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- The GDP per capita gap with respect to the upper half of OECD countries has been widening again from 3.5% in 2011 to 7% in 2015. Sluggish growth and rising unemployment have weighed on labour utilisation. Labour productivity has remained buoyant in manufacturing but has declined in services and construction reducing other sectors' prospects of benefitting from cost-efficient intermediate inputs.
- Income inequality remains below the OECD average. The share of disposable income going to the poorest 20% of households is also larger than on average in the OECD. However, these numbers hide important income differentials within households as Austria remains one of the countries with the largest gender gaps in labour participation and earnings.
- The 2016 tax reform has considerably reduced the average and marginal tax rates on labour income, in particular for lower and middle incomes. A national strategy to open up traditionally gender-sensitive tracks to both sexes will be enacted in the course of 2016 to increase tertiary education rates and reduce gender pay gaps. Subsidies encouraging elderly who are eligible for an early pension to continue working have been introduced. Small retailers are exempt from authorisation procedures. Barriers to entry in network industries have been eased and are no longer considered a Going for Growth priority.
- Reducing marginal tax rates further, including at lower levels of income, could encourage part-time workers to increase participation and bring more women into the labour force, thereby contributing to more gender-equal sharing of paid and unpaid work. Expansion of high-quality early childhood education and care institutions as well as full-day schools is a prerequisite for progress in this direction. Eliminating pathways to early retirement would strengthen labour participation further. Enhancing competition in the service sector and reducing the strong influence of socio-economic background on education outcomes would foster human capital development and productivity growth.
- Increasing excise duty rates on motor fuels would reduce fuel use and in particular "fuel tourism" that account for up to one-third of Austria's CO₂ emissions.

Going for Growth 2017 priorities

***Facilitate full-time labour force participation of both parents throughout the country.*¹**

Reconcile work and family lives, lift bottlenecks to women's labour participation and reduce the gender pay gap.

Recommendations: Spur investment in high-quality childcare facilities. Enhance the availability of full-day schools and care centres as envisaged. Consider introducing legal entitlements for these services. Reduce the implicit taxation of shifting from marginal and part-time to full-time employment and replace the sole-earner tax deduction by targeted transfers to families in need.

Lower marginal tax rates on labour income. High effective marginal tax rates, especially at low income levels, undermine work incentives.

Actions taken: The wide-ranging tax reform passed in 2015 entered into force on 1 January 2016. The lowest income bracket tax rate was reduced from 36.5% to 25%. Earners with income below the first income bracket, who do not pay income taxes, are eligible for a reimbursement of half of their social security contributions, up to EUR 400 per year. Pensioners benefit from a similar provision, but limited to EUR 110 per year.

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an "***".

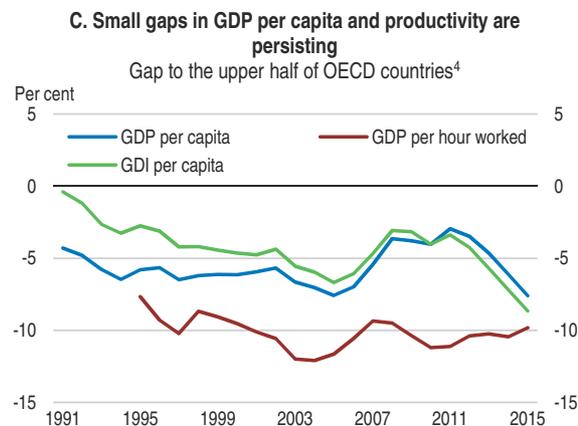
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Growth performance and inequality indicators

A. Growth		
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	1.1	0.6
Labour utilisation	0.5	0.4
of which: Labour force participation rate	0.3	0.3
Employment rate ¹	-0.2	-0.1
Employment coefficient ²	0.3	0.2
Labour productivity	0.4	0.3
of which: Capital deepening	0.3	0.1
Total factor productivity	0.1	0.2
Dependency ratio	0.2	-0.1

B. Inequality		
	Level	Annual variation (percentage points)
	2013	2008-13
Gini coefficient ³	28 (31.7)*	0 (0)*
Share of national disposable income held by the poorest 20%	8.7 (7.7)*	0 (0)*

* OECD average



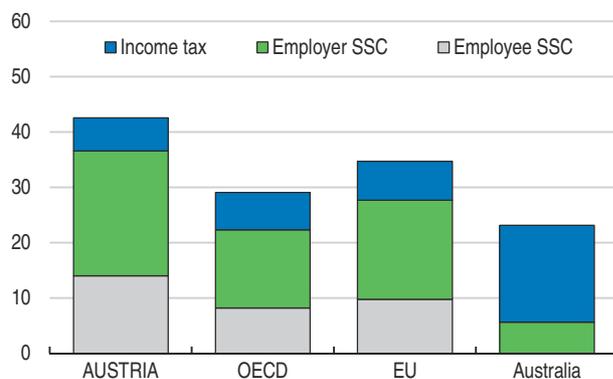
- The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
- This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
- The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
- Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

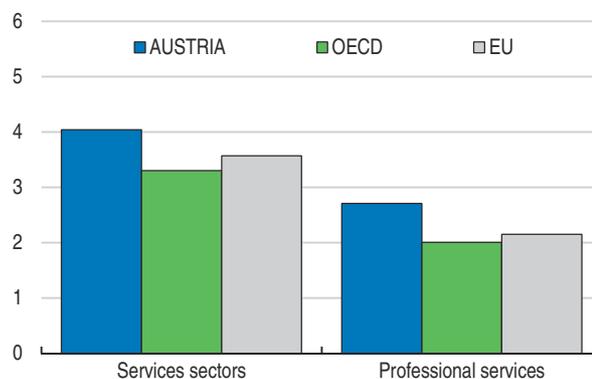
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Policy indicators

A. Labour taxation is particularly high
Percentage of total labour costs,¹ 2015



B. Regulatory barriers to competition in services are relatively high
Index scale of 0-6 from least to most restrictive, 2013



- Single person without children at 67% of total earnings. For Austria, data refer to after tax reform as of 1 January 2016.

Source: Panel A: OECD, *Taxing wages Database* and OECD (2015), *OECD Economic Surveys: Austria 2015*; Panel B: OECD, *Product Market Regulation Database*.

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Recommendations: Reduce the labour tax wedge further, notably by lowering employer and employee social security contributions. To ensure budget-neutrality, this could be financed by a broadening of the tax base and by increases in consumption, environmental and recurrent property taxes.

Reduce incentives to exit early from the labour force. The effective retirement age remains low, in particular for women, and subsidised avenues to early retirement still exist.

Actions taken: At the beginning of 2016 a new possibility to continue working for elderly employees came into force. Insured persons who are in principle able to claim early retirement at the age of 62 have the possibility to continue working up to the legal retirement age of 65 under special conditions. In agreement with the employer, the employee can reduce work hours by 40 to 60%. The Labour Market Agency compensates half of the wage loss incurred from the reduced working hours and tops up the social security contributions (including pension insurance).

Recommendations: Align the official retirement age for women with that for men. Eliminate all remaining subsidised avenues to early retirement. Tighten eligibility to disability pensions also for those above 50 and help partially-disabled workers to better use their remaining work capacity. Reflect changes in life expectancy more directly in the parameters of the pension system.

Reduce barriers to competition in professional services and retail trade. Restrictive regulations in many services hinder competition and productivity growth.

Actions taken: The EU Directive on the recognition of professions and professional qualifications from other EU Member States was implemented in January 2016. Since April 2015, a new regulation exempts non-hazardous small facilities (i.e. retail enterprises with operating areas below 200m²) from authorisation procedures thus lowering administrative burdens in the retail sector.

Recommendations: Continue to ease entry to retail trade and liberal professions to allow more competition, without reducing high quality standards and consumer protection.

Improve equity and outcomes in tertiary education. Increase tertiary graduation rates and make educational outcomes less dependent on socio-economic backgrounds to promote inclusive growth.

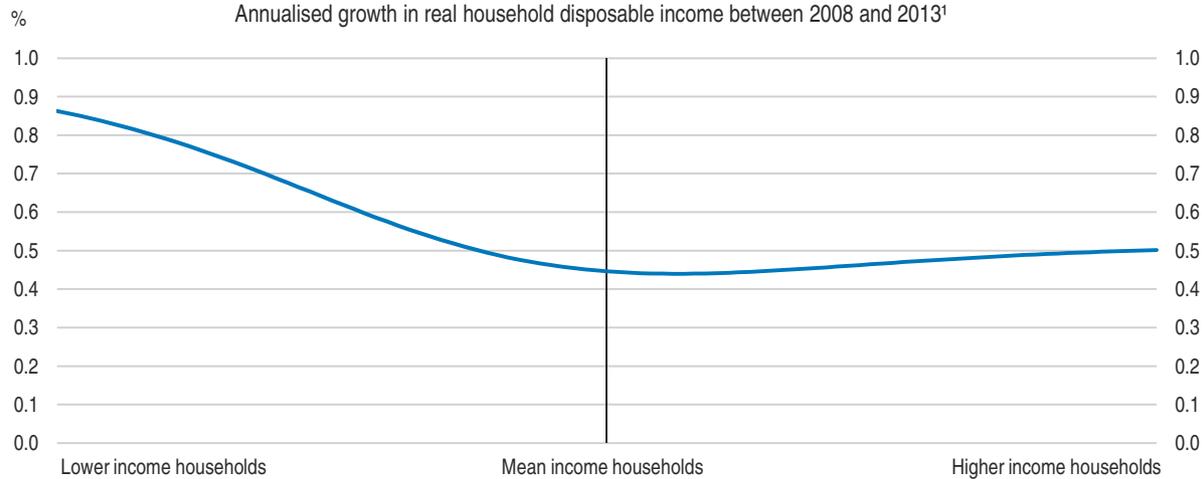
Actions taken: In Spring 2016, the Austrian Higher Education Conference published a list of recommendations to promote non-traditional tracks in higher education. These serve as preliminary work for the development of a national strategy on the social dimension in higher education, to be released by the end of 2016 by the Austrian Federal Ministry of Science, Research and Economy, aiming at making higher education more inclusive and increasing graduation rates.

Recommendations: Allow universities to re-introduce general tuition fees in order to finance quality improvements in the provision of tertiary education. Accompany such fees by a comprehensive grant and income-contingent student loan system to avoid socio-economic segregation.

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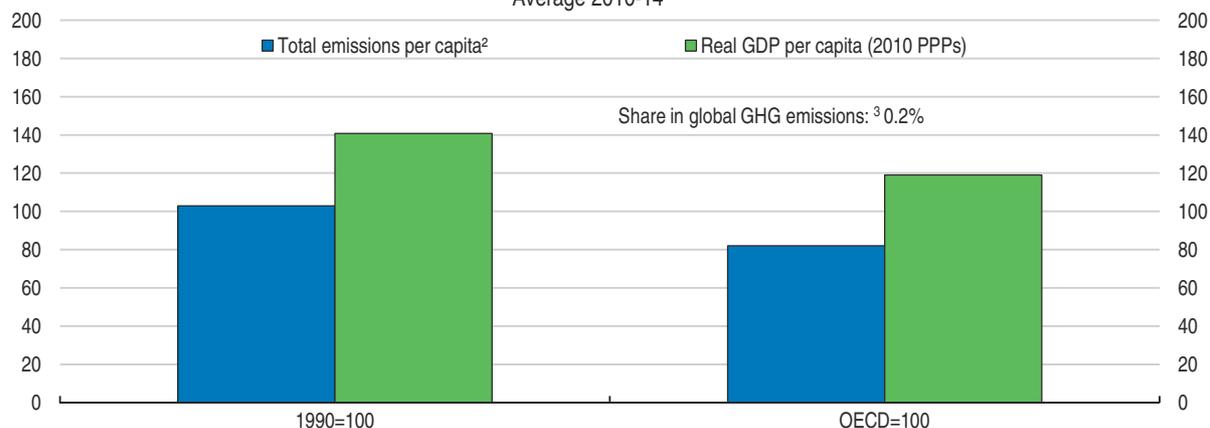
Beyond GDP per capita: Other policy objectives

A. Income increased for all households, especially those in the lower part of the distribution

Annualised growth in real household disposable income between 2008 and 2013¹

B. Emissions per capita are at the 1990 level and below OECD average

Average 2010-14



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

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