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Austria's GDP per capita is below the average of the upper half of OECD countries but its relative position has slightly improved since the mid-2000s, reflecting rising labour productivity before the 2009 recession. In 2009, progress has been made to strengthen early education (kindergarten) and alleviate premature streaming of pupils in secondary schools. However, weaknesses remain and there is need for reform in the following areas.

Priorities supported by indicators

Improve graduation rates from tertiary education

Early tracking of students at age 10 undermines the performance of the school system and particularly penalises immigrant students. The share of young people graduating from academic tertiary education programmes is low, holding back productivity growth and innovation.

Actions taken: The University Act was amended in 2009, involving changes in the appointment of members of university councils, introduction of probationary phases for students and possibility of setting access criteria for graduate school studies. This followed the implementation of a three-year performance budgeting system in 2007. However, the abolition of already low tuition fees for most universities in 2008 was a backtracking in reforms.

Recommendations: Postpone early tracking and strengthen language support to immigrant students throughout their schooling. Extend performance-based funding in tertiary education and allow universities to set tuition fees. Introduce an income-contingent loan system to avoid excluding financially-constrained students.

Reduce incentives to exit early from the labour force

Even after the latest pension reforms, high implicit taxes on continued work at older ages still encourage early retirement and reduce labour force participation.

Actions taken: No action taken since 2009. The 2003-04 pension reforms considerably reduced early retirement incentives. However, some backtracking resulted from the subsequent halving of the discount rate for early retirement in 2007 and the extension of the special early retirement scheme in 2008.

Recommendations: Phase in all provisions of the 2003-04 pension reforms without relaxing their conditions. Tighten eligibility criteria to ensure that disability pensions are only used in well-justified cases.

Reduce barriers to entry in network industries

Despite recent progress in telecommunications, high network access prices and remaining state ownership in some network industries deter new entry, impeding competition and depressing productivity.

Actions taken: Market supervision in the gas and electricity sectors was somewhat strengthened before 2009. New access obligations were set for telecommunication network operators identified as possessing significant market power in the market studies completed in 2010.

Recommendations: Ensure that access prices are not kept artificially high. Relax ownership restrictions that create high barriers to entry at various stages in the production and distribution of electricity. Fully privatise the telecommunication and electricity enterprises. Stimulate competition in rail transportation. Reduce or eliminate remaining cross-subsidies in all network industries.

Other key priorities

Lower marginal tax rates on labour income

High marginal personal income tax rates undermine work and entrepreneurship incentives.

Actions taken: Personal income taxes were lowered somewhat in 2009, including through tax relief for families with children, entrepreneurs and freelancers. Unemployment insurance contribution rates were reduced for low-wage workers in 2008.

Recommendations: Lower marginal income tax rates financed by further broadening the tax base through reducing the numerous tax allowances and possibly increasing taxes on property and consumption (including environmental taxes).

Reduce barriers to competition in professional services

Restrictive regulations remain widespread in services, especially in sectors using self-imposed regulations, hindering competition and productivity growth.

Actions taken: No action taken since 2009. The Crafts, Trade, Service and Industry Act was amended in 2008 to facilitate entry in several professions. Several EU directives concerning professional qualification certificates were transposed before 2009.

Recommendations: Reduce the statutory regulations of trades and professions and curb sectoral self-regulations hindering competition in services. Abolish compulsory chamber membership for liberal professions.

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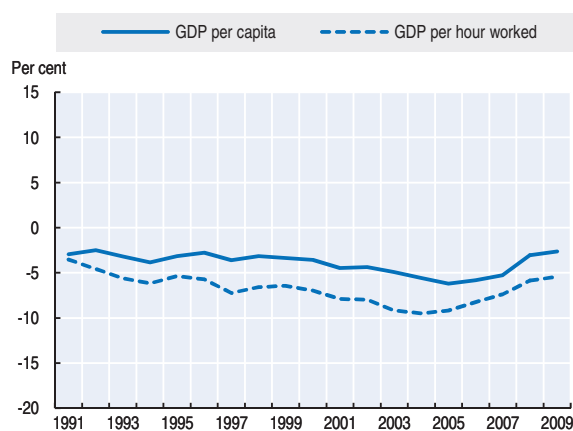
Structural indicators

Average annual trend growth rates, per cent

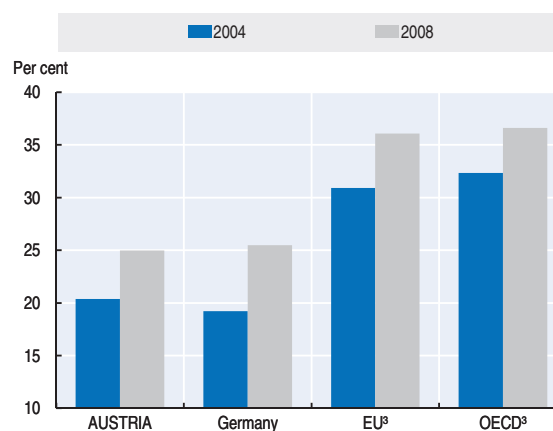
	1999-2009	1999-2004	2004-09
GDP per capita	1.7	2.0	1.3
Labour utilisation	0.3	0.3	0.2
of which: Employment rate	0.4	0.4	0.4
Average hours	-0.2	-0.1	-0.2
Labour productivity	1.4	1.7	1.1
of which: Capital intensity	0.6	0.7	0.5
Multifactor productivity	0.8	1.0	0.7

Source: Estimates based on OECD (2010), OECD Economic Outlook No. 88: Statistics and Projections Database.

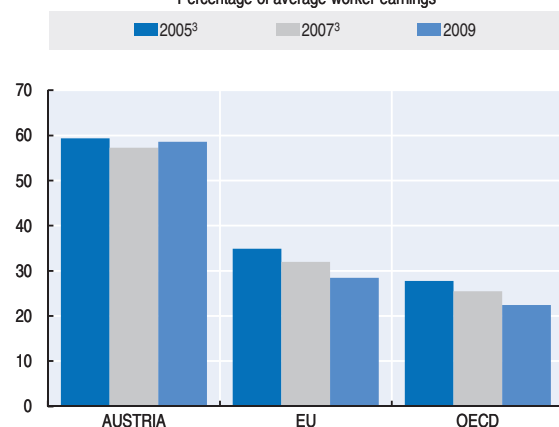
A. The small gap in GDP per capita and productivity persists
Gap to the upper half of OECD countries¹



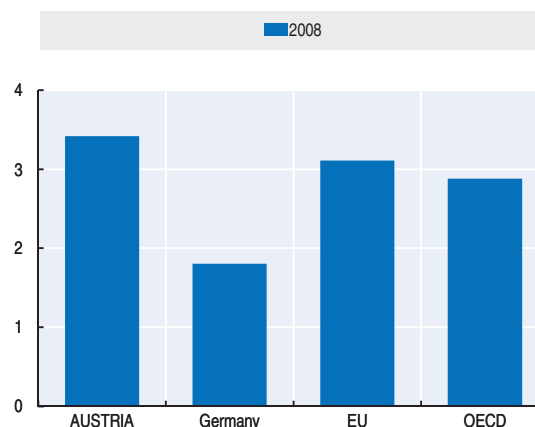
B. Tertiary education graduation rates remain comparatively low²



C. Implicit taxes on continued work are still higher than in most other OECD countries⁴
Percentage of average worker earnings



D. State ownership in the network sectors is high
Index scale of 0-6 from least to most restrictive



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. First-time graduation rates for single year of age at tertiary-type A level.
3. Average of European countries in the OECD. EU and OECD averages exclude Belgium, Chile, Estonia, France and Korea.
4. Implicit tax on continued work in early retirement route, for 55 and 60-year-olds.

Source: Chart A: OECD, National Accounts and OECD Economic Outlook No. 88 Databases; Chart B: OECD (2010), Education at a Glance; Chart C: Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", OECD Economics Department Working Papers, No. 370 and OECD calculations; Chart D: OECD, Product Market Regulation Database.

StatLink  <http://dx.doi.org/10.1787/888932373628>