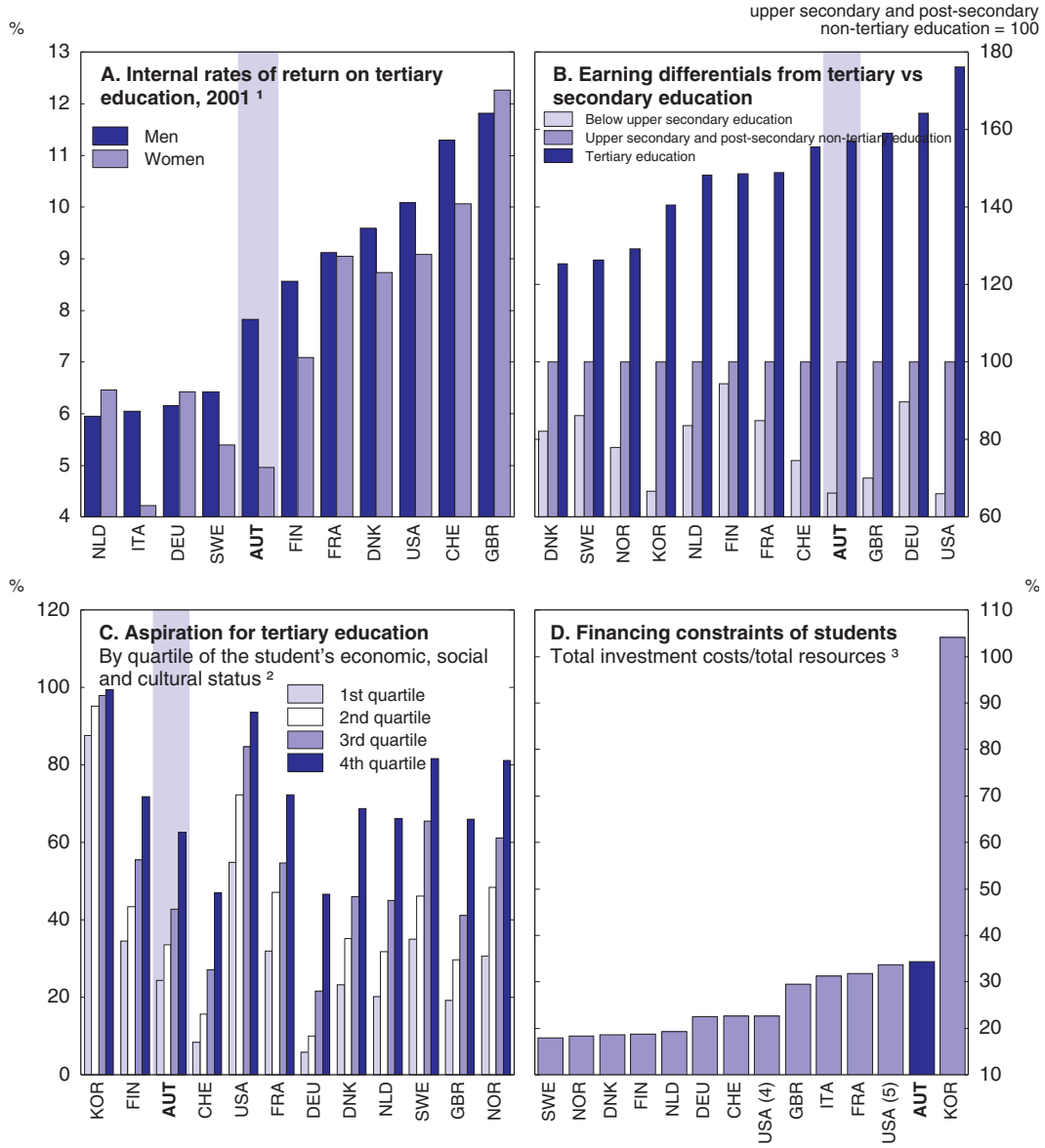
Among the factors limiting access to tertiary education, socioeconomic background plays an additional role. Austria is one of the OECD countries where parents' socioeconomic status has a particularly high influence on their children's engagement in tertiary education (Figure 4.15). The resulting low inter-generational mobility in university attainments has become a policy concern.

The education system does not cope well with immigrant children

Education is in principle the primary avenue for the social and economic integration of immigrants. In Austria, as a result of the particularly high rate of immigration, this contribution is now crucial for both social cohesion and future economic growth. However, immigrant children's performance in the education system is generally disappointing. The gap between the academic level of natives and immigrants is one of the largest OECD-wide, including for the second-generation children (*i.e.* those born in Austria) (Figure 4.16 and Box 4.3).

Despite many immigrant parents' desire for a high-quality education for their children,[13] three factors work against their strong educational development in the Austrian system: *i)* as mentioned above, immigrant children's generally low rate of participation in kindergarten, especially under age five, does not permit them to remedy the weaknesses of their family environment; *ii)* education in primary schools calls for

Figure 4.14. **Factors keeping tertiary enrolment low**



1. 2000 for Switzerland.
2. Countries are ranked in ascending order of the difference between aspirations of the 1st and 4th quartiles in the PISA 2003 Survey.
3. Total investment costs include the average of public and private sector's tuition fees plus living costs; total resources include maximum amounts of student loans and grants, plus expected earnings for student part-time work, and median household disposable income adjusted for household size; for further information see Oliveira Martins *et al.* (2007) – Table 3.4.
4. Private loans.
5. Federal loans.

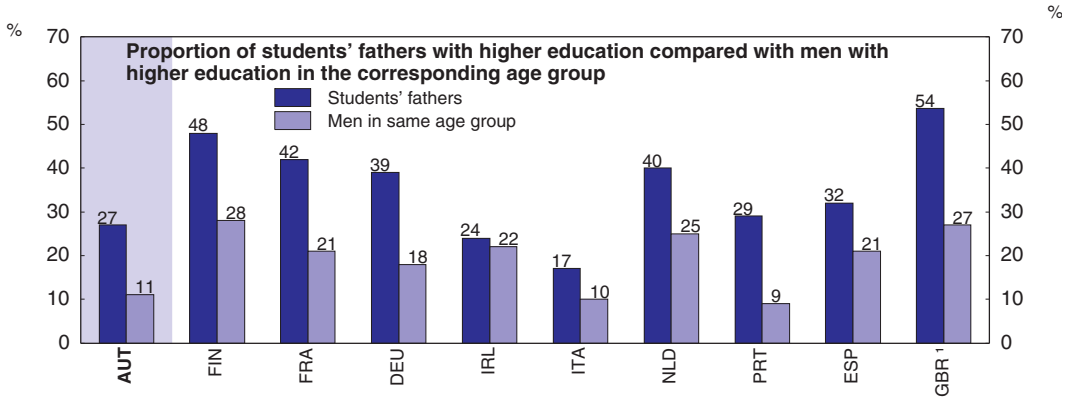
Source: OECD, *Education at a Glance*, 2008; OECD, *Tertiary Education for the Knowledge Society*, 2008; Oliveira Martins *et al.*, 2007.

StatLink http://dx.doi.org/10.1787/646070654022

family input that immigrant parents often cannot provide; and *iii*) early streaming of children into different types of schools (from age 10) does not provide them with enough time to develop their potential.[14]

Figure 4.15. **Intergenerational mobility is particularly low in tertiary education**

2004

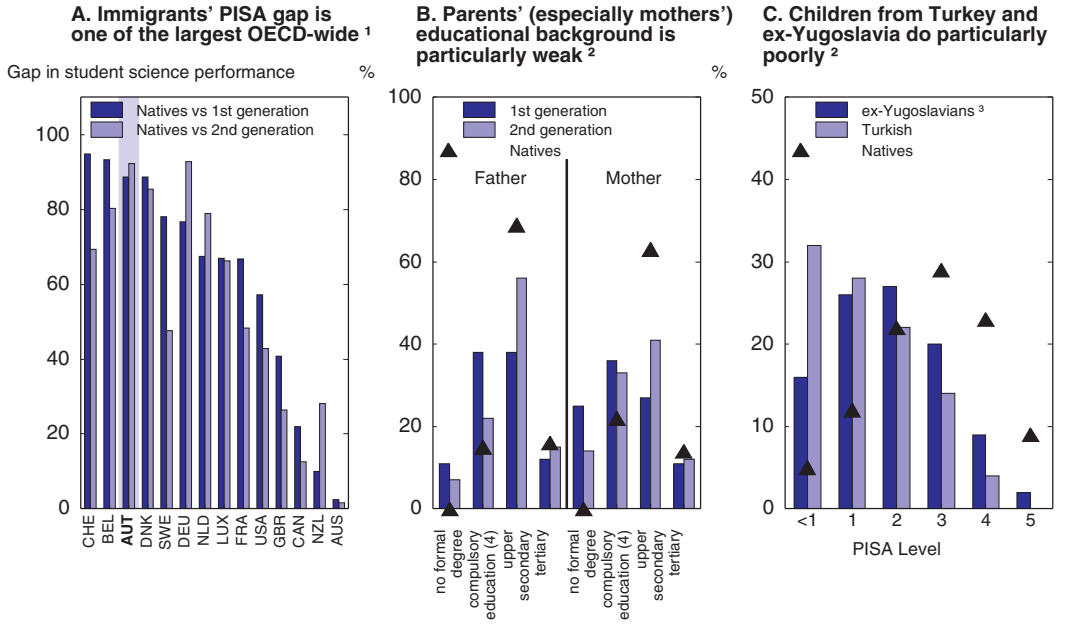


1. England and Wales. Data refer to the parent (male or female) with the highest income.

Source: OECD, *Education at a Glance 2008*, Charts A7.2a and A7.2b based on EUROSTUDENT 2005.

StatLink http://dx.doi.org/10.1787/646076546213

Figure 4.16. **Immigrants' underperformance in education**



1. Refers to PISA 2006 results.
2. Refers to PISA 2003 results.
3. Bosnians, Croatians and Serbians.
4. Nine years in Austria.

Source: OECD, PISA 2006 and PISA 2003 results.

StatLink http://dx.doi.org/10.1787/646085853047

As a result, a larger proportion of immigrants than natives go to relatively inferior school streams (Table 4.2). Also, many immigrant youth attend general schools in inner-city areas, which often have a very high concentration of immigrants and a low academic level.[15] Finally, a disproportionate share of immigrant children end up in ill-suited education streams. Despite the Ministry of Education's efforts, an excessive number land in *Sonderschule* (special needs schools), which are meant to serve children with mental or physical handicaps.[16]

Box 4.3. **OECD thematic review on migrant education**

A new OECD project, the thematic review on migrant education, is exploring the situation of immigrant children in a sample of six countries, including Austria. The background report prepared by Austria for this project (Wroblewski and Herzog-Punzenberger, 2008) highlights a number of distinct facts concerning immigrant children's education challenges in Austria:

- Austria has a particularly difficult composition of immigrant children for education policy. The combination of a high rate of immigration and a high share of low-skilled immigrants in total immigrant population is almost unique (see Annex Figure 2.A2.2.1 in Chapter 2).
- As many as 20% of all primary school children have another language than German as mother tongue. These children are either born abroad (first generation) or into immigrant families in Austria (second generation). The two main immigrant groups originate respectively from former Yugoslavia (about 40% of all immigrant pupils) and Turkey (nearly 20% of all immigrant pupils).
- Kindergarten and primary school teachers diagnose severe language deficiencies among these children, from their early school years. The first systematic assessments, which are available in the PIRLS tests for 10–year old children and in the PISA tests for the 15–year olds, confirm these deficiencies. The share of students below level 1 in *reading comprehension* at age 15, *i.e.* those who cannot understand German texts, reaches 23% among the second generation immigrant students, against 16% within first generation students.[1] Turkish students' performance is even weaker: the share of students at level 1 and below approaches the worrying rate of 70%.[2]
- Many immigrant children live in particularly weak family intellectual environments. As an example, while 20% of Austrian 10–year old pupils report that they live in households possessing a minimum number of books, 5% of immigrant, 2% of ex-Yugoslavian, and 1% of Turkish children declare living in such environments.
- An in-depth four–year study in Vienna schools (Peltzer-Karpf *et al.*, 2003) showed that success in language acquisition differs significantly according to immigrant children's ethnic origin. For example, children from Turkey attain particularly low levels of language proficiency.

The OECD Thematic Review on Migrant Education is developing evidence-based analyses on the best ways of improving educational outcomes for immigrant children. Early analyses suggest that factors at the system, school and individual level influence the education outcomes of students with a migration background, who account for 16% of the total student population:[3, 4]

- First, structural features of education systems such as the availability of pre-school education, school choice, tracking systems, selection mechanisms and resource allocation may influence access, participation and performance of migrants in education.
- Second, features of each individual school such as teacher expectations, instructional programmes, classroom environments and school organisation contribute to shaping students' learning experience.
- Third, individual student characteristics including their country of origin, socio-cultural background and language proficiency are important determinants of migrant students' educational success.

1. This difference between first and second-generation students reflects differences in their geographical and social origins. Today, the parents of first-generation immigrant pupils have a stronger educational background than native Austrian parents – as a result of highly-skilled immigration from Germany and Central Europe in recent years.
2. Comparing PISA with PIRL results, it can be noted that the gap already is considerable at age 10. The difference in reading achievement between students who also speak other languages than the language of instruction at home is of all participating countries highest in Austria.
3. Source: *www.sozialerhebung.at*.
4. For more information: *www.oecd.org/edu/migration*.

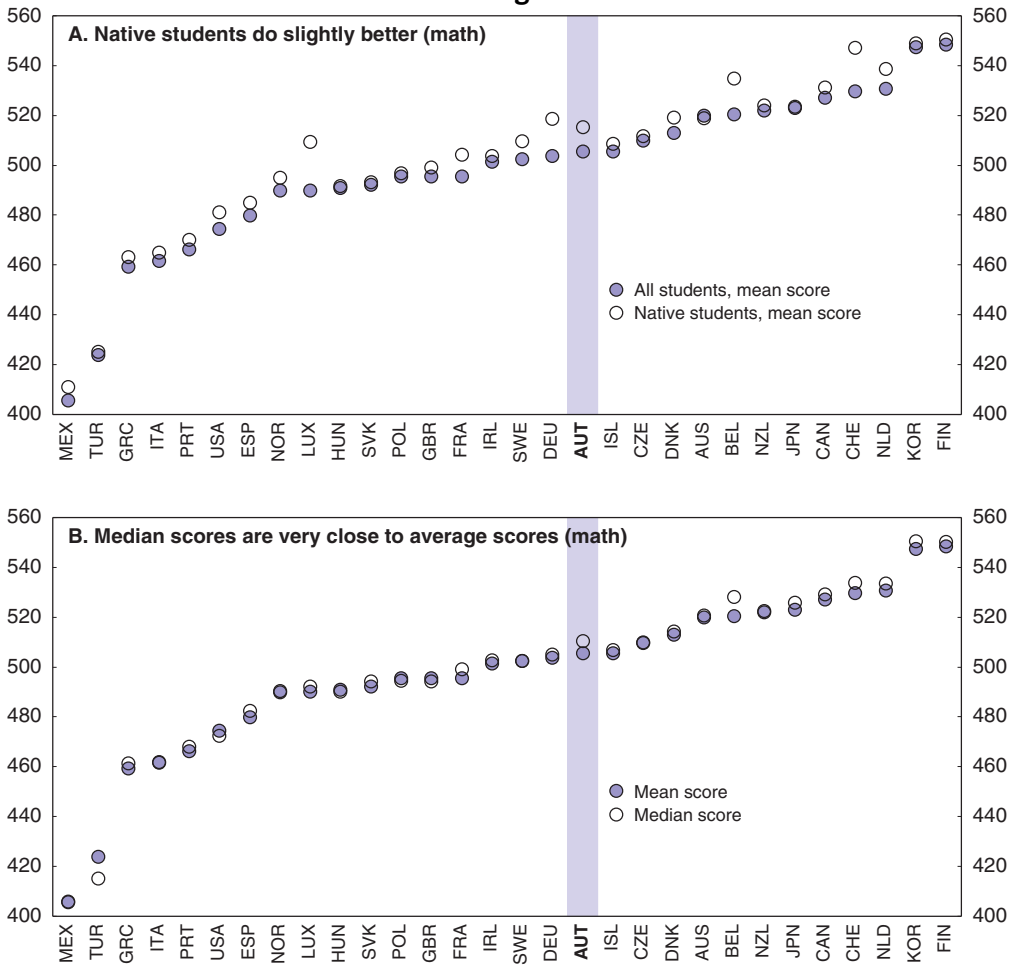
Subsequently, immigrant children are more likely to take low-grade vocational routes at age 14. In particular, *Polytechnische Schulen* have a disproportionally large population of immigrants. According to employer reports, students graduating from such schools

frequently lack adequate basic language, reading and mathematical skills, and struggle to cope with standard apprenticeships.

A disproportionate number of immigrant youth leave the education system with no qualification. By age 15, 25% of immigrant children will have repeated a grade, against 13% for natives; and at age 17, 15% of immigrant children have dropped out of school, against 3% of natives. The proportion of youth "neither in education nor employment" (the so-called NEET rate) was not excessively high in Austria on average in 2006, but, for the unskilled it was among the highest in the OECD (18% for the 20 to 24-year olds and 17% for the 25 to 29-year olds). Labour force survey results are not published by ethnic backgrounds, but available information suggests that immigrant youth may be very numerous among the NEET.[17]

Immigrant children's educational record is unsatisfactory but the Austrian education system's relatively weak average academic level is not chiefly due to their underperformance. Austria's 2006 international PISA rankings do not change when the scores of immigrant children (both first and second generation) are excluded, nor when assessed on basis of median rather than average PISA scores (median results exclude by definition the scores of the weak immigrant pupils) (Figure 4.17).

Figure 4.17. **Low student achievements are not due to the underperformance of immigrants**



Source: OECD calculations based on PISA 2006 data.

StatLink http://dx.doi.org/10.1787/646148143015

Important education policy initiatives were launched in recent years

Five main policy initiatives launched in recent years are reviewed here: *i)* measures to strengthen pre-school education; *ii)* efforts to overcome premature school streaming; *iii)* micro–governance reforms to empower schools and teachers; *iv)* university reforms for more autonomy and accountability; and *v)* the "national standards" initiative to promote minimum academic norms through all education layers.

Reinforcing pre-school education

Measures have started to be taken to reinforce pre-school education, notably by: *i)* introducing early language screening and support programmes in kindergarten (already implemented);[18] *ii)* codifying and diffusing more advanced pre–school pedagogical techniques *via* the 29 federal colleges for kindergarten teachers (being implemented); and *iii)* making compulsory one year of pre-school education for all five-year old children (to be implemented from September 2010). The government considers the projects that are being launched in these areas as top priorities of its term, and the resources of the State Secretariat for Economics, Family and Youth which is in charge of these initiatives have been increased. New policies will emphasise new forms of child care to boost children's development in different local, family and cultural environments.

These efforts face two main challenges: The *Länder*, not the Federal government, are in charge of pre-school education. Their consensus and financial support is required in all government initiatives in this area. While all *Länder* have shown an active interest in further emphasising pre-school education, only a few have so far started to offer free full-day kindergarten education.[19] Also, the federal government's longer-term intentions concerning the future of pre-school education have not yet been fully spelled out. The "first-best" strategies have been articulated by the education community and have been endorsed by the Ministries of Education and Family Affairs, but they are fiscally very demanding. Kindergarten classes now have an average of 25 pupils or less, depending on the *Land*, and there are efforts to adjust class size to needs. However, according to pedagogic research, classes should ideally be reduced to 12-15 pupils.[20] Equipping kindergarten with the recommended teaching resources (including teachers with adequate training for pupil-specific care, German-language teaching, and complementary mother tongue teaching for immigrants) requires additional resources. In the "first-best" strategy high-quality pre-school education is supposed to be offered on a full-day basis during three years (servicing all pupils between four and six years old). Against such ambitious goals, the introduction of one year of half-day compulsory pre–school from September 2010 has been an important political step, but also a relatively limited practical achievement.

Overcoming premature streaming

The downsides of the early streaming of students into "academic" and "general" routes at the excessively young age of 10 are now recognised in Austria. But while there is a political commitment to overcome premature streaming, the specific reforms required remain controversial.

Following the 2006 elections, the government set out to unify the "general" and "academic" lower secondary education streams by creating a new "comprehensive" school category called the "New Secondary School" (*Neue Mittelschule*). Teaching in new secondary school classes is based on the curriculum of academic secondary schools lower stage, and

includes pedagogical innovations for a more efficient secondary education. *Neue Mittelschulen* are established on the basis of voluntary applications by existing academic and general schools.

This plan attracted enthusiastic support from a large number of "general" schools. Sixty-seven *Neue Mittelschulen* were created in 2007/08, rising to 244 pilot schools in all for 2009/10. In general, there is a certain reluctance on the part of academic secondary schools to participate in the pilot (among the 244 schools, only nine academic secondary schools have become part of the project so far). Neither the headmasters, nor the teachers or parents of existing "academic" schools were supportive. They saw becoming a *Neue Mittelschule* as a threat to their academic rank, the quality of their students and the professional status of their teachers (academic school teachers are federal employees while general school teachers are employed by *Länder*, under different contractual provisions).

The social partners (employers and unions, with the notable exception of the academic school teachers' union) actively supported the *Neue Mittelschule* initiative, but Parliament remained cautious, authorising the project only as a pilot experiment and re-emphasizing the need for a two-thirds majority for any future legislation on comprehensive schooling.[21]

The government also intends to strengthen the *Polytechnische Schulen*. In parallel, government financial support to apprentice-taking companies is rearranged, with: *i)* a new *per capita* subsidy for training companies according to the technical sophistication of the training on offer; *ii)* an additional subsidy to those starting apprenticeships or taking additional apprentices; and *iii)* further subsidies to companies improving their quality of training.

Micro-governance reforms to empower schools and teachers

As in other OECD countries, more attention is being paid to the role of micro-governance factors in enhancing education quality in Austria, in particular concerning school autonomy and schoolmaster leadership, but also teacher quality and empowerment (Box 4.4).

Box 4.4. **Micro-governance factors in education system performance**

School autonomy

Three main models of school management are to be found in OECD countries: *i)* the top-down bureaucratic model (Germany and Austria); *ii)* the local empowerment model (Finland and Sweden); and *iii)* school empowerment (United Kingdom and Netherlands). Recent international surveys, including by the OECD, show that schools function more flexibly and respond better to local and school-specific circumstances when they have a minimum degree of curricular, staff management (including teacher management) and budgetary authority (Gonand *et al.*, 2007, and Schratz and Petzold, 2007).

A recent OECD survey of institutional environments in primary and secondary education (Gonand *et al.*, 2007) has portrayed Austria as the only member country underperforming OECD averages in all six dimensions of institutional development.[1] The study found Austria special in: *i)* having no outcome targets; *ii)* using no benchmarking between schools; *iii)* leaving no room to parents in selecting schools; *iv)* practicing a form of decentralisation which is "not consistent"; and *v)* not earmarking special resources for the education of disadvantaged children.

Box 4.4. **Micro-governance factors in education system performance** *(cont.)*

In Austria, schools have in principle very little financial autonomy, no autonomy in staff appointment matters, and only some degree of curricular autonomy – but within limits (OECD, 2008a). Headmasters are not formally accountable for the academic performance of their schools. Inspections are frequent, but focus on the compliance of school administration with existing laws and regulations.[2]

The law defines the duties and responsibilities of headmasters only in form of broad guidelines. Therefore, existing ambiguities provide headmasters with considerable decision making power in practice. As there is little external control, schoolmasters can gain room to operate their school along their leadership capacities (provided that relations with local authorities and the school's teacher community are co-operative). However, a recent Austrian survey (Schratz and Petzold, 2007) stressed that the drawback of such arrangements is that they rely on individuals' goodwill, which can lead to burn-out problems for engaged persons, and hinder the introduction of any systemic action through the system.

Teacher motivation and quality

Teacher motivation and quality is recognised internationally as the single most important external influence on students' achievements. A growing body of research is becoming available on the impacts of teacher quality on student performance. Even if this type of research has not yet been realised in Austria, insights on Germany, a country with similar education system characteristics, are worth noting:[3]

Hanushek (2003) finds that a teacher at the top of the teaching performance distribution (95th percentile) in Germany secures from his/her students extra performance equivalent to a half-year of additional study. A low-performance teacher (fifth percentile), on the contrary, sees the performance of students reduced by as much. The challenge from a policy viewpoint is that raising teacher quality is not related to any well-known and policy-controlled teacher characteristics, such as teachers' educational background. One of the rare measurable characteristics which seem to be related to teacher quality is teachers' own academic ability (as measured by their test scores). If this is actually the case, a step in raising teacher quality would be to attract academically stronger candidates to the teaching profession. Barber and Mourshed (2007) find that countries with the best student achievements recruit teachers from at least the top third of each cohort graduating from the school system. It is also documented that, in order to recruit the most able candidates, starting salaries must be in line with those available for the same graduates in alternative occupations.[4] In this respect, OECD work (Delannoy *et al.* 2003, and Hackl, 2003) has emphasised the importance of teacher quality, motivation and reward, concluding that purposeful "teacher policies" should be implemented taking into account teaching standards, school improvement, professional development and incentives.

1. The six areas are: matching resources to needs, utilisation of outcome objectives, consistency in decentralisation, managerial autonomy of schools, school performance benchmarks and user choice.
2. Private schools – 10% of student population – are more autonomous in their policies but students' qualifications are not validated in the public school system.
3. See *OECD Economic Survey of Germany, 2008* for a review of the studies on the impact of teacher quality on student performance available in Germany.
4. However, it is not necessary to raise salaries beyond this level, as doing so makes little difference to the calibre of candidates to teaching. Another recent cross-country econometric analysis of student achievements also provided interesting results for Austria's teacher policies. Some main findings were: *i)* there is no correlation between resources spent on education and student achievement, *ii)* higher teacher wages are associated with higher PISA scores (the effect of which is of comparable magnitude as other determinants, with an elasticity of 0.1), *iii)* the teacher per student ratio has no effect on performance, and *v)* total teaching time increases pupils' achievements, by 10 points for each additional hour per week.

Efforts have been made in Austria in recent years to increase the autonomy of schools:

- Some new room has been created for tutorial innovations at school level. School committees composed of representatives of parents, teachers, and – for upper secondary schools – students have been authorised to make autonomous decisions in areas such as determining class sizes, introducing new areas of learning, and changing non–compulsory subjects into compulsory ones. Decisions must be taken by a two-thirds majority.
- A Leadership Academy was created, as a virtual organisation to support the professional development of headmasters. Some 250 to 300 headmasters participate in year-long projects to evaluate and reinforce headmasters' professional capacities. These efforts are backed by a scientific advisory group from the universities of Innsbruck and Zurich. The participation of headmasters is voluntary, but the Ministry of Education expects that the majority of the 6 500 headmasters will have joined the initiative within a few years.

In the area of teacher policies, discussions were initiated on teachers' employment and pay conditions. Some new studies launched in this area have raised the possibility of creating more room for financial rewards, and less for seniority-based pay and lifetime contracts, as a way to enhance the motivation and quality of teachers. A new law was adopted, waiving the automaticity of the transformation of teachers' contracts into life-time civil service positions. Furthermore, the Austrian government plans the reorganisation and reform of teacher training.

Overall, initiatives taken in recent years in the areas of school autonomy and teacher incentives addressed relevant issues, but have not yet sufficiently developed to make a real difference in school governance and teaching practices.

Making universities more autonomous and accountable

Policymakers and university authorities have started a new co-operation, to create stronger foundations for the expansion of tertiary education. A first step was to reinforce the governance and funding infrastructures of existing universities. A new Law on Universities was adopted in 2002 and implemented from 2004. It has three principal goals:

- *Making universities autonomous institutions*. Universities used to be part of central government administration. They are now self-governing legal entities with full authority to design and manage their research and other activities, and run independent budgets. They will employ their own personnel in the future, and new staff will be hired not as civil servants but as private employees under contracts negotiated between the umbrella association of universities and trade unions.
- *More stable funding for future growth*. Universities have been provided with three relatively more predictable sources of funds: *i)* three-year global budget allocations from the Federal government, partly proportional to their student enrolment; *ii)* student fees, uniformly set by the government at € 363 per student and per semester. These funds were to secure 10% of the total receipts of universities but were cancelled before the September 2008 general elections; and *iii)* revenues from commercial activities, including external research and other business contracts.
- *Developing transparency and accountability*. All universities are now required to submit to the government and the general public an "Intellectual Capital Report" and a "Development Plan". These documents are to spell out their estimated strengths and competencies, and their targeted profile as an academic institution. Universities are also

OECD ECONOMIC SURVEYS: AUSTRIA – ISBN 978-92-64-05439-4 – © OECD 2009

asked to implement quality management systems, including regular evaluation reports by students. These new tools aim at diffusing modern transparency and accountability practices in university management.

A second direction of development has been the expansion of new higher education institutions outside the established university system. In the vein of US community colleges and other international models, the aim was to foster less academically-oriented and more labour market responsive tertiary education. Accordingly, the "Universities of Applied Sciences" (UAS – *Fachhochschule*), which had been authorised by a special Law in 1993, started to receive more funding. These institutions are receiving a growing number of applications: enrolment reached 34 000 in 2008 and 40 000 graduates are already in the labour market.

The UAS have a limited number of study places and select their students – contrary to universities, which are required to enrol all applicants. They focus on applied disciplines such as engineering, business management and computer science. While their total capacity does not exceed 10% of all students in Austria, their share in these applied fields has already reached 50%. They have taken the lead in adopting the international Bachelor/Master system recommended by the Bologna Process. This facilitates cross-border student mobility and UAS offer at present 20 double-degree programmes in co-operation with international universities. Each UAS student has a tightly defined study plan (unlike in universities), and 90% of students graduate within the estimated time for their programme (whereas in universities drop-out rates have long approached 40%).

The expansion of tertiary education witnessed in recent years seems to be stalling, however. University funding increase slightly in 2007-08 for traditional universities (UAS funding rose from € 169 million in 2007 to € 177 million in 2008).[22] Budget constraints may be here to last, as the goal announced in the 2006 government programme to raise total university funding to 2% of GDP by 2020 (against 1.2% in 2008) was not reiterated in 2008. As the university system is entirely funded from public resources, a deceleration in the build-up of tertiary education capacity is in sight.

The latest decisions concerning university education have compounded these challenges. In September 2008, the government cancelled student fees for most students at universities – but not in UAS (Box 4.6). Universities are required to accept all applications (except in certain branches where capacity limits are physically binding). Certain university officials estimate that universities are now registering up to three times more students than their available capacity. A survey of students revealed that "overcrowded auditoriums" was the most disturbing problem faced by students in the University of Vienna already in 2005[23] (Federal Chamber of Labour, 2005). The UAS do not face this problem as their study places are kept strictly proportional to their allocated budgets, but they cannot respond to the growing number applications (in 2008 they accepted only one out of three applicants).

Free education also attracts foreign students, putting additional pressure on available capacity. Austria is in an intermediary position in terms of the share of foreign students in the total student population (around 15% in undergraduate programmes and 8% in graduate programmes). Students from non-EU countries have started to pay tuition fees but registration remains free for EU students. Germany is a particularly important "exporter" of students to Austrian universities.

Box 4.5. **The short-lived experiment with student fees**

Tuition fees were introduced as part of university reform in 2001, at a low level of less than 10% of actual costs. In 2001 they were set nation-wide at € 363 per semester and per student, less than for a half-time kindergarten. The immediate observed impact was a decrease in the number of registered students. However, most of those who dropped out were not actively studying. Subsequently, the overall number of students and enrolments rose again. It is estimated that the main impact of the fees was a decline in the proportion of "passive" students from an estimated, very high, 25%, to a still high 15%. There is some evidence that students from disadvantaged socioeconomic groups were overrepresented among passive students (they were probably the ones who needed to finance their living expenses by taking up outside work).

Yet, when tuition fees were introduced, students from low-income families were offered personal subsidies to finance them. This income-tested measure mitigated in principle any adverse impacts for students from low-income families. The continuing enrolment of students from low-income groups in UAS – which have been collecting tuition fees since their creation, at about € 363 per term – is evidence that the adverse impact of fees can be minimised.

Students who are not eligible for subsidies are entitled to apply for government-sponsored student loans. These loans, which are granted at market interest rates, do not cover their living expenses, however. They must be entirely reimbursed within a relatively short time after the completion of studies, irrespective of the earnings of borrowers. Possibly as a result of these features – which depart from international best practice*– demand for these loans remained marginal. Independently from the issue of student fees, Austrian students' financial constraints remain high in international comparison (Figure 4.14).

* Comparative detailed information on various countries' student loan schemes and provisions is available in Oliveira Martins *et al.* (2007).

Defining and enforcing national academic standards

Clear and verifiable objectives concerning students' academic level and the quality of teaching in schools and universities is key for effective education policy. Recognising the importance of such unambiguous targets, the government launched a "national standards initiative" in 2005, breaking with a long-standing aversion to national education tests, and with the view that it is up to teachers to assess students on basis of regular contact. Indeed, even though available evidence suggests that teachers' subjective assessments are ridden with imperfections (PIRLS, 2007), no national education standards have been utilised in Austria to date to gauge student, school and teacher achievements.

The government decided to give a strong impulse to the definition of national standards by establishing the National Institute of Education Research and Innovation (BIFIE).[24] The goal is to create a significantly higher degree of transparency regarding what students need to learn and achieve at each stage of their career. Their academic level will be monitored with tests designed and administered at national level. School curricula and teaching techniques will be permanently re-examined in light of these goals. National tests are also expected to give headmasters and teachers a chance to compare students' results with regional or national averages, and use this evidence to review and enhance decentralised pedagogical practices.[25] BIFIE will collect all performance information

together with socioeconomic, school and pedagogical background information at student level. The resulting information base will help policymakers and researchers investigate the determinants of educational success, and improve student recruitment, school and classroom policies.

This national standards agenda is coherent with the good education policy practices encouraged by the OECD (OECD, 2009a, 2007b). The OECD's approach emphasises the usefulness of a framework of clear common targets for education outcomes, to be pursued through decentralised initiatives. In the future, two areas deserve the attention of policymakers for this effort to produce the highest possible benefits:

- The information produced should not be discarded as an arms' length instrument for administrative or financial control. The detailed performance data that will become available should be organised as a knowledge resource for teaching practices at school and class level. The capacity and incentives of headmasters and teachers to interpret national test results, benchmark class and school performance and on that basis better respond to individual learning needs should be emphasised. Feedback mechanisms should be put in place lower in the system, allowing headmasters and teachers to identify students in trouble and diagnose the sources of their troubles. Absent that kind of feedback mechanisms test results raise awareness of problems, but cannot be utilised at full potential to develop remedies.
- All efforts should be made to encourage balanced and responsible use of this information across the society and media (OECD, 2009b). Recent international experience shows that transparency of performance should be promoted together with full information on all relevant social and background influences on student results. "Value-added" measures of performance started to be produced in certain countries to document the achievement of pupils in comparison to others with similar starting points. This is a more accurate approach to benchmarking than building assessments on raw outcomes. Schools and classes in different socioeconomic environments have very different levels of student quality on entry. Transparency efforts should account for these factors to avoid potentially harmful interpretation of performance information.[26]

Full implementation of reforms requires further systemic changes

The experience with the reforms launched in recent years suggests that additional changes are required in the overall governance and financing of the education system, for the new education policies to achieve their full potential. In this light, this section focuses on *i)* the partition of Federal versus *Länder* responsibilities in the implementation of education policy: *ii)* the contribution of the fiscal system, in particular of the planned transition to strategic and results-oriented budgeting; and *iii)* the need for greater public consensus on the merits of the new education policies.

The fragmentation of education policy responsibilities should be overcome

The division of responsibilities in the management of the education system is today excessively fragmented (Box 4.6). Various ministries of the Federal government, *Länder* governments, and municipal authorities all play a noteworthy role. This makes any initiatives which cut across these lines (*i.e.* require the consensus and co-operation of different political jurisdictions) difficult to implement.

Box 4.6. **A governance structure to be streamlined**

The governance structure of education policy is at present highly complex and fragmented:

The Federal government has responsibility for legislation and implementation concerning academic secondary schools and the entire field of general upper secondary education (including vocational education), as well as for training of all kindergarten staff.

The Federal government is responsible for legislation and the individual *Länder* for implementation concerning teachers' employment conditions and union representation rights.

The Federal government is responsible for basic legislation, and the *Länder* for issuing and implementing laws concerning the "external organisation" of schools (which includes the development, construction, maintenance and approval of school buildings, but also the determination of pupil numbers per class and teaching periods).

Länder governments are responsible for kindergarten legislation and implementation.

Within Federal government: *i)* the Ministry of Social and Family Affairs is in charge of kindergartens (with the Ministry of Education having responsibility for training kindergarten teachers); *ii)* the Ministry of Education is in charge of primary and secondary education; *iii)* the Ministry of Science and Research is in charge of university education; and *iv)* the Ministry of Labour has responsibility for vocationally-oriented and continued training.

Teacher unions also have a strong influence on decision-making. There are several unions which are differentiated along types of schools (compulsory schools, academic secondary schools, secondary vocational schools and colleges) and along political party lines (SPÖ and ÖVP).

Can reforms be implemented with this governance structure? Austria's experience with the measures taken in recent years points to the necessity to overcome the existing fragmentation. The latter makes it harder to develop a national strategy for pre-school education, for putting off student streaming, for promoting national education standards, and for addressing the needs of immigrant children. More generally, they also make it more difficult to merge schools, to re-arrange school streams managed by different political authorities, to overcome the fragmentation of the teaching personnel and to shift to optimal school and class sizes.

A National Reform Convent on Constitutional Reforms started work in 2005 with a mandate to explore better ways of delivering key public services. The education sector was among its top priorities. It was requested "to come up with suggestions to set clear responsibilities for different agents and give them a structure which makes decision-making and management responsibilities less of a burden". The Convent came to the conclusion after lengthy discussions that, in the area of education, the Federal Government should be made responsible for curricula and teacher matters, and the *Länder* for buildings and physical facilities. However, the *Länder* rejected this concept and the planned federal consultative process could not progress further. More recently, the Federal Economic Chamber made a similar proposal to streamline the federal division of responsibilities in education.[27]

The transition to modern fiscal management will help resource reallocation

Education reforms require ample resources for new activities. At the same time, as a result of demographic and other structural changes, excess capacity has surfaced in certain particularly costly parts of the education system. A re-allocation of resources from lower to higher-priority areas need to be orchestrated.

There are new public spending needs in four areas:

- The intended transition to an additional year of half-day pre-schooling – which is in the government programme – is costly, but the more substantial pending claim is raised by the targeted transition to full-day pre-schooling between ages four and six. This target is endorsed by all education experts but is on hold, due to its organisational and fiscal implications.
- The planned transition to *Neue Mittelschule* has fiscal implications because more teachers will be needed (one additional teacher for every three classes). The Ministry of Finance calculated that an additional budget of € 300 million will be needed in the short term for these comprehensive schools.
- School age cohorts are now peaking, but demand for tertiary education will rise with the planned increase in tertiary enrolment rates. The fiscal implications will depend on government decisions on the pace of capacity increases, the budget earmarked per student in various disciplines, and the share of private funding, if any, in the future financing of university education.
- More resources will be needed if the current policy intentions to more actively assist immigrant children are implemented. From complementary linguistic support in kindergarten and primary schools, to the upgrading of *Polytechnische Schulen* that immigrants attend in large numbers, up to more elaborate schemes to identify and assist potential drop-outs, all initiatives raise fiscal costs. In Sweden and Norway, the special schemes for immigrant children entail considerable additional spending per student (by up to 55–80% in Norway).

In contrast, excess capacity has built up in the education system (Box 4.7). These resources are not really versatile and not readily available for alternative use, as most are confined to specific courses in given locations. They nonetheless entail major fiscal costs. The challenge is to re-orient as much as possible of these resources to areas where capacity needs to expand.

Austria's ongoing transition to modern fiscal and public expenditure management is expected to contribute directly to the needed re-allocation of resources. As discussed in Chapter 2, Austria is presently shifting to strategic and results-oriented fiscal management, which should be in place by 2013. In the area of education, strategic planning should help specify capacity targets and budget costs (*e.g.* concerning the development of tertiary education), and help document the existing imbalances in resource utilisation (*e.g.* concerning excess spending in secondary education). It should stimulate adjustment. Even if these new budgeting techniques are no magic tools to smooth politically difficult resource re-allocations, they will facilitate them by providing a transparent framework and better cost and benefit comparisons.

Transition to result-oriented budgeting will also promote performance goals in the delivery of education services. All line ministries will have "performance budgets" and will spell out their objectives in terms of quality of services and public benefits produced. In the

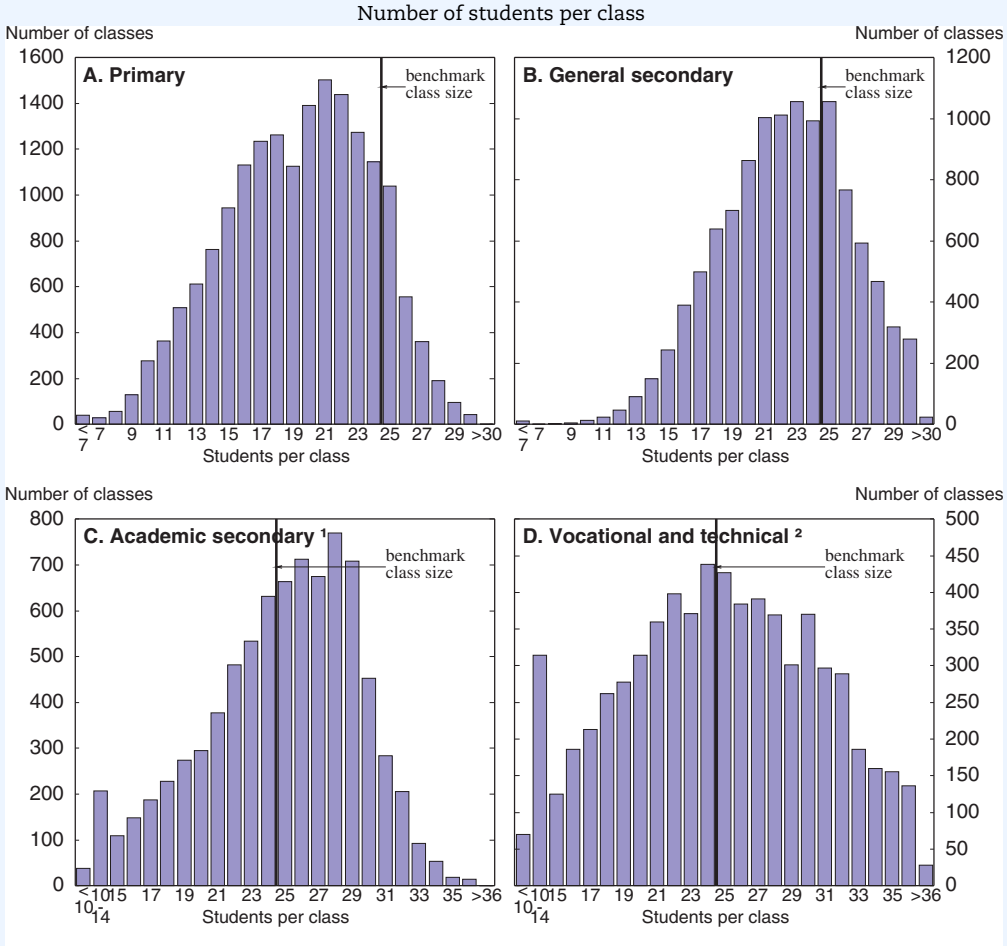
Box 4.7. **Adjusting excess capacity in secondary education**

The biggest pressure creating excess capacity in the school infrastructure is demographic. After a slight recovery in the 1990s, the total size of the school-age population is declining again in Austria, and this is expected to continue. The size of the 6–9 year age cohort had already peaked in 1998, that of the 10–13 year cohort peaked in 2003, and the 14–18 year cohort reached its largest size in 2008 – it will decline in the years ahead. The geographical distribution of the pupil and student population is also evolving, following urbanisation trends. These changes call for adjustments in the size and distribution of school infrastructure, in terms of physical facilities and teaching capacity. Under-sized schools and classes are more concentrated in certain regions than in others, making capacity adjustment challenges and related fiscal pressures (including on federal fiscal transfers) more acute in certain *Länder*.

In 2006, the average number of pupils per class in primary schools was already below 20, much below the OECD average. This average conceals a very dispersed distribution of school and class sizes. There is a large number of classes with 10–15 students, whereas 25 students per class is considered to be a comfortable norm in OECD countries (Figure 4.18).

Figure 4.18. **Distribution of class sizes**

Number of students per class



1. Lower and upper stage of academic secondary schools.
2. Intermediate technical and vocational schools plus higher technical and vocational colleges.

Source: Statistics Austria.

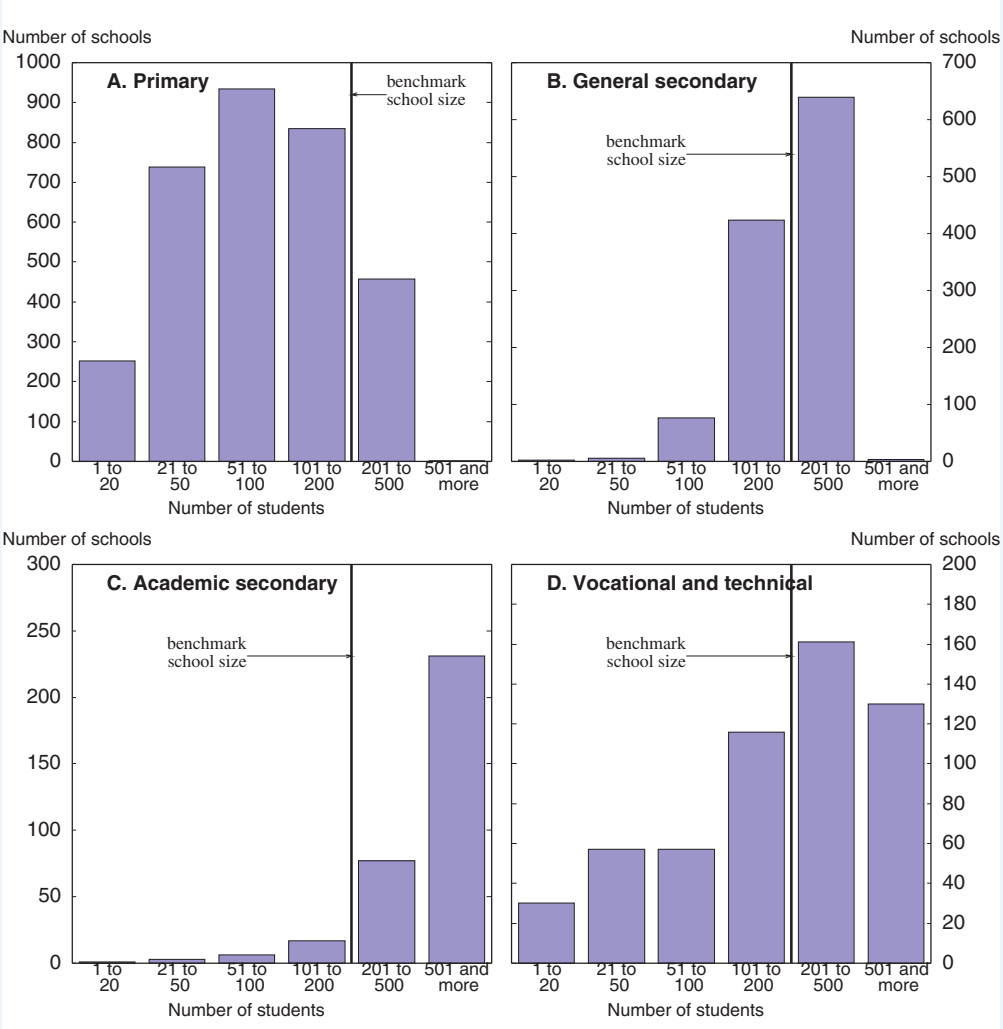
StatLink http://dx.doi.org/10.1787/646184336632

Box 4.7. **Adjusting excess capacity in secondary education** *(cont.)*

Many schools have less than 200 students – a speculative but fairly minimal benchmark of optimal school size.[1] An internationally comparative OECD survey suggests that Austria is not making effective use of its resources in the school system. Irrespective of the exact size of the adequate benchmark, the current distribution of school sizes suggests ample scope for streamlining (Figure 4.19).

Restructuring is however held back by legal and political impediments. Merging schools implies extending catchment areas and certain municipalities "losing their schools". The related conventional political tensions are compounded in Austria by the Federal government bearing most operating costs of schools, while the majority of schools remain owned and managed and their personnel remain contracted by *Länder* government.[2] This situation provides no incentive to sub-central authorities to rationalise school and class sizes. At the same time, their prerogatives on school management are protected by the Constitution.

Figure 4.19. **Distribution of school sizes**



Source: Statistics Austria.

StatLink http://dx.doi.org/10.1787/646205287134

Box 4.7. **Adjusting excess capacity in secondary education** *(cont.)*

Merging academic and general schools into *Neue Mittelschule* raises further difficulties. These are due, among others, to differences in the employment and pension rights of their teaching and other personnel, contracted respectively by Federal and *Länder* governments.

In these sub-optimal structures, a non-negligible share of Austria's teachers appear to be are underemployed. Their wage bill absorbs a disproportionate share of the education budget. 70% of total spending for compulsory education is at present spent on teacher costs, against an OECD average of 63%. Many teachers are employed in non-teaching tasks such as administrative, librarian etc. functions. A decomposition of Austria's higher per student spending confirms that extra student costs are mainly due to: *i*) higher teacher salaries; *ii*) higher teacher per student ratios; and *iii*) higher non–wage spending per student.

1. No agreement exists on optimal school size but research reviews suggest a maximum of 300-400 students for primary schools and up to 400-800 for secondary schools (Borland and Howsen, 2003 and WestEd, 2001).
2. Federal and *Länder* teachers' training background, wage levels, employment contracts, pension rights and carriers remain highly fragmented. Academic high school teachers are university educated, have life-time contracts with federal government (after seven years) and are paid more than general secondary school teachers. General secondary school, technical college and primary school teachers are upper secondary education graduates (higher level vocational school teachers are generally university graduates) and have life-time contracts (after seven years) with *Länder* (with the exception of teacher training colleges which are administered by the federal government).

area of education this transition will draw on the benchmark and performance information which will be produced under the national standards initiative, and, in turn, will legitimise it further.

Greater public consensus is needed

The Austrian public's perceptions on education issues have not always been congruent with the education policy initiatives launched in recent years. Several issues stand out on which a broader consensus, informed by experiences abroad, would facilitate reform:

- The notion that Austria should shift away from premature early streaming is somewhat at variance with many parents' perception that early streaming is good and desirable.
- The prevailing expectation in Austria is that all qualified secondary graduates should gain free access to their preferred field of study. This makes unworkable any *ex ante* planning of university capacity and any minimum standards of teaching resources by student.
- Austrian public opinion has been very reluctant to date with respect to the idea that university education should be partly funded by students themselves (while preserving equal access).[28] Austria is one of the OECD outliers with practically no contribution of households to the financing of higher education (Figure 4.5). This contrasts with the strength of the argument in favour of study fees in tertiary education.[29] In the context of Austria, where limited funding for universities under fiscal constraints has become a key obstacle to open, wide and equitable access to university education, more private funding is needed. The design of a state-of-the-art student loan system, with sufficiently attractive income-contingent features, sufficiently lengthy pay-back periods, attractive interest-rates, and covering not only tuition fee costs but also living expenses during study periods, would help improve equity of access to university education and improve universities' funding.[30]

- The past successful record of the Austrian education system may lead many native citizens to conclude that immigrant children's integration and performance in the education system is only a question of time and will occur naturally. This might nurture a "hands-off" view of immigrants' challenges as a mere reflection of their socioeconomic gaps, suggesting that it is sufficient to extend the support schemes for low-income Austrians to immigrants. In contrast, international research makes clear that immigrants' socioeconomic and cultural handicaps are often deeper and different – in particular for certain ethnical groups.

Policy recommendations

Box 4.8 summarises the policy conclusions arising from the analysis of this chapter.

Box 4.8. **Education policy recommendations**

Pre-school education

- In addition to the already-decided introduction of one year compulsory pre-school on a half-day basis, enhance participation in full-day pre-school education from age three onwards, with a particular focus on children from age three with weak socioeconomic and immigration backgrounds.
- Set and implement quality standards in pre-school education, concerning physical facilities, class sizes and teacher qualifications.
- Improve co-operation between Federal, *Länder* and municipal governments to agree on future objectives of coverage and quality in pre-school education.
- Make the development of pre-school education a fiscal priority, with explicit performance objectives.

Primary and secondary education

- Integrate national academic standards into the primary and secondary school curriculum, and testing and assessment practices.
- Overcome the overly early streaming of students, notably by encouraging the development of "comprehensive schools" (*Neue Mittelschule*), which requires equipping them with adequate teaching resources and curricula.
- Address with specific policy measures the very large gaps between academic achievements of students who speak and do not speak German at home.
- Equip teachers to identify weaker students and students of foreign origin encountering language difficulties, to diagnose better their difficulties, and individualise instruction accordingly. This may require additional resources for schools with more children at risk.
- Further the autonomy and leadership of headmasters and teachers to adapt curricula and classroom practices to student populations.
- Continue to support the development of assessment and evaluation practices, including assessment tests at school level, that will eventually help improve quality and accountability.
- Re-assess the present school infrastructure, class sizes and teaching personnel against demographic developments and urbanisation trends, and develop a rationalisation plan.

Box 4.8. **Education policy recommendations** *(cont.)*

- Re-invest the resources freed by rationalisation into improving teaching quality, notably by developing in-service training for education professionals to carry out evaluation and assessment.
- Develop co-operation between Federal and *Länder* governments to achieve common objectives for rationalising school infrastructures and improving teaching quality.
- Make teaching and headmaster professions more attractive. Develop a national "teacher and headmaster policy" including recruitment, continuing education, periodical evaluation, geographical mobility, pay and reward standards.

Tertiary education

- Set objectives for thedevelopment of lagging tertiary education capacity.
- Clarify public and private responsibilities in funding tertiary education and draw fiscal implications.
- Allow universities to charge tuition fees, while avoiding socioeconomic segregation in university accession with the help of a state-of-the art student grant and loan system.
- Develop a state-of-the art student loan system following international best practices, covering not only study fees but also living expenses.
- Allow universities to limit student registrations according to available teaching capacity.
- Make teaching quality, academic standards and labour market outcomes of individual tertiary education institutions transparent and public.
- Continue to encourage governance and management reforms in universities and further develop "performance contracts" with the government.

Notes

1. The OECD's latest review of education policies termed this challenge as "re-inventing education in ways that other professions have already done, in order to provide better value for money" (OECD, 2008). The key education policy challenges across OECD countries have recently been summarised in (OECD, 2009a).
2. The 1962 Austrian School Organisation Act reads: "It shall be the task of the Austrian school to foster the development of the talents and potential abilities of young persons in accordance with ethical, religious and social values and the appreciation of that which is true, good and beautiful, by giving them an education corresponding to their respective courses of studies. It shall give young people the knowledge and skills required for their future lives and occupations and train them to acquire knowledge on their own initiative". The Austrian legal system guarantees general access to public schools without distinction of birth, gender, race, status, class, language or religion. Private sector schools, in contrast, may select pupils according to these criteria, although such selection is rarely applied. The official language is German. The legal system guarantees the rights of local ethnic groups (Slovenians, Croats, Hungarians, Czechs, Slovaks, Roma and Sinti), including with respect to education. Compulsory school starts on the first September following the child's sixth birthday, is compulsory for all children permanently resident in Austria irrespective of nationality, and lasts for nine years. Special schools (*Sonderschule*), covering the whole nine compulsory years, are catering to mentally or physically disadvantaged children.
3. Spending per student includes all expenditures for education institutions (divided by the number of students) but not their living expenses.
4. With the exceptions of the 10% of private secondary schools, and the Universities of Applied Sciences which take 10% of the student population.
5. Demands for all-day schooling by parents vary regionally. In Vienna 30% of parents prefer all-day schooling while only 3% express this desire in Innsbruck. Schools are allowed to introduce afternoon care if a minimum number of parents request it. Certain municipalities also contribute

by making kindergarten places available for the after-school care of primary school children. All-day schooling has nonetheless not generalised in Austria.

6. There is wide variation across *Länder* and communes (many different types of kindergarten exist, including those run by special interest groups and co-operatives), but all schemes take into account the income and social situation of parents. There is now a broad trend towards reducing or abolishing fees. In six *Länder* among nine free services are already available for at least half a day; they are presently offered for the whole day in Styria and three further *Länder* (Vienna, Burgenland and Upper Austria) are to follow by autumn 2009. Upper Austria provides free meals in certain parts of the province; the city of Vienna provides free meals to children from low-income families.

7. Statistical sources on *kindergarten* attendance by children with different socioeconomic backgrounds are scarce and are not fully consistent (PIRLS 2007, OECD 2007), but all available sources confirm the gap between native families and certain immigrant groups. Notably, children from Turkish descent, the group with the weakest average student achievements, attend *kindergarten* in particularly low proportions. This was first documented in late 1990s (Herzog-Punzenberger, 2003) and was borne out by a recent large survey covering seven European countries. This study revealed that second-generation Turkish children entered the education system particularly late in Austria (at the average age of 4.9, against 4.0 in the Netherlands and 3.1 in Sweden), and that about 45% of these children entered school directly, the highest proportion observed in surveyed countries (Crul and Schneider, 2009).

8. Germany had until recently the same legal age of first streaming but several German *Länder* are in the process of eliminating it.

9. It is sometimes argued that Austrian pupils leave upper secondary vocational schools (*e.g.* HTL for technical fields, HAK for commercial fields) at the age of 19 with skills similar to tertiary graduates in other countries. Nonetheless, Austria's university enrolment and graduation rates remain low even when adjustments are made for those upper secondary programmes which have tertiary status in other countries (*e.g.* training of teachers, nurses, kindergarten personnel). See OECD, *Economic Survey of Austria*, 2007.

10. An OECD Survey found that tertiary graduation rates as a share of the population aged 20-29 are related positively to internal rates of return on university education and the quality of tertiary education supply (accounted for via measures of flexibility and accountability), and negatively to students' financial constraints. In that broad overview Austria stands out as having low internal rates on return on tertiary education, poor flexibility and accountability in the university system, and important financial constraints for students (financial constraints are due, not to study fees, but to the high level of living expenses and to the lack of an attractive student loan system) (Oliveira Martins *et al.*, 2007).

11. Another factor is sometime mentioned in Austria as contributing to low university enrolments: low outturns from academic secondary schools qualifying students for tertiary education. Austria is the OECD country where the annual number of graduates qualified for tertiary education is closest to the number of study places actually available. However, given the alternative avenues that graduates from "non-academic secondary schools" have now for accessing universities, and the fact that application numbers in tertiary disciplines most in demand are superior to available capacity, suggest that the undersupply of eligible candidates not a real constraint on university attainment.

12. Legally, students not receiving full government support are entitled to request their parents to fund all their higher education expenses. However, many refrain from doing so in practice.

13. According to PISA survey results 60% of students with an immigration background state that their parents attach high significance to good performance in school, against 38% of Austrian counterparts (Weiss, 2007).

14. Existing research shows that early streaming accentuates segregation along cultural backgrounds. On the contrary, delaying streaming relieves all socioeconomically disadvantaged and in particular immigrant children. Recent surveys showed that a lengthy stay in a normal, fully German-speaking pre-school environment enhances significantly the intellectual development of immigrant children – as confirmed once again by a very recent study of the National Institute of Education Research (*Austrian Times*, 2009a).

15. Many general schools in Vienna have a concentration of immigrant children approaching 100% (*Austrian Times*, 2009b).

16. For example, this is the case for 8% of pupils of Turkish origin, as against 3% of native pupils. The Ministry prescribes that immigrant children with a lack of German skills should be accepted as regular students in compulsory schools, with the special status of "non-regular" students. Such status should last at most 12 months, and can be extended for another year if needed. However, to preserve the homogeneity of the teaching environment schools and teachers in the field may find it difficult to implement this policy.

17. The unemployment rate of low-skilled workers (of all ages) reached 12.7% for the foreign-born in 2004 against 8.6% for natives. However "natives" in labour force surveys include second-generation immigrants, whose unemployment rate is probably higher than first-generation immigrants.

18. The Austrian Integration Fund (funded by the federal ministries of Interior, Education, Health and Family Affairs) already offers financial support to kindergartens which introduce early language support, and helps train kindergarten teachers to provide such support. The Federal government has pledged to provide an additional budget of € 45 million for new child care facilities over 2008-10. *Länder* governments will also contribute.

19. As detailed in footnote 6.

20. In contrast to primary and secondary education, there is an international education community consensus that small class sizes enhance the quality of pre-school education. One acknowledged norm is 15 pupils per class, while some recent Austrian research came up with a benchmark of 12 pupils per class – possibly reflecting the presence of immigrant children in classes.

21. Before 2006, all education policy legislation needed to be backed by a two-third majority in Parliament. The new coalition government proposed to waive this constrain and the Parliament accepted to return to a simple majority rule except on "matters concerning comprehensive schools".

22. The funding per student place remains at the level fixed a decade ago (€ 6 904 per student and per year in technical programmes, and € 5 814 in other programmes). The UAS estimate that this has amounted to a 40% real loss per student, that they have compensated through a variety of efficiency gains to date (but which would now be near exhaustion). The government will increase the overall budget by about 12-15% starting from the academic year 2009/10.

23. A discussion of more recent developments is provided by Biffl (2009).

24. BIFIE's initial objectives are to define achievement standards *i)* for 10-year old pupils in German, mathematics and first foreign language, at the end of grade 4; *ii)* for 14-year old students in the same fields, at the end of grade 8; *iii)* in all disciplines upon completion of grade 12, to be certified with a *Matura* diploma granted on basis of a national examination. BIFIE will also set qualification standards for kindergarten teachers.

25. See Schratz and Petzold (2007).

26. Among OECD countries, the UK government went farthest in the transparency of school results and school benchmarking. The Office for Standards in Education (Ofsted) reports raw measures of student performance in academic tests in all schools and has recently completed this raw information with more elaborated "value-added" measures of performance. Nonetheless, public interest continues to focus on absolute school rankings in league tables which do not adjust for these factors and this is seen as a serious challenge in the proper utilisation of performance information (Brook, 2008).

27. The Federal Economic Chamber plan included the following suggestions: *i)* legislation and administration in school matters should come under the competence of the Federal state; there should be only Federal schools and Federal teachers; *ii)* there should be a common Public Services Law for all teachers; *iii)* a broad reform of school administration should lead to a substantial reduction of costs; *iv)* nomination of teachers should be done by each school, in the framework of school autonomy.

28. An opinion poll by the polling agency OGM during the period of introduction of study fees showed that 58% of Austrians opposed these fees while 36% approved them.

29. Since returns from university education are reaped mostly by graduates themselves, their contributing to its financing would be justified. This would facilitate the growth of higher education capacity. It would also enhance student incentives concerning study length, and reduce cross-subsidies from low income tax payers to university graduates.

30. The OECD, in the latest review of Member countries' education policies emphasised that "as well as looking at the case for prioritising education in the allocation of public spending, policymakers

may need to look at how more private funding can be brought in at the tertiary level. A challenge here is to achieve this in ways that do not compromise equity. According to international experiences, achieving a good balance between financial aid in the form of student loans and scholarships can be a way to improve equity in access to tertiary education. Some analysis suggests that scholarships may be more efficient than loans in encouraging students from disadvantaged socioeconomic backgrounds to continue to study, whereas loans may work better for the other socioeconomic categories" (OECD, 2008a).

Bibliography

Barber, M. and M.Mourshed (2007), "How the World's Best Performing School Systems Come Out on Top", McKinsey and Company.

Bauer, P. and R. Riphahn (2006), "Timing of School Tracking as a Determinant of Intergenerational Transmission of Education", *Economics Letters,* Vol. 91, No. 1.

Biffl, G (2009), "Die Arbeitsmarktsituation von Jungakademikern/-innen vor dem Hintergrund der aktuellen wirtschaftlichen Entwicklung und der neuen dreigliedrigen Studienstruktur", mimeo, University of Donau-Krems, 10 March.

Borland M. and R. Hovsen (2003), "An Examination of the Effect of Elementary School Size on Student Academic Achievement", *International Review of Education*, No. 5.

Brook, A. M. (2008), "Raising Education Achievement and Breaking the Cycle of Inequality in the United Kingdom", *OECD Economics Department Working Papers*, No. 633, Paris.

Brunello, G. and D. Cecchi (2006), "Does School Tracking Affect Equality of Opportunity? New International Evidence", *IZA Discussion Paper*, No. 2348, Bonn.

Crul, M. and J. Schneider (2009), "The Second Generation in Europe: Education and the Transition to the Labour Market", *TIES Policy Brief*, Institute for Migration and Ethnic Studies, Amsterdam.

Delannoy, F., P. McKenzie, S. Wolter and B. van der Ree (2003), "Attracting, Developing and Retaining Effective Teachers", *Country Note: Austria*, OECD, Paris.

Die Presse (2009), "Andrang in Privatschulen: 39.000 Schüler allein in Wien", 18 March.

Eder, D. (2001), "Accredited Programs and Authentic Assessment", in C. Palomba and T. Banta (eds.), Assessing Student Competence in Accredited Disciplines, Sterling, VA: Stylus Publishing, LLC.

Eder, D. (2004), "General Education Assessment within the Disciplines", *Journal of General Education*, Vol. 53, No. 2.

Federal Chamber of Labour (2005),"AK Umfrage zeigt: Keine Rede von Weltklasse – Studenten geben den Unis ein schlechtes Zeugnis", Presentation of Student Survey, 24 May.

Field, S., K. Hoeckel, V. Kis and M. Kuczera (2008), "Learning for Jobs", mimeo, OECD, Paris.

Field, S., M. Kuczera and B. Pont (2007), *No More Failures: Ten Steps to Equity in Education*, OECD, Paris.

Gonand F., I. Joumard and R. Price (2007), "Public Spending Efficiency: Institutional Indicators in Primary and Secondary Education", *OECD Economics Department Working Papers*, No. 543, Paris.

Hackl, D. (2003), "Attracting, Developing and Retaining Effective Teachers", *Country Background Report for Austria*, OECD, Paris.

Haider, G. and C. Schreiner (2006), "Die PISA-Studie: Österreichs Schulsystem im Internationalen Wettbewerb", OECD/PISA.

Hanushek, E. (2003), "The Failure of Input-Based Schooling Policies", *Economic Journal*, Vol. 113, pp. 64-98.

Hanushek, E. and L. Wö²mann (2005), "Does Education Tracking Affect Performance and Inequality? Differences in Differences Evidence across Countries", *NBER Working Papers*, No. 11124, Cambridge, MA.

Hanushek, E. and L. Wö²mann (2007), "The Role of School Improvement in Economic Development", *CESifo Working Papers*, No. 1911.

Herzog-Punzenberger, B. (2003), "Ethnic Segmentation in School and Labour Market – 40 Year Legacy of Austrian Guestworker Policy", *International Migration Review*, Vol. 37, No. 4.

Meghir, C. and M. Palme (2005), "Educational Reform, Ability and Family Background", *American Economic Review,* Vol. 95, No. 1.

Meier V. and G. Schütz (2007), "The Economics of Tracking and Non-Tracking", *IFO WorkingPapers*, No. 50.

OECD (2007), *PISA: 2006: Science Competencies for Tomorrow's World*, Vol. 1, Analysis, OECD, Paris.

OECD (2007a), *Education at a Glance*, OECD, Paris.

OECD (2007b), *OECD Economic Surveys: United States*, Paris (Chapter 5 – Improving primary and secondary education).

OECD (2008a), *Education at a Glance*, OECD, Paris.

OECD (2008b), *Tertiary Education for the Knowledge Society*, OECD, Paris.

OECD (2008c), *OECD Economic Surveys: Norway*, OECD, Paris.

OECD (2008d), *OECD Economic Surveys: Germany*, OECD, Paris.

OECD (2008e), "Quality Assurance in Vocational Education and Training", mimeo, Paris.

OECD (2008f), "Assessing the Challenges of Policy Implementation in Education", mimeo, Paris.

OECD (2008g), "How Do OECD countries Take Stock of Progress and Performance in Education Systems?" mimeo, Paris.

OECD (2008h), "Measuring Improvements in Learning Outcomes: Best Practices to Assess the Value-Added of Schools", mimeo, Paris.

OECD (2009a), *Education Today: The OECD Perspective*, Paris.

OECD (2009b), *Measuring Improvement in Learning Outcomes: Best Practices to Assess the Value-Added of Schools*, Paris.

Oliveira Martins, J., R. Boarini, H. Strauss, C. De la Maisonneuve and C. Saadi (2007), "The Policy Determinants of Investment in Tertiary Education", *OECD Economics Department WorkingPapers*, No. 576, Paris.

Peltzer-Karpf, A., V. Wurnig, B. Schwab, M. Griessler, R. Akku, K. Lederwasch, D.Piwonka, T. Blaževi, K. Brizi (2003), *Bilingualer Spracherwerb in der Migration. Psycholinguistische Langzeitstudie (1999 – 2003) (Endbericht)*, BMBWK, Vienna.

PIRLS (2007), Programme International de Recherche en Lecture Scolaire, 2006 Results, TIMMS and PIRLS International Study Center, 2007, Boston College. (See presentation of results in Austria and comparison with student marks: *PIRLS-Studie: Schulnoten sagen nichts über Lesekompetenz aus,* Die Presse, 16 March 2009).

Rosenkranz, W. (2009), "474 Seiten Starke Antwort auf FP?-Anfrage", Ministry of Education, Vienna, *www.apa.at/cms/site/news_item.html?channel=CH0070&doc=CMS1238400399737*.

Santiago, P. , K. Tremblay, E. Basari and E. Arnal (2008), *Tertiary Education for the Knowledge Society – Volume* 1, OECD, Paris.

Schratz, M. and K. Petzold (2007), *Improving School Leadership – Country Background Report forAustria*, OECD.

Stanat, P., G. Christensen and M. Planck (2006), *Where Immigrant Students Succeed – A Comparative Review of Performance and Engagementin PISA 2003*, OECD, Paris.

Stanzel-Tischler, E. (2009), "Evaluation des Projekts: Frühe Sprachliche Förderung im Kindergarten", *Bundesinstitut für Bildungsforschung, Innovation und Entwicklung,* Report 1/2009, Vienna.

WestEd (2001), "School Size Considerations", *Policy Brief*, October.

Wößmann, L., E. Lüdemann, G. Schütz and M. West (2007a) "School Accountability, Autonomy, Choice and the Level of Student Achievement: International Evidence from PISA 2003", *OECD Education Working Paper*, No. 13, Paris.

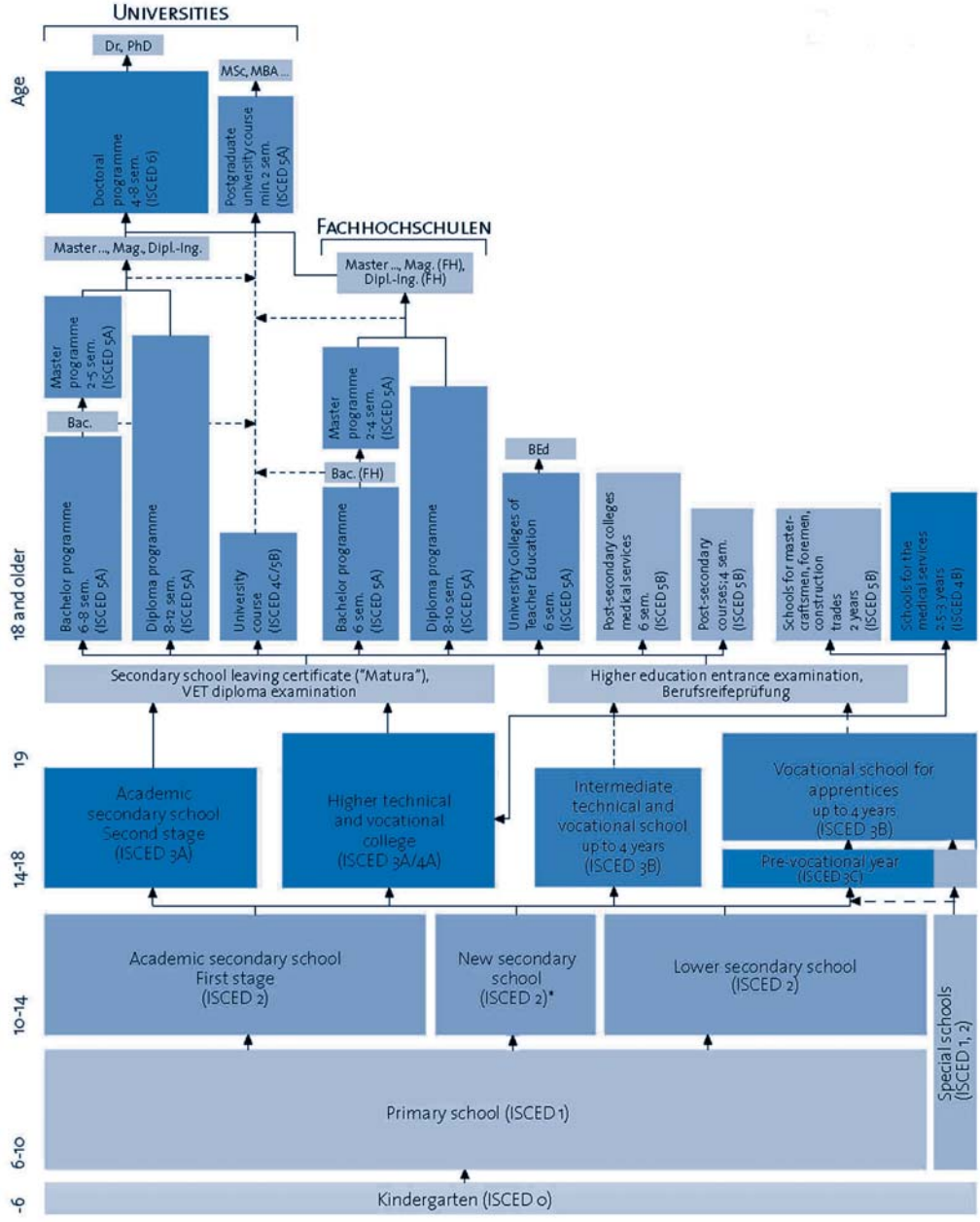
Wößmann, L., G. Schütz and M. West (2007b) "School Accountability, Autonomy, Choice and the Equity of Student Achievement: International Evidence from PISA 2003", *OECD Education Working Paper,* No. 14, Paris.

Wroblewski A. and B. Herzog-Punzerberger (2008), "OECD Thematic Review on Migrant Education: Country Report Austria, preliminary version", OECD, Paris.

Wroblewski, A. (2006), *School Achievement and Social Background: A Multilevel Analysis Based on PISA 2000*, Thesis, University of Essex.

ANNEX 4.A1

Figure 4.A1.1. **Austria's education system**



Source: Ministry of Education.

OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(10 2009 10 1 P) ISBN 978-92-64-05439-4 – No. 56875 2009

OECD Economic Surveys

AUSTRIA

SPECIAL FEATURE: RE-INVENTING THE EDUCATION SYSTEM

Most recent editions

Australia, October 2008
Austria, July 2009
Belgium, July 2009
Canada, June 2008
Czech Republic, April 2008
Denmark, February 2008
Euro area, January 2009
European Union, September 2007
Finland, June 2008
France, April 2009
Germany, April 2008
Greece, May 2007
Hungary, May 2007
Iceland, February 2008
Ireland, April 2008
Italy, June 2007
Japan, April 2008
Korea, December 2008
Luxembourg, June 2008
Mexico, September 2007
Netherlands, January 2008
New Zealand, April 2009
Norway, August 2008
Poland, June 2008
Portugal, June 2008
Slovak Republic, February 2009
Spain, November 2008
Sweden, December 2008
Switzerland, November 2007
Turkey, July 2008
United Kingdom, September 2007
United States, December 2008

Non-member Countries: Most recent editions

Baltic States, February 2000
Brazil, July 2009
Bulgaria, April 1999
Chile, November 2007
China, September 2005
Estonia, April 2009
India, October 2007
Indonesia, July 2008
Romania, October 2002
Russian Federation, July 2009
Slovenia, July 2009
South Africa, July 2008
Ukraine, September 2007
Federal Republic of Yugoslavia, January 2003

Volume 2009/10
July 2009

ISSN 0376-6438
2009 SUBSCRIPTION
(18 ISSUES)

OECD*publishing*
www.oecd.org/publishing

ISBN 978-92-64-05439-4
10 2009 10 1 P

9 789264 054394