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GDP per capita is high, but the gap vis-à-vis the best performing countries is widening because of a deteriorating relative productivity performance. Labour market performance outside of core groups is weak.

Policy priorities

Reduce barriers to entry in network industries

Challenge and recommendations: To promote competition in network industries and to lower network access prices, it was recommended that ownership restrictions on the production and distribution of electricity be relaxed, and the telecommunications and electricity sectors be gradually privatised.

Actions taken: No action taken.

Reduce implicit taxes on continued work at older ages

Challenge and recommendations: In order to reduce the financial disincentives to pursue work at older ages, it was recommended that: i) old age pensions be made more actuarially neutral around the statutory retirement age of 65; ii) the “heavy workers” entry scheme into early retirement be revised; iii) pension schemes throughout the public sector be harmonised with the existing private sector pension scheme; iv) higher unemployment benefits for older jobless workers be eliminated; and v) subsidies for part-time employment at older ages be phased out.

Actions taken: Negotiations are to be undertaken with the states and municipalities to harmonise the pension system across the public sector with the private sector pension scheme; the option of early retirement for “heavy workers” is to be re-evaluated; and a study group is to draw up and submit proposals for reform of the disability pension law in the first half of 2008. At the same time, the government reversed some measures of the 2003-04 pension reforms, thus making early retirement more generous. Subsidies for part-time employment at older ages are currently being evaluated.

Improve graduation rates from tertiary education

Challenge and recommendations: The share of the labour force with tertiary education is low, and the quality of some vocational and tertiary education programmes remains sub-standard. To remedy this, it was recommended that performance-based funding in tertiary education be extended and strengthened and university student fees be raised, combined with the introduction of a loan scheme with income-contingent repayments.

Actions taken: No action taken; indeed, the government intends to grant exemptions from existing tuition fees to those students undertaking voluntary social work, such as tutoring younger students.

Lower marginal income tax rates and further broaden the tax base

Challenge and recommendations: To strengthen work and entrepreneurship incentives, it was recommended that marginal income tax rates be lowered and the numerous existing tax allowances be reduced so as to broaden the tax base.

Actions taken: The government intends to undertake a major tax reform in 2010, although it is to be conditional on achieving fiscal consolidation by that year.

Reduce regulatory restrictions to competition in the services sectors

Challenge and recommendations: To enhance competition and foster productivity growth, it was recommended that restrictive regulations of trades and professions be reduced, compulsory chamber membership for the liberal professions be abolished, and shop opening hours be further liberalised.

Actions taken: The new government’s programme states that it intends to remove barriers to competition in the liberal professions and to review the corresponding regulatory framework. From January 2008 legal shop opening hours were extended, with maximum opening hours raised to 72 hours per week.