



OECD Economic Surveys

AUSTRIA

JULY 2015

OVERVIEW



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Executive summary

- *Main findings*
- *Key recommendations*

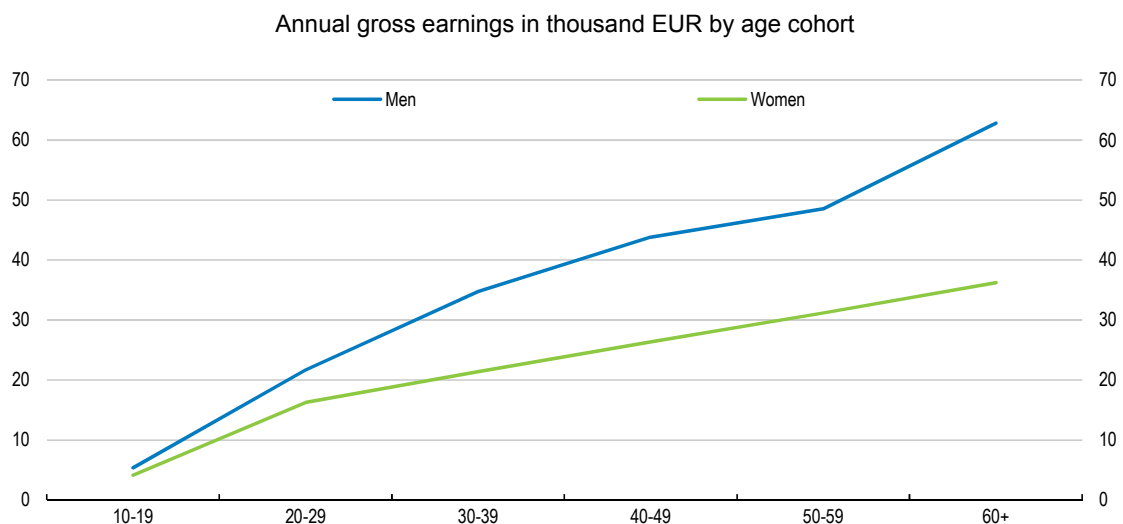
Main findings

Austria possesses a dense fabric of successful large and medium sized export-oriented manufacturing firms which have provided employment, built social cohesion and supported GDP growth. Based on strong material foundations, well-being is widely shared and family networks and social policies are contributing to a high level of social cohesion. However, following remarkable resilience in the global crisis and a swift upturn thereafter, the Austrian economy has stagnated for the last three years and there has been some weakening in the traditional strength areas of well-being. Domestic demand has stalled, external demand has been weak and banks are exposed to volatile market developments in some central and eastern European economies. The large ongoing tax reform will boost household incomes and support consumption growth from 2016.

Limitations to competition in services are holding back productivity, distorting prices and raising costs for exporters, undermining their market share and limiting their ability to take further advantage of global value chains. Regulation and lack of start-up capital inhibit entry of innovative new firms, undermining economic dynamism. The education system shows weaknesses in integrating the most vulnerable socio-economic groups. Inefficiencies arising from a fragmented historically grown intergovernmental framework hamper reform efforts and undermine public finances. The labour tax wedge, though reduced by the tax reform, remains high, in particular for low-income earners.

Austria has in many respects led the way in gender equality, but its traditional model of separate gender roles of work, family and life arrangements is coming under strain. Study area choices made by young women are oriented towards professional tracks with lower earning potentials than those of men. Women with care obligations cannot participate fully in the labour force, and men do not participate enough in family life. As a result, Austria has one of the highest gender pay gaps in the OECD. This pattern is supported by a web of institutions, including the tax, care and educational systems. Reform of these institutions is central to providing women and men with equal lifetime opportunities and making full use of their talents. Progress in this direction would deliver significant growth gains in the medium-to-long term, helping support social institutions in the ageing society.

The gender pay gap



Source: Statistik Austria, administrative tax data 2013.

Key recommendations

Strengthening fundamentals

- Continue to curb expectations of implicit public guarantees to the banking sector by fully applying the EU Bank Recovery and Resolution Directive that requires the bailing-in of investors and creditors. Maintain close monitoring and supervision of banks.
- Encourage municipal mergers to exploit economies of scale. Align spending and financing responsibilities at different administrative levels by increasing the tax autonomy of sub-central governments.
- Further reduce the labour tax wedge for low income earners by partly or fully waiving social security contributions, financed by a broadening of the tax base and increases in consumption, environmental and recurrent property taxes.
- Increase effective retirement ages of both men and women and step up preparations for the convergence of the statutory retirement ages of male and female workers.
- Reduce barriers to competition in services by easing entry regulations, removing restrictions on capital shares and voting rights of foreign investors and strengthening the investigation power of competition authorities.
- Make schools and educational tracks more inclusive. Strengthen the early socialisation as well as language and cognitive development of children from disadvantaged backgrounds to improve their intergenerational education mobility.

Shifting to a more gender equal society

- Spur investment in high quality childcare facilities. Enhance the availability of full-day schools and care centres. Consider introducing legal entitlements for these services.
- Reduce the implicit taxation of transition from marginal and part-time to full-time employment and replace the sole-earner tax deduction by targeted transfers to families in need.
- Transform childcare allowance and parental leave schemes into a unique childcare account that allows parents to allocate subsidised absence from work flexibly over time. Reserve a sizeable part of this account, at least 33%, for the exclusive use of fathers.
- Raise awareness by publicising more information on innovations in study area choices of schoolgirls and schoolboys, earlier return to full-time work of mothers, and fathers' participation in care and household duties.
- Develop a comprehensive data base on social transfers or a comprehensive panel survey to assess the impact of alternative family policy schemes on labour supply, child care use and net budget costs, and adjust policy packages in the light of this information.
- The private sector should offer more family-friendly workplaces and more enabling working time options to employees of both genders. Policymakers should continue to support auditing and information campaigns to disseminate good practices.

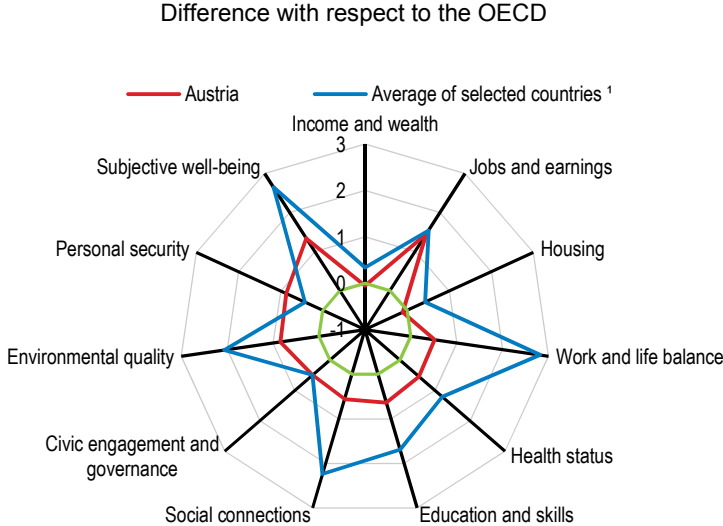
Assessment and recommendations

- *The macroeconomic outlook is expected to improve after a prolonged period of weakness*
- *Towards a more robust economy*
- *Towards a more resilient economy*
- *Towards a more inclusive economy*
- *Towards a more environmentally sustainable economy*
- *Opening-up gender roles to improve well-being and growth*

Austria outperforms the OECD average in most well-being dimensions, but its relative position has weakened recently in some areas. Life satisfaction which used to be among the highest in the OECD, bolstered by particularly favourable outcomes for jobs and earnings, remains well-above OECD averages (Figure 1). A dense fabric of successful large and medium sized firms help attain a high level of GDP per capita, providing strong material foundations for individual and societal well-being and helping finance a generous social protection system. The environment is generally well preserved. However, air quality and the transition to a low-carbon society is undermined by the protection of energy intensive industries, urban sprawl, subsidies for car transport and fuel tourism. Housing conditions are also less favourable for certain groups. Perceptions about social connections, which used to be among the most positive in the OECD, have weakened relative to best performers.

The major well-being tensions, however, arise from poor work-life balances for men and women related to firmly entrenched separated gender roles. These typically emerge once the first child is born, with the fathers facing long working hours and women performing most of the unpaid household work. Health also exhibits strong gender patterns with women living considerably longer than men, though with relatively low self-reported health. The education system displays important gender-specific features and gaps, which weakens its overall performance, including in terms of adult skills.

Figure 1. High material well-being and weaknesses in work-life balance



Note: Each well-being dimension is measured by one to four indicators from the OECD Better Life indicator set. Normalized indicators are averaged with equal weights. Indicators are normalized to range between 10 (best) and 0 according to the following formula: (indicator value - minimum value)/(maximum value - minimum value) multiplied by 10.

1. Selected countries are Denmark, Germany, the Netherlands, Sweden and Switzerland.

Source: OECD Better Life Index 2015.

Against this background, progress towards more gender equality would improve well-being through many different and important channels (Table 1). The potential for further improvement in education, labour market participation and earnings is particularly strong. A more gender-equal society would better mobilise the nation’s talents and foster human capital. Better work-life balances and an increase in men’s involvement in home care and home chores would facilitate child rearing decisions, in particular for well-educated women that, today, often have to choose between career and family.

Long-term growth projections by the OECD suggest that stronger participation of women in the labour market, related improvements in human capital and the increase in fertility, could lift the country's potential output by about 13% by 2060. For comparison, pension and health expenditures are projected to increase by under 3% of GDP over the same horizon as a result of population ageing (European Commission, 2015). Stronger growth would generate more job creation opportunities for socially vulnerable groups, more resources for social cohesion policies, and would help secure the long-term sustainability of the well-developed health and pension systems. Additional fiscal costs of developing the necessary childcare infrastructure and full-day schooling can be expected to be more than recovered in the medium-term.

Table 1. Well-being implications of more gender equality

Well-being dimensions	Outcomes	Channels
Education and skills	Increase in educational attainment	Open up educational tracks
	Improvement in intergenerational mobility	Open up educational tracks
	Better preservation and more diversification of skills	More post-formal education and on-the-job training for women
Jobs and earnings	Reduction of the gender pay gap	Reduction in structural asymmetries in the labour market
	More innovations	More gender diversity in managerial and entrepreneurial positions
	Creation of personal service sector jobs	Market supply of household services
	New work organisation challenges in enterprises.	Reduction in hours worked by men
Income and wealth	Increase in family income	Stronger and more ambitious involvement of women in the labour market
	More financial independence for women	Higher earnings for women and a more even distribution of wealth
Health	Impact on women's health uncertain	Additional risks of stress for women, but also relief from care duties and less mental retirement
	Improvement in men's health	Fewer working hours for men and more time spent with the family
Work-life balance	Better work-life balance for both genders	Convergence in time spent on paid and unpaid work between genders
	Reduced strains at work and at home	Family-friendly work organisation and more formal childcare
	Improved child well-being, notably in vulnerable families	Stronger presence of father and better socialisation through kindergarten access
Life satisfaction	Realisation of broader life choices	Broader options for economic participation, earnings and family organisation
	Realisation of initial child rearing desires	Better reconciliation of child raising and professional aspirations

The gender equality agenda interacts with other policy priorities, such as overcoming socio-economic segregation due to the early streaming of students in the education system, better decision-making and resource allocation in the public sector through rationalisation in federal structures, and higher participation of immigrant children in early childhood education. Progress in these areas are top policy priorities which will help with strides in gender equality. Furthermore, gender policy goals affect different public institutions and levels and require a high degree of effective coordination. Stronger awareness across these agencies and levels on the potential of gender equality will facilitate action. High-quality monitoring and research on outcomes would help with efficient implementation. In this context, preserving options for all, including for those who consciously choose traditional roles, would help achieve consensus. At the same time, policy settings and care infrastructure bottlenecks should not restrict life choices – as they presently do- and should help open-up the separate roles model.

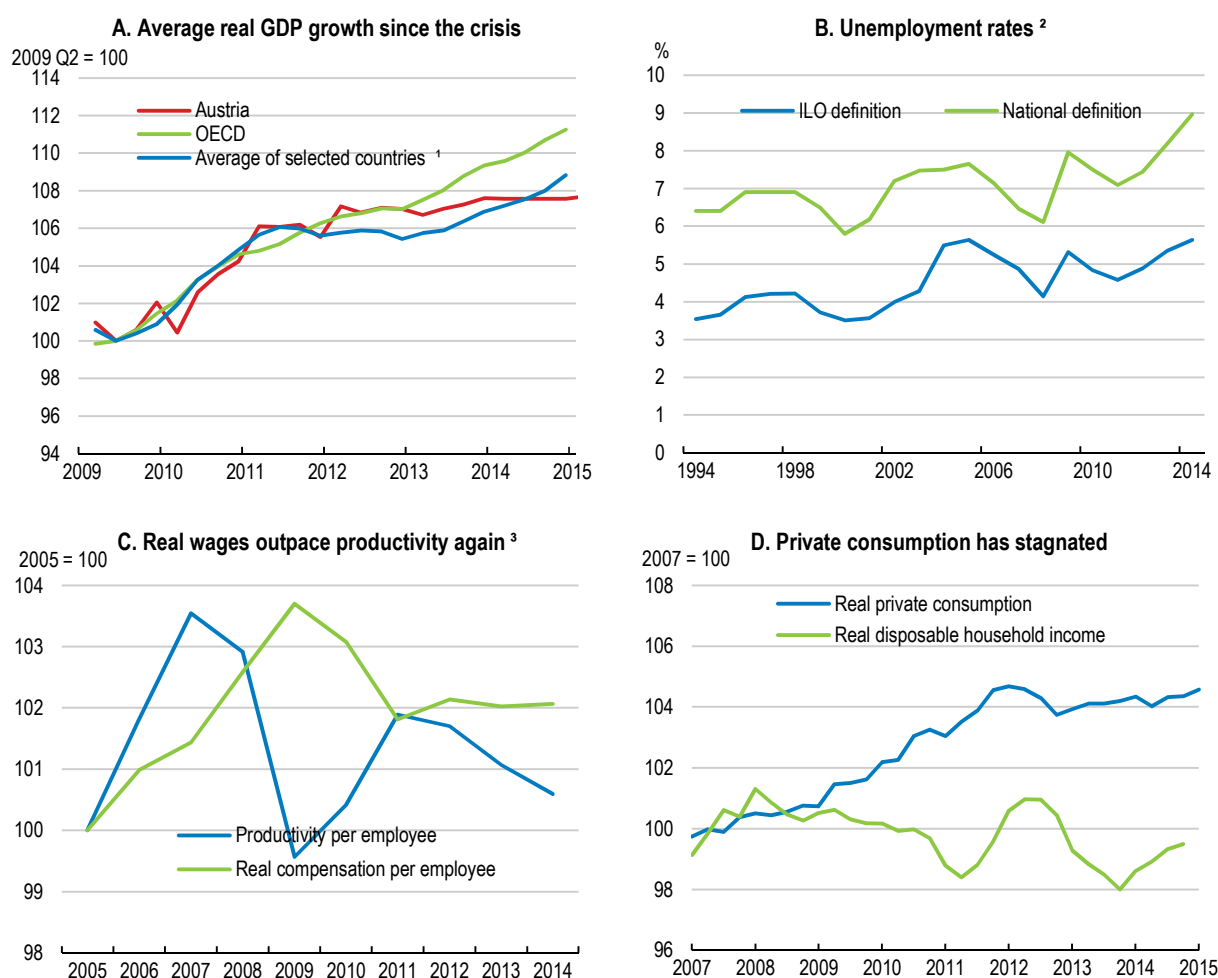
This survey reviews Austria's major structural challenges, including the transition to a more gender-equal society. In line with OECD's *New Approaches to Economic Challenges* (NAEC) initiative, it suggests measures to achieve stronger, sustainable and more inclusive growth. The 3 key messages are the following:

- Strengthen the fundamentals of the economy by completing the rehabilitation of the banking sector, fostering competition in services and reforming the intergovernmental fiscal framework.
- Further reduce the labour tax wedge. Increase effective retirement ages of both men and women and step up preparations for the convergence of the statutory retirement ages of male and female workers.
- Shift to a more gender-equal society by shifting to a tax-and-benefit system that encourages a more balanced distribution of work, providing more full-day schools and care centres, and sensitising the private sector for more family-friendly workplaces and working time models.

The macroeconomic outlook is expected to improve after a prolonged period of weakness

Economic activity has been very weak since the beginning of 2012 (Figure 2). Despite the increasing output gap and rising unemployment, inflation has been higher than in other euro area countries. Poor real disposable income growth has been partly offset by declining saving rates, helping to maintain consumption. Falling labour productivity, notably in services, has weakened international competitiveness and, despite real wages being still below pre-crisis levels, triggered substantial losses in export market shares and a decline in investment in the second half of 2014. Business and consumer confidence remained subdued despite the uptick of activity in the euro area in early 2015. In turn, bank lending growth has eased somewhat recently, but as lending standards have been stable in the past 12 months, this appears to reflect demand, rather than credit constraints.

Figure 2. Growth has stalled since 2012 and unemployment is rising



1. Denmark, Germany, the Netherlands, Sweden and Switzerland.
2. The ILO definition of unemployment is based on the labour force survey and comprises persons that are without work, currently available for work and seek work. The national definition of unemployment is based on registered unemployed persons.
3. Labour productivity and compensation per dependent employee in total economy. Real compensation is obtained as compensation divided by the private consumption deflator.

Source: OECD Economic Outlook database; Statistik Austria.

Short-term macroeconomic prospects

The tax reform will boost private consumption despite some projected increase in the saving rate. External conditions have improved owing to stronger growth prospects in the euro area and price competitiveness gains vis-à-vis partners outside the euro area following the depreciation of the euro. In particular, the strong appreciation of the Swiss franc improves prospects for the Austrian tourism sector. In addition, the low real interest rate environment and the plunge in oil prices should strengthen domestic demand.

GDP growth is projected to increase gradually over the projection period driven by a pick-up in export and investment with an additional boost provided by private consumption (Table 2). Risks to this projection are balanced. If cost pressures increase further, Austria's exporters may benefit less than projected from the weakness of the euro. Uncertainty about bank balance sheet impairments also remains (see below). If this channel explains more of the current sluggishness of investment and consumer confidence than assumed, growth may prove more subdued than projected. On the other hand and on the upside, the tax reform could boost private consumption more if saving rates pick up less than expected. Second-round effects on employment and investment may also be stronger than anticipated. Finally, export performance may be stronger than projected if lost market shares are regained more swiftly.

Table 2. Short-term Economic Outlook

	2011	2012	2013	2014	2015	2016
	Current prices € billion	Percentage changes, volume (2010 prices)				
GDP at market prices*	308.7	1.0	0.1	0.4	0.6	1.7
Private consumption	165.6	0.6	-0.2	0.2	0.8	1.8
Government consumption	61.2	0.3	0.4	1.0	1.0	-0.6
Gross fixed capital formation	69.6	0.6	-1.4	0.4	-1.9	2.5
Final domestic demand	296.3	0.5	-0.4	0.4	0.2	1.5
Stockbuilding ¹	4.5	-0.1	-0.7	-0.2	0.5	-0.1
Total domestic demand	300.7	0.4	-1.0	0.2	0.7	1.3
Exports of goods and services	165.7	1.4	1.3	1.8	3.3	5.9
Imports of goods and services	157.7	0.8	-0.2	2.5	4.2	5.4
Net exports ¹	7.9	0.4	0.8	-0.2	-0.3	0.5
<i>Memorandum items</i>						
GDP deflator	–	1.8	1.5	1.7	1.1	1.5
Harmonised index of consumer prices	–	2.6	2.1	1.5	0.6	1.6
Private consumption deflator	–	2.4	2.2	1.7	0.9	1.6
Unemployment rate ²	–	4.9	5.4	5.7	5.8	5.7
Household saving ratio, net ³	–	9.0	7.3	7.5	7.7	8.7
General government financial balance ⁴	–	-2.2	-1.3	-2.4	-2.3	-2.1
General government gross debt ⁴	–	96.7	95.1	96.3	97.6	97.8
General government debt, Maastricht definition ⁴	–	81.4	80.9	84.5	85.7	85.9
Current account balance ⁴	–	1.5	0.9	0.8	0.9	1.4

* Based on seasonal and working-day adjusted quarterly data; may differ from official non-working-day adjusted annual data.

1. Contributions to changes in real GDP, actual amount in the first column.

2. Based on Labour Force Survey data.

3. As a percentage of disposable income.

4. As a percentage of GDP at market value.

Source: OECD Economic Outlook 97 database.

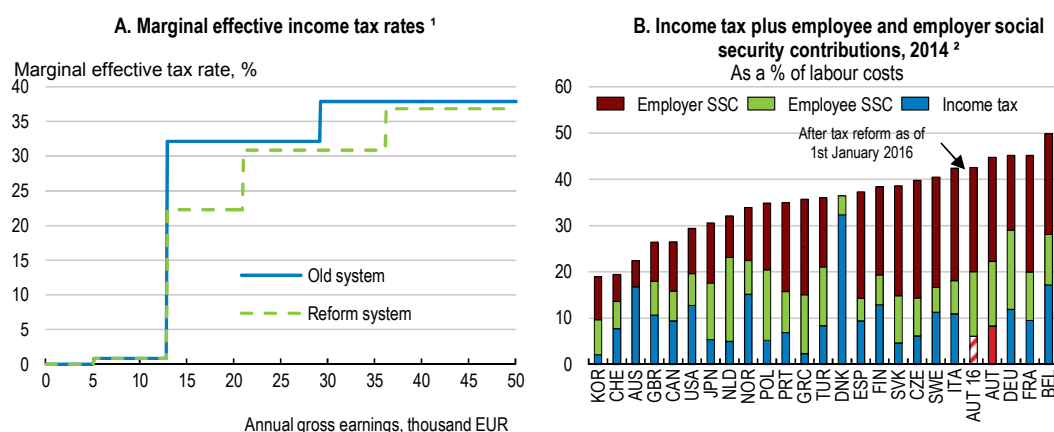
Towards a more robust economy

Reform the tax system to make it more growth-friendly

Austria exhibits one of the highest labour tax wedges in the OECD, in particular at lower incomes (Köppl and Schratzenstaller, 2015). Against this background, the Austrian government agreed upon a wide-ranging tax reform that will enter into force on 1 January 2016. The reform's main purpose is a sizeable reduction of income tax rates for low and medium income brackets (Figure 3, Panel A). The total tax relief amounts to EUR 5 billion and will boost disposable income by about 2.5% in 2016. While

this will certainly buttress consumption in the short term, the labour tax wedge remains one of the highest in the OECD mainly owing to the size of social security contributions (Figure 3, Panel B). Also, the threshold effect that occurs at around EUR 13 000 with the transition from the income tax free zone to the first income bracket remains sizeable (Figure 3, Panel A). Therefore, additional steps to shift taxes further away from labour towards sources less detrimental to growth, such as consumption, environmental or property taxes, would broaden the revenue base and support currently weak employment growth.

Figure 3. Tax reform was significant but the tax wedge at low-incomes remains high



1. Marginal effective tax rates are shown. Annual earnings typically are paid out as 12 regularly monthly instalments and 2 additional bonus and holiday payments. The conducted tax reform will modify the tax rates for the 12 monthly instalments but not the tax rates of bonus and holiday instalments. Effective tax rates are obtained by decomposing annual earnings into 14 equal payments, 12 of which are taxed according to the regular tax scheme and 2 of which are taxed according to the bonus and holiday income tax scheme.
2. Single individual without children at the 67% income level of the average worker. Includes payroll taxes where applicable.

Source: Calculations based on marginal rates on regular instalments as of April 2015 as communicated by the Austrian government; and OECD Taxing Wages database.

Box 1. The 2015/2016 tax reform

In March 2015, the government agreed upon a wide-ranging tax reform that is expected to be legislated by mid-2015 and will enter into force on 1 January 2016. Public consultation is still ongoing and the parliamentary process has not started yet. The most prominent of the measures planned is a reduction of lowest income bracket tax rate by 11.5 percentage points from 36.5% to 25%. Earners with income below the first income bracket, who do not pay income taxes, will be eligible for a reimbursement of half of their social security contributions, up to EUR 400 per year. Pensioners will benefit from a similar provision, but limited to EUR 110 annually. Child allowances are to rise from EUR 220 to EUR 440 annually. Finally, in order to finance certain research and education investment projects, a new top tax rate of 55% for income above EUR 1 million will be in force for five years. Tax deductions for employees investing in their companies' shares will increase from EUR 1 460 to EUR 3 000 per year.

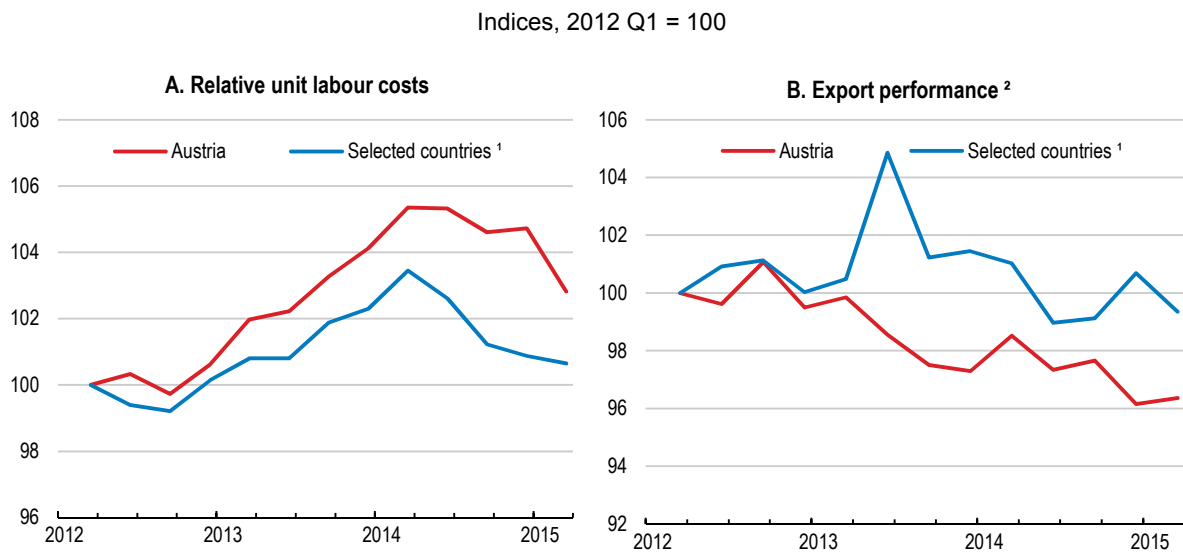
Tax increases are foreseen in the area of capital gains taxes (all capital gains taxes except on general savings accounts are increased from 25 to 27.5%), value added tax (for various products and services subject to a reduced rate, the tax rate will be raised in direction of the normal rate), tax on capital gains from property sales (a rate increase from 25 to 30% is foreseen) and by reducing the general depreciation rates for buildings. Furthermore, an environmentally motivated tax disincentive for company cars emitting more than 120g/km CO₂ (value decreasing over time) is planned.

The government estimates that this reform will have a fiscal cost of more than EUR 5 billion, but expects it to be fully financed. It is assumed that the stimulating effect of the package on economic activity will raise EUR 850 million in revenues; that measures to fight tax fraud will raise EUR 1.9 billion; and that various tax increases will raise EUR 1.15 billion. Cost reductions in the public administration are expected to produce savings of EUR 1.1 billion.

Boost competitiveness, particularly in the service sector

Competitiveness has come under pressure. Unit labour costs have been on the rise and export prices increased by 1% over 2013-14, even as comparable prices in Austria’s export markets declined by some 3%. Unit labour costs were mainly driven by productivity losses while real wages remained robust. Despite strong non-price competitiveness underpinned by a highly innovative and diversified manufacturing sector, Austria’s exporters have lost more than 5% of their market share since 2012 (Figure 4). Measured in nominal terms, Austria lost 3.3 percentage points of market share on its most important export market, Germany (OeNB, 2015). Preserving competitiveness and further consolidating positions in global value chains (GVCs) will be essential in maintaining the export sector as a growth engine of the Austrian economy over the medium term.

Figure 4. Export performance undermined by unit labour cost pressure



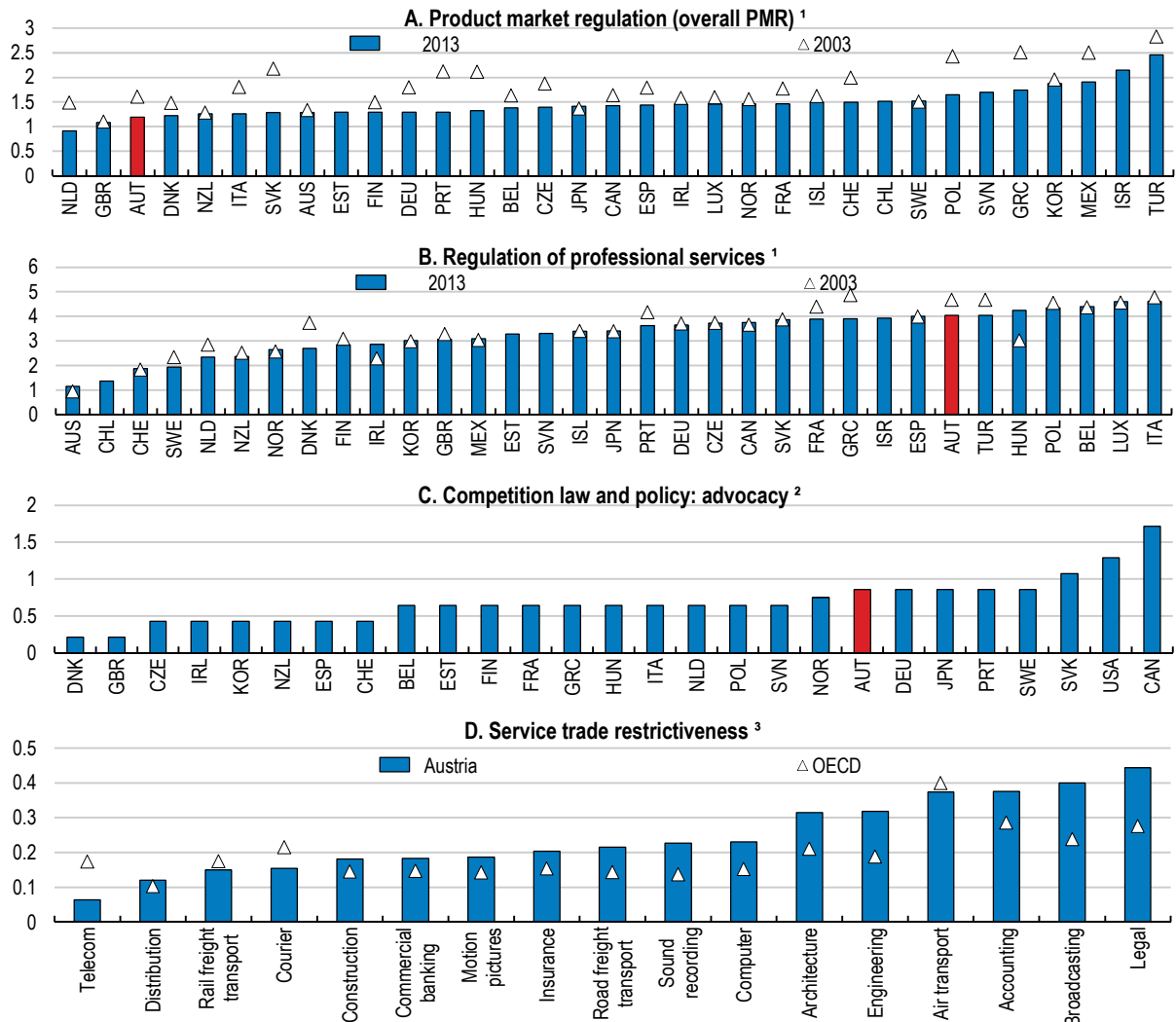
1. Selected countries are Denmark, Germany, the Netherlands, Sweden and Switzerland.

2. Export performance is measured as actual growth in exports relative to the growth of the country's export market.

Source: OECD Economic Outlook database.

Services play a key role for global value chains. They account for almost 30% of Austria’s gross exports and for almost 50% of the value-added in exports, underpinning the importance of strong domestic services that can provide cost-efficient intermediate inputs and facilitate the diffusion of new technologies (OECD, 2015b). While Austria has made impressive progress in deregulating product markets (Figure 5, Panel A), regulations for certain services, in particular entry regulations, are still among the most stringent in the OECD (Figure 5, Panel B). Limitations to competition in incumbent-dominated services (Figure 5, Panel C), such as retail trade, hamper labour productivity and could partly explain the downward rigidity of prices: nearly three quarters of the inflation differential with respect to the euro area and Germany can be ascribed to services. In certain sectors such as legal services, accounting and broadcasting, caps on capital shares and voting rights make entry for foreign competitors more difficult. A more dynamic service sector would open new opportunities for entrepreneurs, strengthen economic growth, and help with job creation and social cohesion. More proactive competition advocacy in services by the competition authority would provide additional stimulus (Figure 5, Panel D).

Figure 5. Service sector regulations should be eased



1. Index, scale 0-6 from least to most restrictive.
2. Index in 2013, scale 0-6 from the most to the least conducive to competition.
3. STRI indices take values from 0 to 1, where 0 is completely open and 1 completely closed.

Source: OECD, Product Market Regulation database, www.oecd.org/economy/pmr and Services Trade Restrictiveness Index Regulatory database, www.oecd.org/tad/services-trade/regulatory-database-services-trade-restrictiveness-index.htm.

Increase the financing capacity of the real economy

Investment rates of Austrian companies have declined recently albeit from high levels in international comparison. The share of intellectual property investment has risen markedly after the crisis and has partly offset declines in the share of business investments in buildings, structures and ICT equipment. Despite progress over the past 10 years, Austrian SMEs still have very low equity ratios compared to other European countries (OeNB, 2014). The recent development of bond markets for medium-sized firms heralds a welcome diversification toward market sources. Government initiatives towards the support of venture capital and crowdfunding have the potential to boost entrepreneurship and

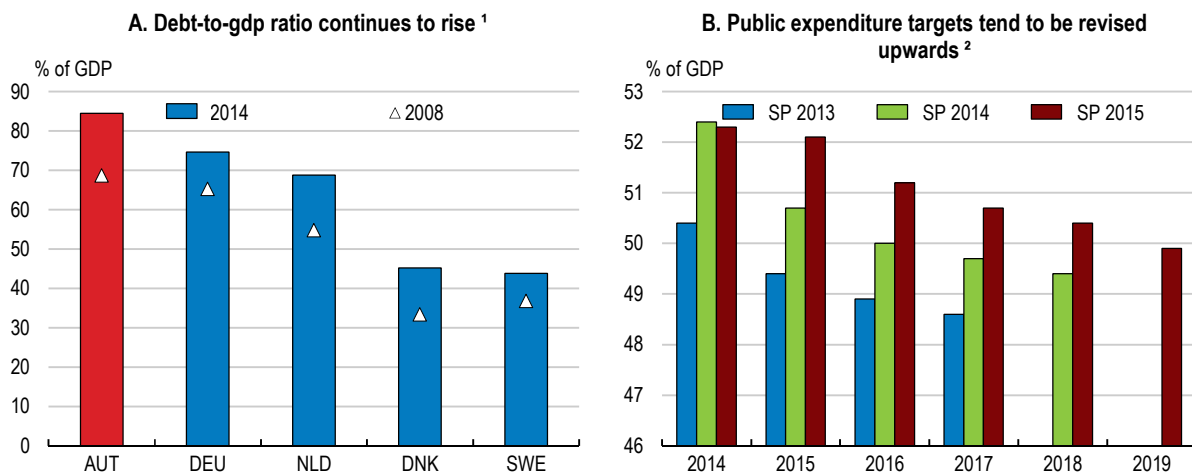
business investment. These initiatives should be carefully monitored and evaluated to provide insights for future policies.

Towards a more resilient economy

Controlling the rise in public debt through pension reforms and adjustments in fiscal federalism

Public debt is considerably higher than in other small open advanced European economies and Germany (Figure 6, Panel A). It has also risen more since 2008, mainly driven by participation capital and liquidity boosting funds provided to Austrian banks, three of which have been nationalised and are being wound down. Fiscal consolidation efforts and strong post-crisis growth brought down the general government deficit from 5.3% in 2009 to 1.5% of GDP in 2013, and Austria exited the excessive deficit procedure in spring 2014. However, in 2014, the general government deficit widened again to 2.4% of GDP owing to outlays for the restructuring of Hypo Group Alpe Adria (a mid-sized provincial mortgage institution which had expanded into the Balkans), weak economic environment, and failure to fully implement legislated spending cuts. Indeed, expenditure targets in successive Stability Programmes (SP) have been constantly revised upwards (Figure 6, Panel B). The 2015 SP projects total expenditures of 51.2% of GDP in 2016, against 50.0% in the 2014 SP and 48.9% projected in the 2013 SP. The revision mainly stems from overshooting in social transfers, the compensation of government employees and intermediate consumption.

Figure 6. Public debt continues to rise as expenditures turn out to be higher than expected



1. Gross public debt, Maastricht definition, in percentage of GDP.

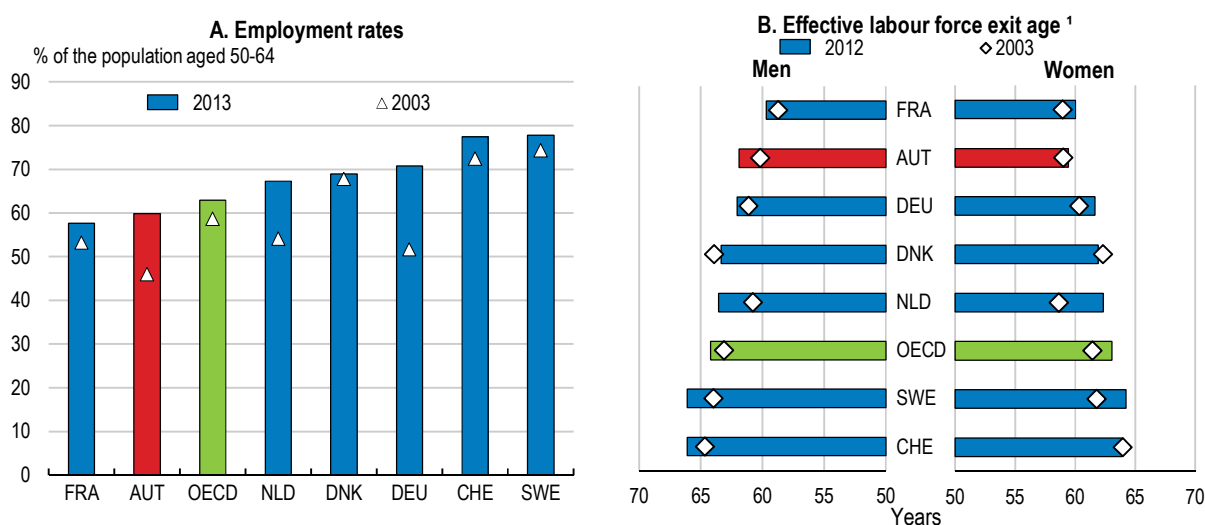
2. Total general government expenditures in percentage of GDP. SP refers to "Stability Programme".

Source: OECD Economic Outlook database and European Commission.

In particular, the effective retirement age is increasing only very slowly (Figure 7), calling for a swifter removal of early retirement schemes and substantive preparations for the planned increase in women's retirement age. Currently age related differences in employment protection for men and women hamper a voluntary prolongation of working lives for women by phasing out employment protection at statutory retirement age (OECD, 2005). Consideration should be given to align age related employment protection to ease the convergence of male and female retirement ages. One option to ensure longer-run cost control would be to link the parameters of the pension system more directly to life expectancy.

Long-term projections by the European Commission imply that total pension spending will increase from 13.9% of GDP in 2013 to 14.4% of GDP in 2060 (European Commission, 2015). The government defined a target path and timetable for increasing the rate of employment of older persons and their effective retirement age until 2018, and agreed on new measures to this end. According to the envisaged path, the rate of employment of men aged 55-59 is to be raised from 68.1% in 2012 to 74.6% in 2018, and that of men aged 60-64 from 21.6% in 2012 to 35.3% in 2018. The rate of employment of women aged 55-59 is to be raised from 47.9% to 62.9% and their actual retirement age from 58.4 to 60.1 years. Convergence to these targets will be reviewed by a semi-annual pension monitoring programme, and immediate, binding measures will be taken if significant deviations occur.

Figure 7. Senior workers' employment has improved but average age of withdrawal remains low



1. Effective exit age over the five-year periods 1998-2003 and 2007-12. The effective exit age (also called the effective age of retirement) is calculated as weighted average of the exit ages of each five-year age cohort, starting with the cohort aged 40-44 at the first date, using absolute changes in the labour force participation rate of each cohort as weights.

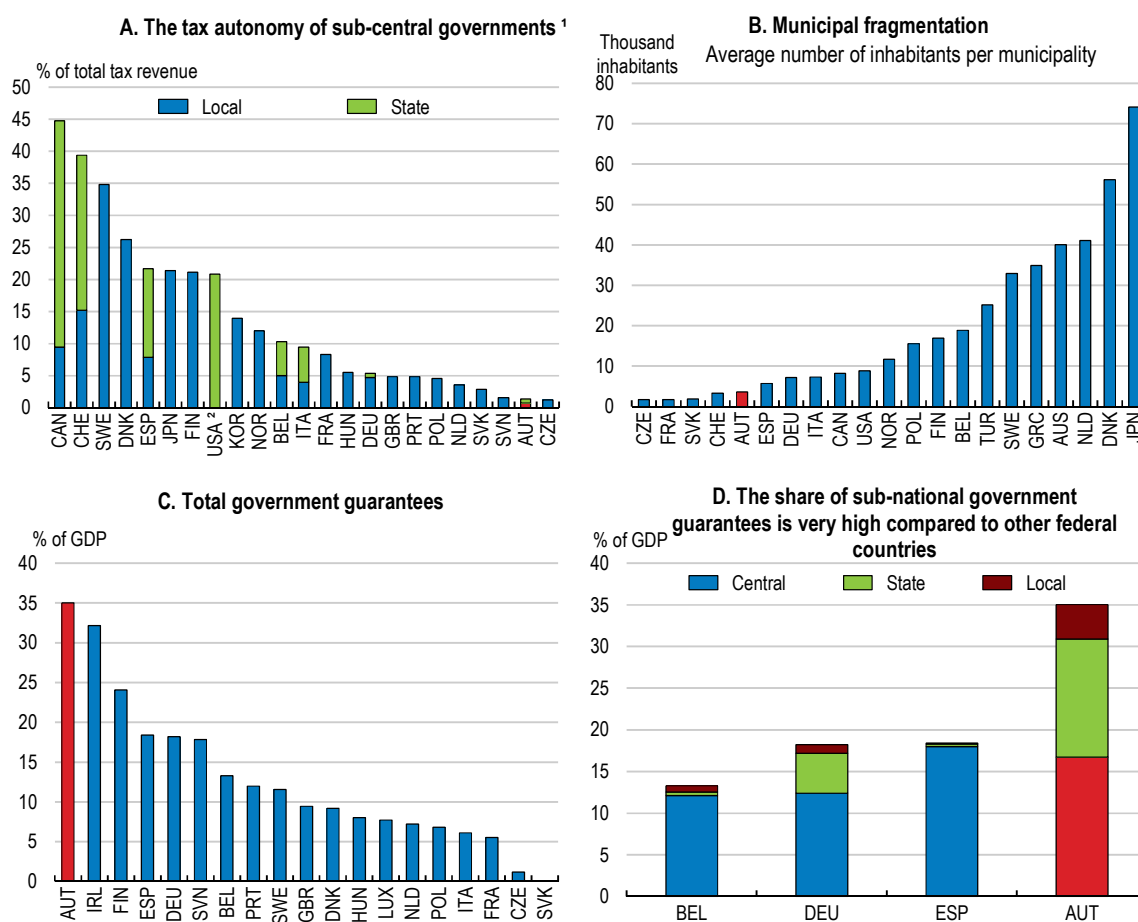
Source: OECD Labour Force Statistics database; and OECD estimations based on data from national labour force surveys and from OECD Education database.

Curbing public expenditures is hard given Austria's intergovernmental framework. The existing multi-layer organisation of the government makes decision making difficult in many areas, including key service sectors. This creates inequalities between residents living in different parts of the country and inflates costs. Reforms to streamline service responsibilities at different levels have long been on the cards but limited progress was achieved so far. In particular, the present framework suffers from a misalignment between spending and tax attributions (Austrian Fiscal Advisory Council, 2014). Intergovernmental grants and tax-sharing are the main revenue sources of sub-central governments while their share of own taxes is among the lowest in the OECD (Figure 8, Panel A). The resulting vertical imbalances soften the budget constraints of local and state governments and also explain the exceptionally high level of guarantees issued by subnational governments (Figure 8, Panels C and D), which may be seen as implicitly guaranteed by the federal government, further weakening budget constraints. These guarantees are provided to financial institutions, especially public ones and have fuelled excessive risk-taking at some *Länder*-controlled banks.

The large number of small municipalities (Figure 8, Panel B) reduces spending efficiency further by limiting the scope for economies of scale in the provision of public services. In this regard, the recent

reform in Styria, which halved the number of municipalities and raised their average population from 1 750 to 3 300 inhabitants, is encouraging. Overall, the average municipality in Austria has still only 3 600 inhabitants against 9 100 in the OECD. Austria could rely on international best practices, such as the successful municipal merger programme implemented in Denmark, and encourage mergers through financial and advisory assistance. In 2011, the government approved the Austrian Internal Stability Pact that includes expenditure ceilings and structural deficit limits at all government levels from 2017 onwards. If duly implemented, this reform has the potential to reduce overspending.

Figure 8. Weak tax autonomy of sub-central governments and fragmentation undermine fiscal discipline



1. Taxes where sub-central governments have power to set the tax base and/or tax rates, 2011.
2. Local governments in the United States have a wide variety of taxing powers but it is not possible to identify the share of each.

Source: OECD Fiscal Decentralisation Database; OECD (2013), Subnational governments in OECD countries: Key data (brochure), www.oecd.org/regional/regional-policy; and Eurostat.

Enhancing financial stability

Like a number of other small open economies, Austria has a large banking sector relative to the size of its economy. Intense competition and low profit margins in the domestic market have pushed major banks to expand abroad, in particular in Central, Eastern and South-Eastern Europe (CESEE), where

subsidiaries long delivered large profits, but also took high credit, exchange rate and geopolitical risks. The banking sector was hard hit as these risks materialised during and after the global crisis. Non-performing loans increased sharply and the government had to provide substantial financial support to three of the major banks. The ongoing rehabilitation of the financial sector weighs on public finances and limits the room for public policy initiatives to back growth and social cohesion.

The financial supervisors, the Austrian National Bank and the Financial Market Authority responded. From 1 July 2016, large banks will have to hold additional capital buffers according to their business model and risk exposure, and new lending of subsidiaries will be closely monitored to make sure that local lending activities are in line with local refinancing. Austria also transformed the EU Bank Recovery and Resolution Directive into national law on 1 January 2015 which, in particular, provides for bailing-in bank shareholders and bond holders. The Austrian authorities imposed a moratorium on all principal and interest payments by HETA Asset Resolution, a bad bank created as part of the winding-up process of the former Hypo Alpe Adria. This has reduced expectations of implicit federal government guarantees (Schich and Aydin, 2014) and should help to settle banks' funding costs at non-subsidised, market-based levels. According to OeNB (2014), reduced funding costs due to implicit federal government guarantees accounted for between 25% and 40% of Austrian banks' profits in 2006-13.

Exposure to some more volatile Central European and South-Eastern European (CESEE) countries has already been reduced and exposure to more stable ones has risen (Table 3). The Vienna Initiative 2, which brings together key international financial institutions, relevant EU institutions and the principal cross-border banking groups to ensure the orderly deleveraging process of CESEE banks, will also help to restore trust and to stabilise the sector in Austria.

Table 3. Claims of Austrian banks on CESEE countries

	Euros billion in 2014	% change since 2011	% share in 2014	% share in 2011
Czech Republic	45.4	-20	15.2	14.1
Romania	26.1	-18	8.8	8.0
Slovak Republic	25.5	3	8.5	6.4
Croatia	20.0	-34	6.7	6.9
Poland	16.6	28	5.6	3.1
Hungary	16.2	-71	5.4	7.2
CESEE-6	154.8	-14	50.2	45.7
Russia	12.1	-1	4.1	3.2
Ukraine	2.8	-61	0.9	1.8
Total foreign claims	298.2	-30	100.0	100.0

Note: CESEE-6 denote Czech Republic, Romania, Slovak Republic, Croatia, Poland and Hungary.

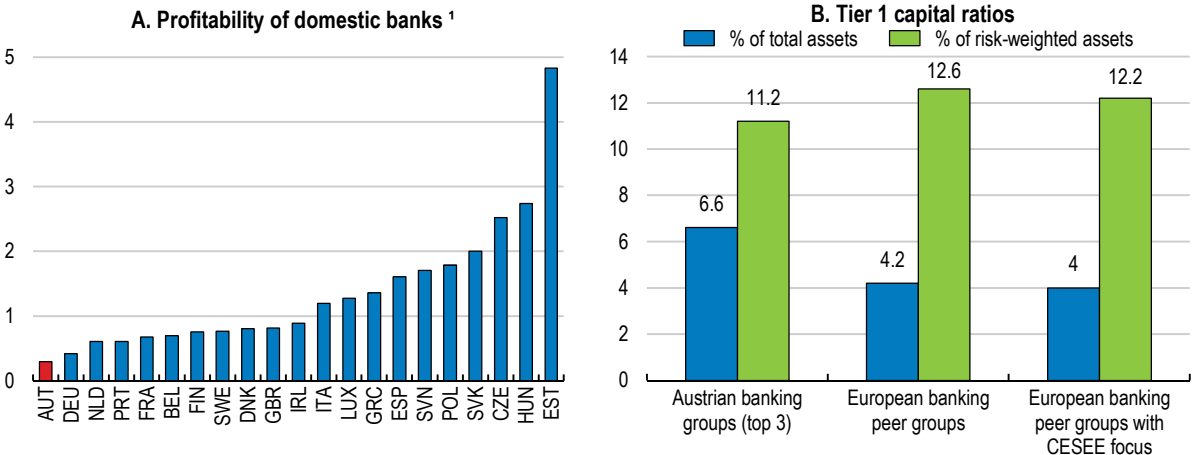
Source: BIS. Consolidated foreign claims of Austrian banks, immediate borrower basis, yearly averages of quarters.

The share of variable-rate loans is considerably larger in Austria than in other euro area countries and has increased further recently. This would make households more vulnerable to interest rate increases. In addition, a considerable, though declining, share of loans is still denominated in foreign currencies. Currency risk recently materialised with the sharp appreciation of the Swiss franc. Austrian bank supervisors should continue to curb foreign exchange rate lending to largely unhedged households and SMEs. In this regard, it is welcome that Austria is currently one of the few countries to fully comply with the seven European Systemic Risk Board recommendations on lending in foreign currencies.

All large Austrian banks (except for OeVAG, which is to be wound down) passed the ECB stress test in fall 2014. Nevertheless, Austrian banks have the lowest operating profit ratios in the European Union, due to high provisions and impairments (Figure 9, Panel A). Despite improvements in recent

years, their risk-weighted capitalisation still lags behind comparable European banks, due to more risky exposures, in particular in CESEE countries (Figure 9, Panel B). An intensification of geopolitical tensions would raise their risk still further. Cost pressures are also a problem. Cost-to-income ratios are considerably higher than in other countries. A defragmentation of the large net of units in the co-operative sector would yield economies of scale and reduce operating costs. As a first welcome step, the currently more than forty primary institutions of the Volksbank-sector are to be merged into eight regional and two specialised banks.

Figure 9. Low profitability and capital ratios



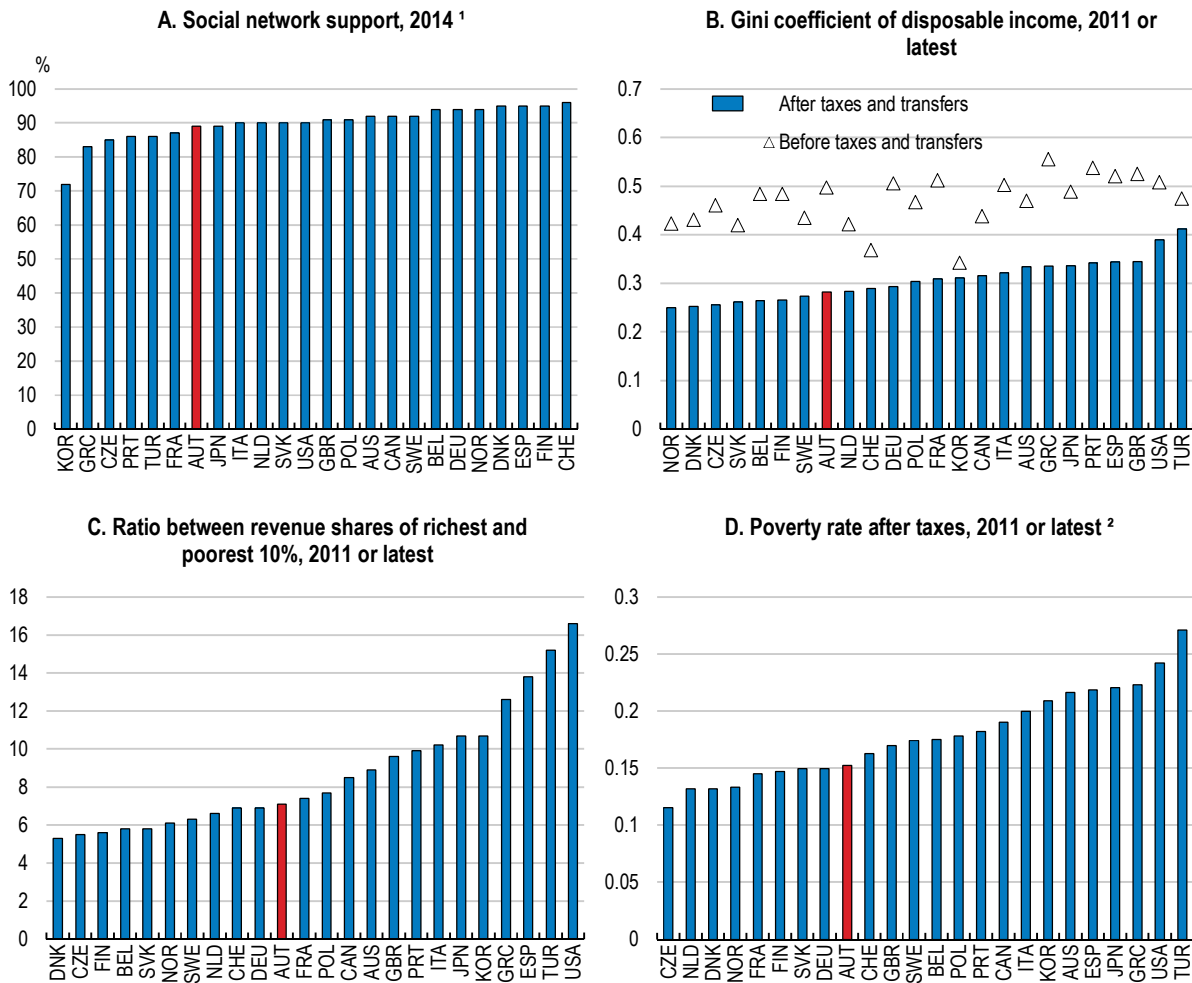
1. Operating profits as a percentage share of total assets.

Source: OENB. Reference period is between end-June 2013 and end-June 2014.

Towards a more inclusive economy

A pillar of Austria’s high living standards and well-being is the quality of its social networks. Strong family structures and a prominent role for community life provide extensive local social support (OECD, 2013a). Eighty-nine per cent of Austrians report that they could count on relatives or friends in case of trouble, putting Austria above OECD average in the “community” well-being dimension of the OECD Better Life index (Figure 10, Panel A). Another backbone of social cohesion is low income inequality and a strong perception of fairness. The Gini coefficient, a measure of inequality of disposable incomes, is among the lowest and redistribution is among the largest in OECD countries (Figure 10, Panel B). Revenue shares of the richest and poorest (Figure 10, Panel C) and relative poverty rates (Figure 10, Panel D) further illustrate Austria’s strong commitment to equity.

Figure 10. Social cohesion



1. Percentage of people reporting that they could count on relatives or friends in case of need. The reference year is 2014 for all countries with the exception of 2013 for Japan, Korea, Norway, Switzerland, and the United States.
2. The poverty rate is the ratio of the number of people who fall below the poverty line which is set at 60% of median household income.

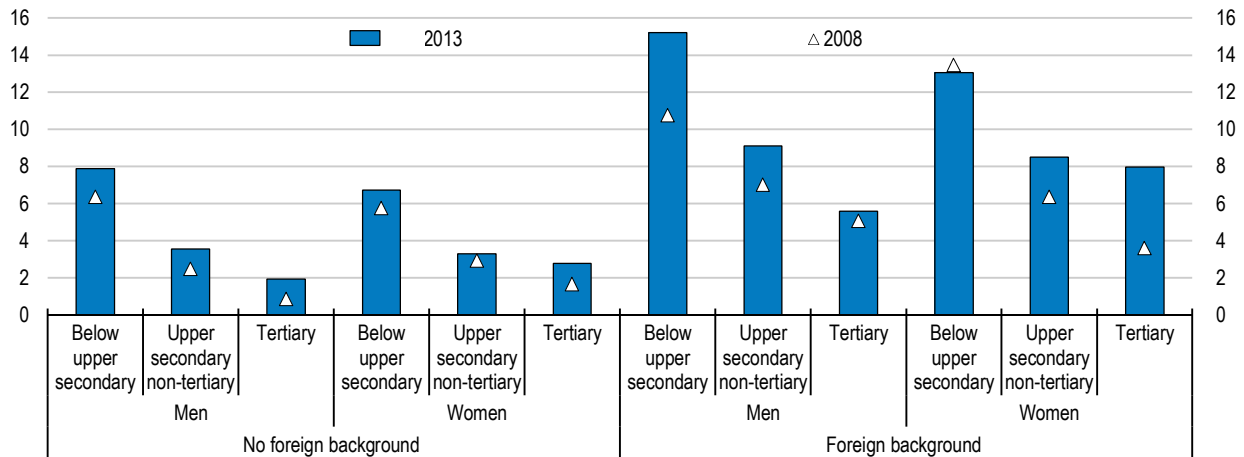
Source: OECD Better life index and OECD Income Distribution and Poverty database.

Promote labour integration of low-skilled workers

Recent labour market developments have tended to reduce social cohesion. Inactivity and unemployment have increased. Low-skilled workers have been affected more than higher-skilled ones, and men more than women. Both developments are more pronounced for immigrants, which underlines the importance of improving their social inclusion through upskilling and greater labour force participation (Figure 11). Further measures should promote the labour market integration of low-skilled groups. Additional tax cuts and social security reductions for low-income earners (on top of those introduced with the 2015 tax reform) would stimulate labour supply and demand. Additional in-work benefits may be considered as in other OECD countries. Concurrently, work availability requirements

combined with up-skilling schemes should continue to be actively implemented for the recipients of social transfers to back their attachment to the labour market.

Figure 11. Unemployment rates by level of education, sex and family background



Note: An individual with a foreign background has both parents born abroad.

Source: Statistik Austria, Microcensus.

Better integrate migrants

According to survey results, trust in people and the perception of solidarity and helpfulness have weakened somewhat, albeit from relatively high values (Bertelsmann, 2014). Austria’s overall ranking in social cohesion is still high, but the acceptance of diversity has weakened over the past 10 years. This notably seems to hint at tensions with respect to the integration of immigrants. The Austrian government has launched several initiatives to attract foreign workers amid low fertility and growing shortages of skilled labour. In 2011, the Red-White-Red (the Austrian national colours) and EU blue cards have been introduced, both with the view to facilitate immigration.

Austria has one of the largest population groups with immigrant origin among OECD countries. Education and labour market characteristics of some of these groups are clearly weaker than those of native Austrians. These exhibit lower levels of skills, lower employment rates and higher unemployment rates. Recent PISA results indicate that the Austrian school system tends to perpetuate differences of educational outcomes between socio-economic groups across generations. In particular, the socio-economic characteristics of students attending the same school are less diverse than in most other OECD countries. This hinders the educational mobility of immigrant groups with weak human capital.

To better integrate immigrants and head off socio-economic tensions, policies to increase the inflow of skilled workers (OECD, 2014) should be flanked by targeted measures improving the educational and labour market outcomes of previous waves of immigrants. Opening up all educational tracks to disadvantaged groups and making schools more inclusive would foster social inclusion. Opening social partnership platforms to immigrants to enhance their awareness and ability to support their children’s health, education and other needs may also help (OECD, 2013a). A critical step in this regard would be to increase the participation of immigrant children in early childhood education before the compulsory pre-school age of five. Enrolment is currently very low for certain groups, and increasing it would help

with the early socialisation and language development of children, as well as the labour market participation of their mothers.

Towards a more environmentally sustainable economy

The quality of natural assets contributes importantly to Austria's well-being and attractiveness. Most environmental indicators are good. Water quality is very high and Austria's system for identifying hazardous chemicals to be included in the REACH (Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals) system is a model for other countries (OECD, 2013c). There are nevertheless areas of concern. Increased commuting and heavy freight traffic, mainly transit traffic, contribute to a relatively high concentration of particulate matter in the air in some areas. They also result in high greenhouse gas (GHG) emissions (Figure 12). While Austria is currently on track to meet its renewable energy target of 34% by 2020 (renewable energy already supplied more than 30% of final energy consumption in 2012 and slightly less than 30% of primary energy supply in 2013) it is projected to miss its GHG emission target by as much as 7%, mainly because of the transport sector. Nevertheless, Austria remains committed to honor its European Union climate change mitigation obligations.

Remove adverse incentives

Low fuel taxes (Figure 12, Panel C) encourage fuel use and, in particular, fuel tourism. Fuel exports - measured as the difference between domestic fuel sales and domestic fuel consumption - accounted for 30% of total GHG emissions in 2012. The CO₂ emissions from fuel tourism need to be offset by the purchase of carbon credits. As credits have been cheaper than the corresponding fuel taxes, Austria in effect gains by arbitraging the inconsistent carbon pricing at European level. The authorities should consider whether these gains are worth the local deterioration in air quality due to additional particulate matter.

The government could also remove other adverse incentives in the transport sector, notably tax breaks for company cars and commuting costs. Tax incentives for company cars will be reduced from 2016 onwards. Motivated partly by the idea of compensating workers for costs outside their control, these subsidies in effect encourage private car use, long-distance commuting and urban sprawl, to which housing subsidies also contribute (OECD, 2013c). This compounds the initial problem, increases fuel consumption and GHG emissions, as well as emissions of local air pollutants, and generates greater noise, congestion and risk of accidents.

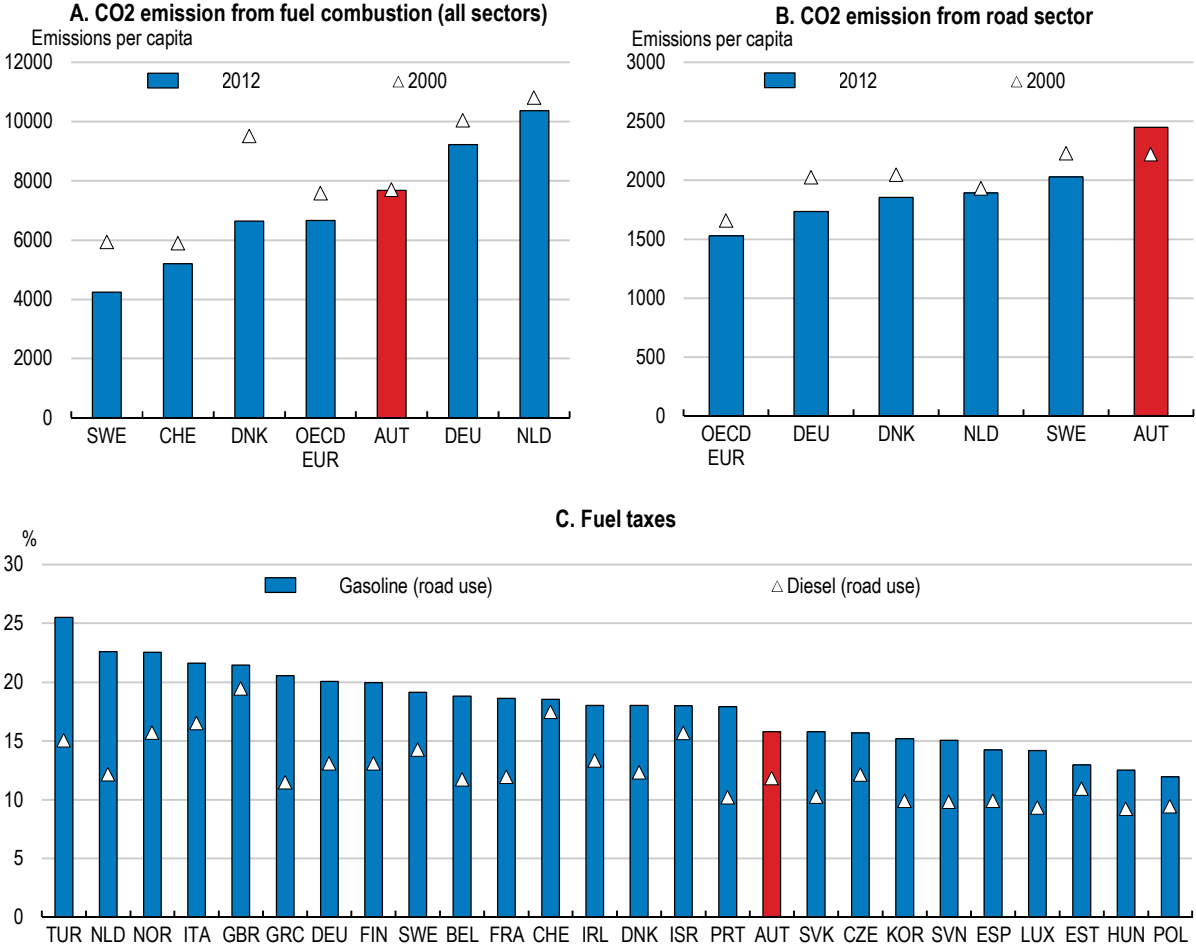
Support the adoption of low carbon technologies

Austria has already made good progress in phasing out some fossil-fuel related subsidies and many tax reliefs have been allowed to expire. The most relevant remaining one is a tax refund for energy-intensive industries. Next to transport, heavy industries, in particular steel and cement production are still major and growing sources of GHG emissions. To protect these industries and maintain their viability, the government should refocus its intervention from low taxation to support for the adoption of low carbon technologies. Until GHG emissions in these industries face a reasonable price, however, take-up of low carbon technologies, which will be necessary to meet Austria's longer-term commitments, will remain low. The government has plans to give the energy sector a stronger role within its strategy on research, technology and innovation.

Austria has been the third-largest buyer of carbon credits under the Kyoto Protocol (after Japan and Spain), buying up to 71.4 million tons of CO₂-equivalent (Mt CO₂-eq.), roughly all its GHG emissions in 2011. The cost since 2007 has been more than EUR 442 million (IEA, 2014). Austria should build on the impressive capacity and experience it has created with the Austrian JI/CDM Programme (which buys

emission reductions generated by Joint Implementation (JI) and Clean Development Mechanism (CDM) projects to meet its Kyoto target in accordance with the National Climate Strategy). However, domestic measures should be prioritized within the national strategy plan to reach the 2020 targets.

Figure 12. Road transport weighs on CO₂ emissions



Source: OECD Energy database; OECD (2013), Taxing Energy Use: A Graphical Analysis, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264183933-en>.

Recommendations for a more robust, resilient, inclusive and sustainable economy

Key recommendations

- Continue to curb expectations of implicit public guarantees to the banking sector by fully applying the EU Bank Recovery and Resolution Directive that requires the bailing-in of investors and creditors. Maintain close monitoring and supervision of banks.
- Encourage municipal mergers to exploit economies of scale. Align spending and financing responsibilities at different administrative levels by increasing the tax autonomy of sub-central governments.
- Further reduce the labour tax wedge for low income earners by partly or fully waiving social security contributions, financed by a broadening of the tax base and increases in consumption, environmental and recurrent property taxes.
- Increase effective retirement ages of both men and women and step up preparations for the convergence of the statutory retirement ages of male and female workers.
- Reduce barriers to competition in services by easing entry regulations, removing restrictions on capital shares and voting rights of foreign investors and strengthening the investigation power of competition authorities.
- Make schools and educational tracks more inclusive. Strengthen the early socialisation as well as language and cognitive development of children from disadvantaged backgrounds to improve their intergenerational education mobility.

Other recommendation

- Increase the low fuel taxes which encourage fuel use and fuel tourism. Phase out tax breaks for CO₂-emitting company cars.

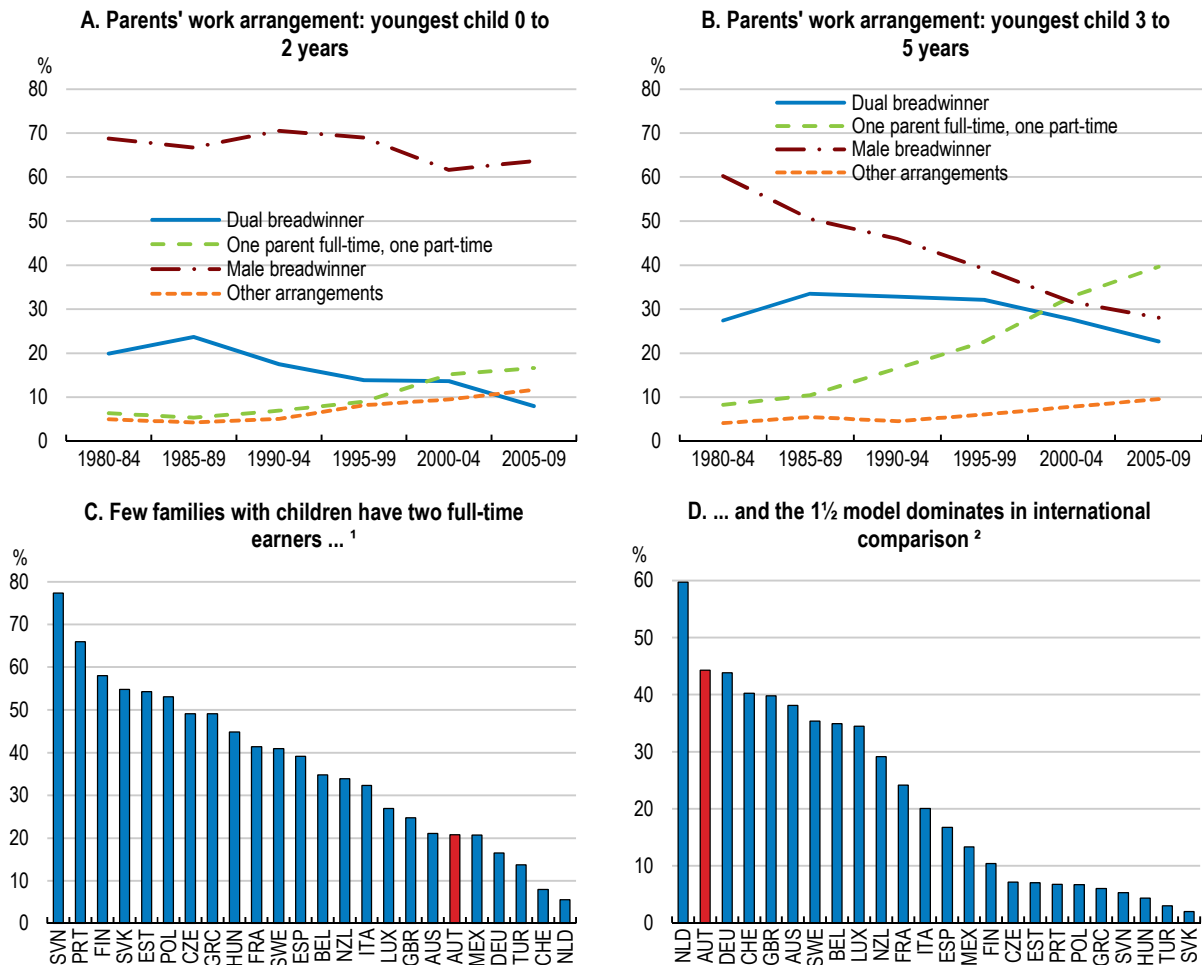
Opening-up gender roles to improve well-being and growth

The 2013 *OECD Economic Survey of Austria* (OECD, 2013a) investigated the key dimensions of well-being in Austria and identified gender equality as an area of tension. Services provided inside families play indeed a more important role in Austria than in comparable countries, and family patterns involve separate and asymmetric gender roles (Berghammer, 2014; Buber-Ennser *et al.*, 2014). This model has been supported, rather effectively, by public policies and infrastructure (Schratzenstaller, 2015). Achieving gender equality requires providing more opportunities to leave the separate gender role model in order to broaden work-life balance options for all, which would improve well-being and bolster economic growth.

In Austria, men and women's labour force participation diverge when the first child is born. Upon graduation from school, the majority of young women and men, living in a couple or not, tend to work full-time and perform household tasks. However, the birth of a child triggers a divergence of roles which widens as the child grows up, further children are born and responsibilities for caring for elderly parents rise. In 2014, 90% of childless young men and 91% of childless young women were in the labour force, whereas following the birth of a child 95% of young fathers but only 76% of young mothers were. The separation of roles, which differs from comparable countries, tends to follow a two-stage pattern (Figure 13):

- After the birth of a child, the mother generally withdraws entirely from the labour force for about two years. In close to 70% of families with children less than 2 years old, there is only one working parent.
- Once the child reaches the age of 2, many mothers take a part-time job. A combination of one full-time and one part-time working parent then dominates (the "1½ model"). Only 20% of families with children below five have two full-time working parents.

Figure 13. The birth of children drives the parting of gender roles



1. Proportion of couple families with children aged 0-14 with both parents working full-time, in 2011 except for Mexico, Sweden and Switzerland referring to 2010.
2. Proportion of couple families with children aged 0-14 with one parent working full-time and the other part-time, in 2011 except for Mexico, Sweden and Switzerland referring to 2010.

Source: Berghammer, C. (2014), "The Return of the Male Breadwinner Model? Educational Effects on Parents' Work Arrangements in Austria, 1980-2009", *Work, Employment and Society*, Vol. 28, No. 4; OECD (2014), Family database, www.oecd.org/social/family/database.htm.

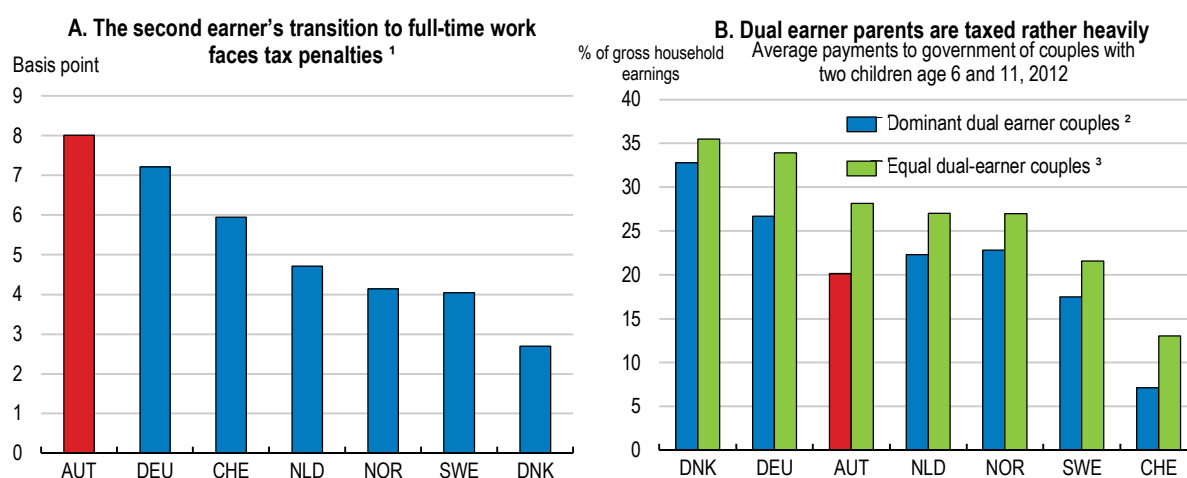
This model is backed by parts of the public policy framework, in three main respects (Statistik Austria, 2010; Lutz and Schratzenstaller, 2010):

- **The tax and benefit system.** Taxation is personal, not family based, and therefore does not penalise the second earner. Also, child allowances are universal, and thus do not penalise work. These two features contribute to non-discriminatory family taxation. However, the income tax has a "sole earner deduction" for families with children, unless the annual taxable income of the second earner exceeds EUR 6 000. Further, workers enjoy a social security contribution exemption if their income is below a cap corresponding roughly to 7 hours of work per week at average hourly wages. The loss of this benefit penalises extra work. The marginal tax rate for

the lowest income bracket is high, even after the recent tax reform, and second earners become liable for it if they work more than part-time (at average hourly wages, Figure 14). Bonus payments for overtime work, mainly provided by the main breadwinner, are partly tax exempt and provide an additional premium to the separation of roles.

- **The care infrastructure.** Childcare is highly subsidised and thus supports working parents. However, places are limited for children aged 0-2 in the vast majority of Länder (Figure 15). From age 3, almost all children are enrolled in day care facilities, but most day care facilities are half-day and out-of-day care facilities hours are long. Thus, a carer is still needed at home. Care for the elderly is also well subsidised, but the vast majority of dependents are cared for in their, or their families', home under the responsibility of families. Institutional care often involves using the elderly person's wealth, including real estate property, to cover the cost.
- **Workplace organisation.** In principle, parental leave allows working parents of either gender to stay with newly born children for up to two years, and to work part-time for up to seven years, both of these are long by OECD standards. But leave is used almost solely by mothers. Moreover, enterprises are prepared to extend part-time contracts to their female employees, and as a result most mothers work part-time for up to 15 years. In contrast, parental leave reserved for the exclusive use of fathers is short. Paternity leave, paid or not, does generally not exist in the private sector. In the public sector, only 12% of the fathers make use of the one-month unpaid leave that was introduced in 2011.

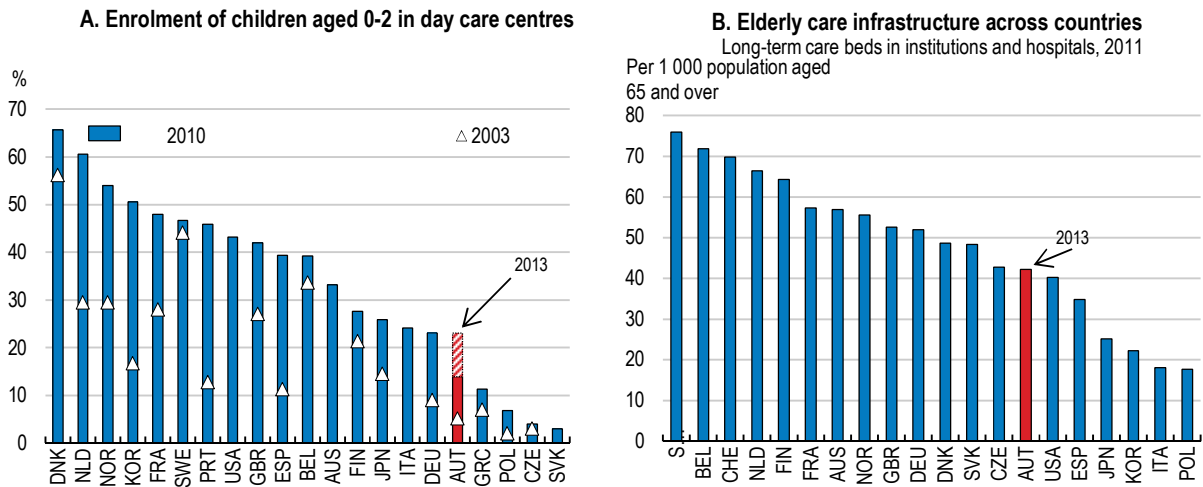
Figure 14. The tax and subsidy system penalises dual earners more than in other countries



1. Difference in average payments to government in per cent of gross household earnings for a couple with two children aged 6 and 11, when the second earner transits from 33% to 100% of average earnings with the first earner earning 100% of average income.
2. Couples with income equal to 100% and 33% of average worker earnings.
3. Couples with both income equal to 100% of average worker earnings.

Source: OECD (2014), Family database, www.oecd.org/social/family/database.htm.

Figure 15. Care infrastructure is weak

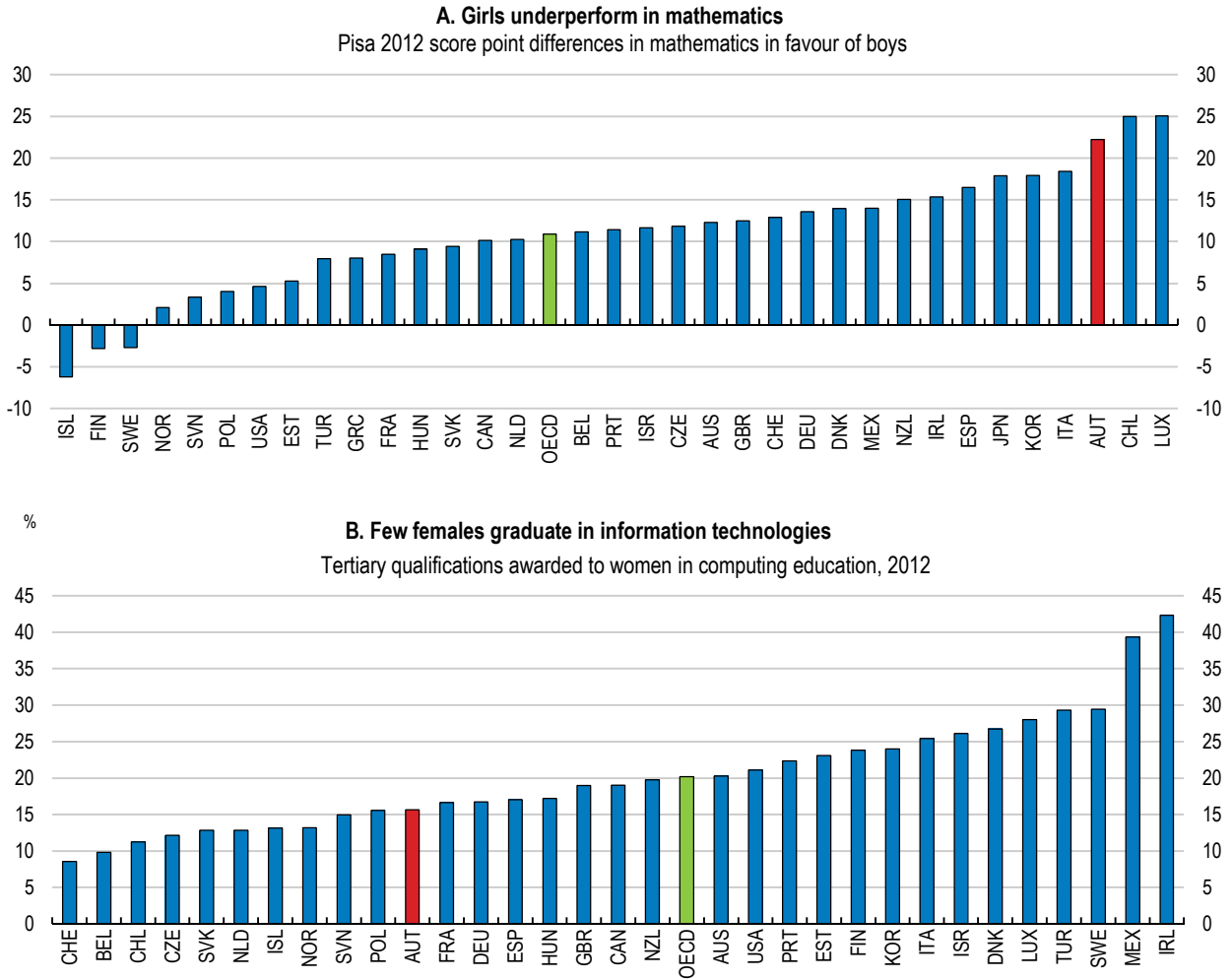


Source: OECD (2014), Family database, www.oecd.org/social/family/database.htm; OECD (2013), Health at a Glance 2013: *OECD Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/health_glance-2013-en; and Statistik Austria.

The divergence of gender roles affects several dimensions of well-being

Although women already surpassed men in years of educational attainment, they are underrepresented in the most financially rewarding professions (Lassnigg *et al.*, 2014). Interests for areas of study diverge by gender early in life, and persist through formal education and lifelong learning. Men tend to make choices and take professional tracks with higher earning potentials than women. In contrast, 50% of girls taking apprenticeship education specialise in one of three branches among 250 (office management, retail trade and hairdressing), and those proceeding to tertiary education typically graduate in non-technical fields (Figure 16). Early streaming of students in the education system consolidates this divergence.

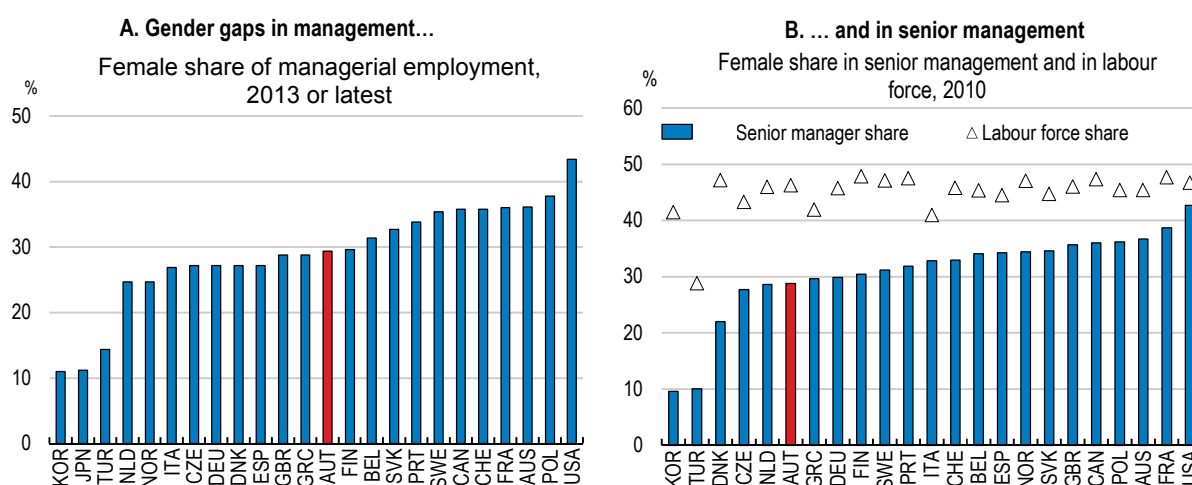
Figure 16. Education and skill gaps



Source: OECD, PISA 2012 database; OECD (2014), Education at a Glance 2014: OECD Indicators, OECD Publishing, Paris, Table A3.3 online only, <http://dx.doi.org/10.1787/888933115388>.

Career paths and occupational responsibilities differ between men and women. The share of women at managerial level and top senior positions is particularly low in international comparison (Figure 17).

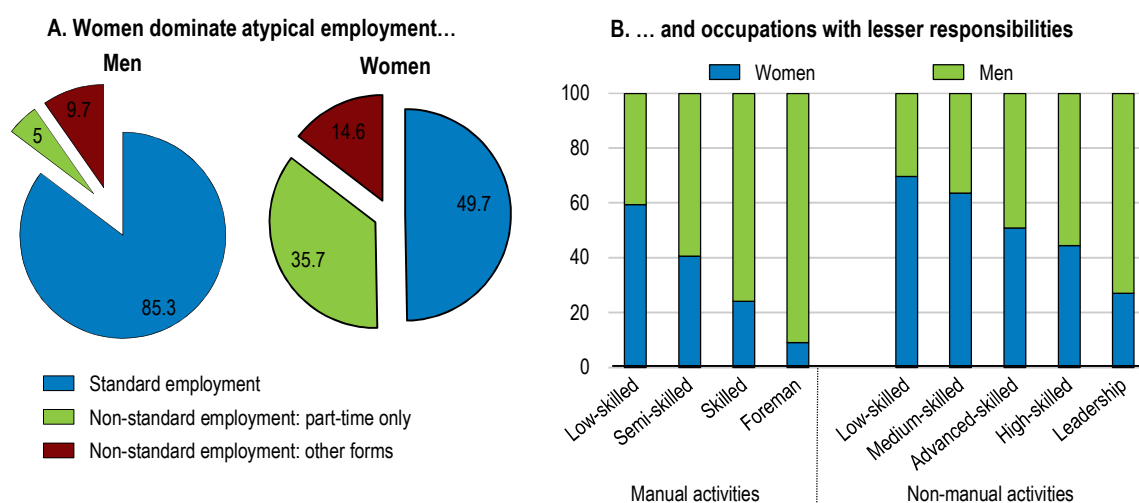
Figure 17. Gender gaps in management



Source: OECD (2014), Family database, www.oecd.org/social/family/database.htm; OECD (2012), Closing the Gender Gap: Act Now, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264179370-en>.

In contrast, women are particularly numerous in atypical jobs such as part-time, fixed-term and temporary agency work, which help them fulfil family tasks (Figure 18). Gaps are deeper for women with children. When engaged in entrepreneurial activities, women generally run smaller ventures (in one-third of the cases on a part-time basis). These differences in employment patterns affect their pension entitlements, pushing many women in sole households into relative poverty at old age (Geisberger, 2014; Böheim *et al.*, 2013; Mader *et al.*, 2014).

Figure 18. Gender gaps in employment quality

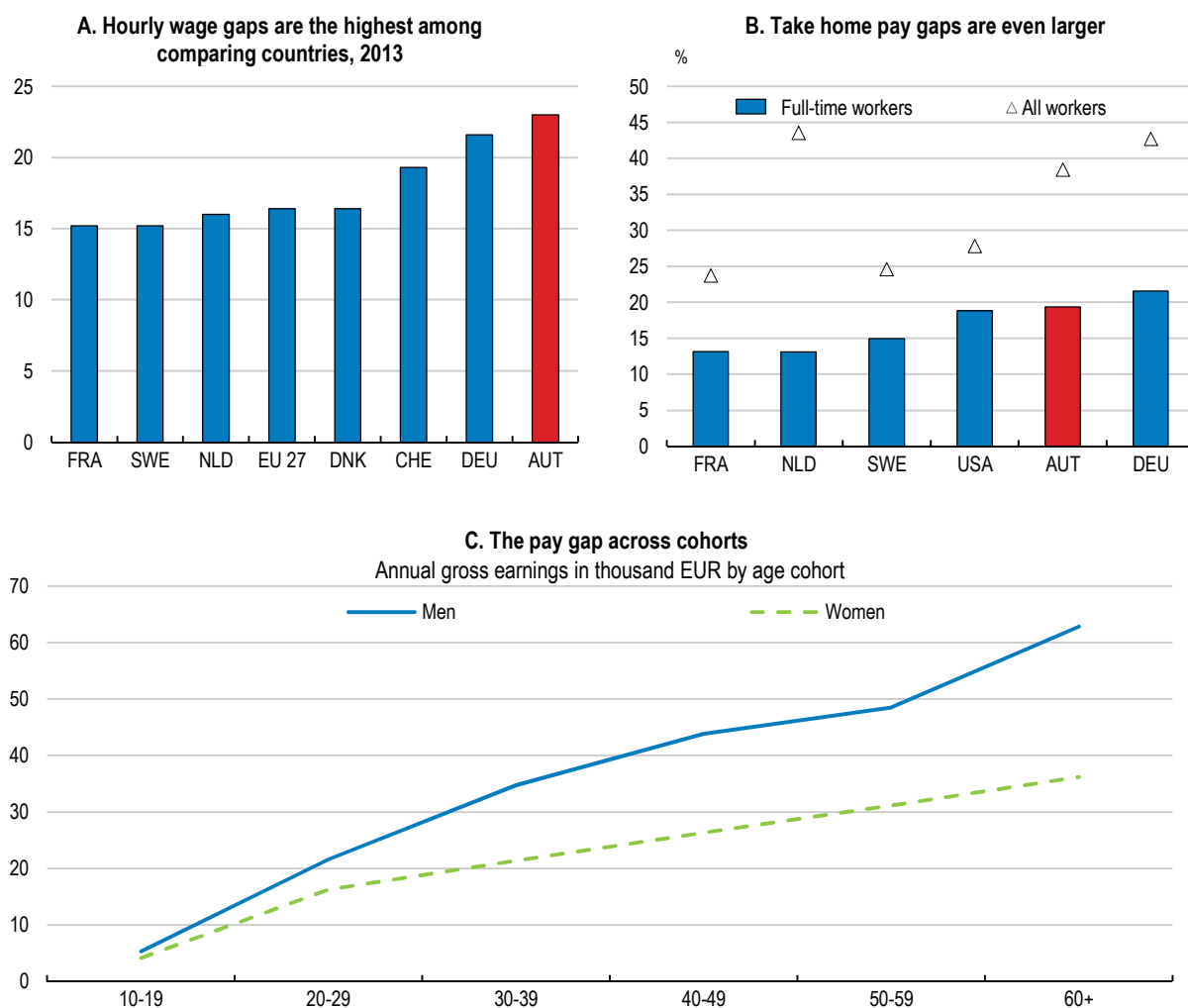


Source: Statistik Austria, Labour Force Surveys 2013 and Microcensus on labour 2008.

As a consequence of differences in professional specialisation, lesser responsibilities and less standard full-time employment, gender gaps in hourly wages and take home pay are much larger than in

other countries (Figure 19). Analysis in Geisberger (2014) suggests that more than half of the hourly wage gap in Austria is left unexplained after controlling for age, education, sector, region, occupation, full/part-time work, seniority and the size of the enterprise. This earnings gap results in substantial poverty risks for women, in particular the risk of old-age poverty and poverty in the case of divorce.

Figure 19. Gender pay gaps



Source: Eurostat; OECD (2012), *Closing the Gender Gap: Act Now*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264179370-en>; and Statistik Austria, administrative tax data 2013..

Austrian men work very long hours, including overtime. Part-time working women also work more hours than part-time working women in other countries, in order to support family budgets which are strained by the 1½ model. As a result, Austrian women deliver a higher total of paid and unpaid work than in other countries.

According to an econometric estimation of the drivers of subjective well-being, earned incomes play a bigger role for men’s life satisfaction in Austria than women’s, and the gap is larger than in other OECD countries (Chapter 1). Also, the majority of women without children, including highly educated

women, declare drawing more satisfaction from voluntary part-time work than in comparable countries. Contrary to comparable countries, the presence of children reduces Austrian women's reported subjective well-being, perhaps reflecting the tensions inherent in the 1½ model.

The prevailing model faces tensions

Today, the 1½ model faces three major tensions: *i*) men's long working hours crowd out their family life, including with respect to their relations with children, an outcome deplored by a large share of the population; *ii*) a sizeable proportion of women working part-time would prefer to work longer hours, notably to increase family incomes and pursue more ambitious careers, but do not have the necessary support infrastructure; *iii*) households willing to move towards the dual breadwinner model face many practical complications in combining work and family lives.

The population living outside the 1½ model finds more restricted support for work and life arrangements than elsewhere. Notably, Austria has a larger share of sole parents with dependent children than in many other OECD countries. These sole parents, mostly women but also men, face particularly difficult conditions in reconciling child raising and work. They, as well as full-time working parents, do not benefit from the same quality of support from public infrastructures as the "1½" families.

Consequently, many households stay childless, as women seem to feel they need to choose between the career and children. According to the latest demographic forecasts, 20% of women in current adult cohorts will remain childless through life, against less than 10% who opt for this as an initial preference (Buber-Ennsner *et al.*, 2014). This is a serious gap between life aspirations and outcomes and therefore a major loss of well-being. It also deprives society from dynamic demographics, stronger growth and lower old-age dependency ratios.

Policy initiatives to reduce gender inequalities

Many initiatives have been taken in Austria to reduce gender inequalities. In the early 2000s, Austria was considered a leading country in the EU in this area (Heinrich Böll Stiftung, 2014). An Act on the Equal Treatment of Women and Men was adopted in 1979, and subsequent amendments broadened its scope. This Law was instrumental in reducing explicit wage discrimination. Gender mainstreaming was adopted as a key government goal from 2000 to "improve policy processes so that a gender equality perspective is incorporated at all levels and stages of policy-making" (Federal Chancellery, 2015). This particularly helped gender career paths converge in the public sector. A major further step was the *National Action Plan: Gender Equality in the Labour Market* in 2010, which included more than 50 detailed measures in various fields. Performance benchmarks were established for each measure, the measures were to be implemented in four years, and *ex post* formal evaluation was to be carried out.

More recently, "gender budgeting" has put gender policies at the centre of fiscal policy. As part of an ambitious fiscal framework reform and transition to performance-based budgeting, every line ministry is required to set at least one gender equality performance target. An annual government report evaluates if the objectives in the previous budget have been achieved. The report is transmitted to parliament in time for the debate on the next budget. Gender performance goals include "achieving a better distribution of paid and unpaid work between women and men on the basis of an adequate tax system" (Ministry of Finance), "stronger re-involvement of women in the labour force after career breaks" (Ministry of Labour), "strengthening women's competencies in business" (Ministry of Economy) and "improvement of equality of opportunities in education" (Ministry of Education and Women Affairs). The rules of regulatory impact assessment have also been extended to gender goals. Since 2013, before the adoption of any new law, regulation, government directive and other large public project, the expected impact on "effective equality of women and men" must be documented.

In 2013, the coalition government established after the 2013 legislative elections adopted a programme which included a large set of gender equality objectives (Federal Government, 2013). It emphasises two overall goals: “increasing the employment of women and improving their income opportunities” and “ensuring that work involved in looking after the family is held in high regard, that there is a real choice between work and family”. Related targets occupy a large place in the government programme. The build-up of successive layers of gender equality initiatives has strengthened this agenda, but calls for a clearer co-ordination of policies around priorities, as suggested in the OECD Council Recommendation on Gender Equality in Education, Employment and Entrepreneurship (OECD, 2013b)

Higher and more evenly shared awareness among different parts and levels of government about the significance and benefits of gender equality would facilitate the evaluation of the existing efforts with a view to their prioritisation. Recent delays in the production of the evaluation reports of the National Action Plan for Gender Equality in the Labour Market hint at shortcomings in this regard. The two-yearly report to Parliament on gender equality could become a surrogate, providing a regular review of the main gender gaps and a comprehensive evaluation of ongoing initiatives. Such a reference document would help foster and maintain awareness throughout the policymaking community and the society as a whole.

Setting priorities for faster progress

Make the tax and benefit system less gender role biased

The tax penalty associated with second earners’ transition from marginal to normal, and from part-time to full-time work should be cut, and the rate of taxation of dual earners be reduced. The recent tax reform addresses some of these traps (see above) and is a welcome step forward. Still, several features of the tax and subsidy system continue to penalise young mothers’ return to work. These include the highly symbolic “sole earner deduction” (see above). The poverty reduction goals of this scheme should be pursued by targeted transfers to families in need. A higher share of child subsidies should be allocated to parents who increase their labour force participation. All factors determining working parents’ net return from employment must be taken into account – which encompasses a complex range of elements for which internationally comparable up-to-date information is hard to obtain.

The current parental leave and child allowance schemes, which are governed by different rules and administrations, should be aligned to give more consistent and transparent options to working parents. The longest variant among the available childcare allowances options (30 months for the mother with an additional 6 months reserved for the father) should be phased out. Current plans to transform the parental leave entitlement into a more flexible time account are welcome. Childcare allowance and parental leave schemes could be transformed into a unique childcare account that allows parents to allocate subsidised absence from work flexibly over time. This would allow parents to return earlier to work without losing entitlements. A sizeable part of this account, at least 33%, should be reserved to the exclusive use of fathers to strengthen labour market attachment of both fathers and mothers without jeopardising care and family commitments.

To assess the impact of alternative family policy schemes on labour supply, child care use and net budget costs, and adjust policy packages accordingly, a comprehensive micro-data base or panel survey is necessary. It would enable policymakers to analyse the efficiency of various tax and subsidy instruments. Family policies could then be refined on the basis of actual experience. If such a full-fledged administrative database cannot be implemented, a comprehensive survey could be put in place as a substitute, along the model of the German Socio-Economic Panel. Germany launched a comprehensive

investigation of the efficiency of its family policies on the basis of this information; Austria could undertake a similar exercise.

A “one-stop shop” for all present and future parents, completing the existing Ministry of Family website on child allowances, could provide additional information on available workplace options, public incentives and time-off possibilities. This would include support at sub-federal (*Länder* and municipal) levels. It can possibly take the form of a physical network (located for example in employment agencies), or of a user-friendly website. Importantly, it should provide information on the long-term employment, earning and pension implications of the choices made by parents.

Reconcile work and family lives by extending infrastructure

The care infrastructure could better support working parents. Expanding the availability of day care centres for children aged 0-2, full-day kindergarten for children aged 3-5, and full-day school services for children aged 5-15 in all *Länder* would all make it possible for parents to have full-time jobs. More investment in early childhood education and care facilities would not only support labour supply and foster gender equality, it would also strengthen children’s cognitive development, in particular in vulnerable families. In addition, providing out-of-school care would make better use of existing school buildings.

The care infrastructure for dependent elderly should also be reinforced with a more complete range of services responding to the needs of persons with and without family support. It will be important to preserve a high degree of flexibility between family, home-based, ambulatory, institutional and temporary care services, as availability of choice in this area is highly appreciated in Austria and may be fiscally more efficient than massive recourse to institutional care.

The delivery channels of services could include public, non-profit and commercial providers. To ensure the expansion of high-quality services, national quality and capacity plans should be put in place. The pricing of services on an economic basis (reflecting costs), together with a targeted subsidisation of eligible beneficiaries (through for example means-tested vouchers successfully utilised in Swiss cities such as Lucerne and Bern) could facilitate the development of supply sources on a level playing ground.

The fragmentation of federal, *Länder* and municipal responsibilities in the funding and provision of services generates artificial borders in service delivery and access. The criterion of “main place of residence”, which currently governs the allocation of federal funds and the selection of beneficiaries, makes access to services more difficult. Funding and provision rules should be redesigned to reflect the increasing mobility of the population – care receivers and caregivers alike.

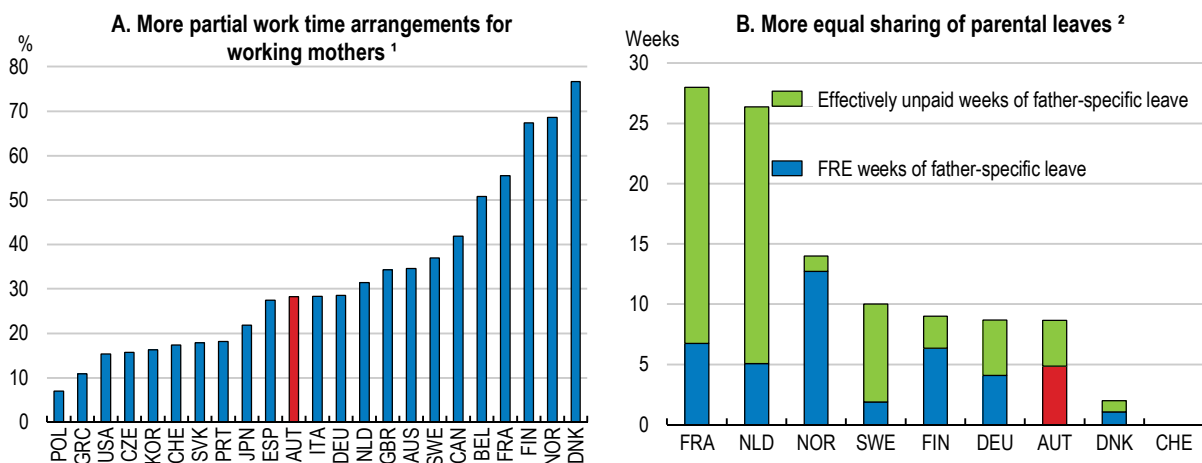
Encourage more flexible workplace practices

The private sector has also a major responsibility in promoting gender equality. Workplaces should be made more supportive of better balanced earner/carer arrangements. Priorities include broadening working-time options for fathers, keeping mothers of young children more attached to their careers, and providing more support to both men and women with care responsibilities:

- Fathers should be helped to better balance paid and unpaid work. Overtime work should be reduced to the extent possible and should not be tax-subsidised as at present. Work schedules should better fit family life patterns, for example by providing more flexi-time arrangements and longer leaves for special caring circumstances. Parental leave exclusively reserved for fathers (at an adequate level of wage compensation) should be increased.

- Parental leave and shortened working hours should be made less penalising for the professional status and careers of both mothers and fathers. Other countries' business practices and policy frameworks which yield better results, such as the flexible and intermittent leave practices which have been effective in Scandinavian countries, should be examined.
- More enabling time management options along the life cycle should be offered to employees of both genders. They help accommodate evolving family circumstances and preferences through the life cycle (Stock *et al.*, 2012). Related international innovations, such as the “time-banking” schemes introduced in Germany to help accumulate credit hours for longer leave periods, should be monitored as a repertory of good practices.
- A number of countries are striving to overcome the dichotomy between full and part-time work. In several instances, intermediary arrangements can help to reconcile work and family requirements. Austria has started, but still offers less flexibility along these lines than other OECD countries, and the share of partial working time arrangements in total employment remains lower (Figure 20). The range of available options should be expanded.
- Social partners can contribute to these efforts by helping to develop practices that facilitate the reconciliation of family obligations and work responsibilities while preserving the enterprises' productivity and competitiveness. Wage negotiations should aim at reducing the gender wage gap.

Figure 20. Making work organisation more supportive of dual earner families



1. Proportion of women working between part and full-time (30 to 39 hours per week).

2. Paid leave entitlements for fathers that cannot be transferred to mothers. Full-rate equivalent (FRE) is defined as the duration of leave in weeks multiplied by the payment rate (as per cent of average wage earnings).

Source: OECD (2014), Family database, www.oecd.org/social/family/database.htm.

Foster awareness to back reforms

Wider awareness in Austria on persisting gender gaps, their sources and their impact on various dimensions of well-being would help policymakers, families and enterprises gain support to change the tax-benefit system, fill the holes of the care infrastructure and promote gender-equality in the workplace.

The highest priority is to overcome the stereotypes regarding the desirable family organisation for child raising, notably by making clear that more active participation of fathers is essential for the well-being of children and mothers, and that women can return to work much earlier and fully than at present, without prejudice to the child, provided that high-quality care is available.

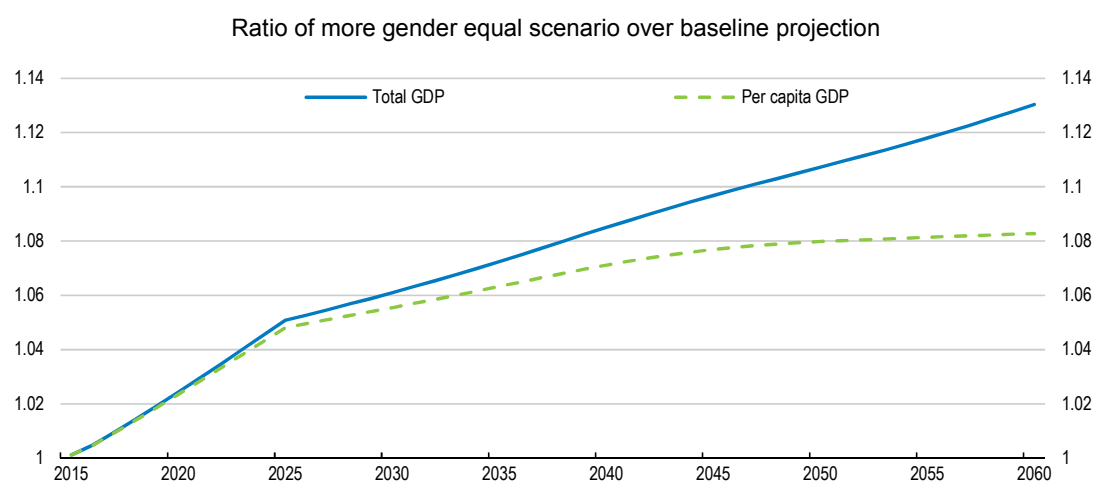
Long-term growth gains

Progress towards gender equality will raise GDP growth. A stylised simulation by the OECD Secretariat based on a long-term growth accounting framework illustrates that gender-equality affect long-term growth through three direct channels: *i)* increase in labour utilisation, *ii)* increase in human capital, and *iii)* increase in fertility:

- Increase in labour utilisation. The incidence of part-time work is five times higher for Austrian women than men. Overall female participation is lower in Austria and Austrian men work longer than the OECD average. Total hours worked would rise by 3.5% if these differences were evened out by raising female labour force participation from 71% to 75%, reducing the proportion of women working part time from 33% to 21%, and reducing weekly hours worked by men from 43.5 to 41.8.
- Increase in human capital. Narrowing gender gaps in education and the labour market would channel young people to educational tracks that better match their skills and interests. As a result, enrolment in higher education would increase and raise average years of schooling to the level of Denmark by 2060, which corresponds to an increase from 11.8 years in 2014 to 14 years in 2060.
- Increase in fertility. Eurostat population projections provide both a baseline and a low-fertility scenario. By extrapolating the differences for each age cohort, a high-fertility scenario is obtained for Austria. It entails a gradual increase in the average fertility rate from 1.45 births per woman in 2013 to 1.9 in 2060, against 1.6 in the baseline and 1.3 in the low-fertility scenario.

Taken together, these three effects could raise GDP by 13%. Per capita GDP would increase by 8.3% and the total population by 4.7% (Figure 21).

Figure 21. Long-term growth gains from opening up gender roles



Source: Calculations based on the OECD's long-term growth model. Ratio of more gender equal scenario over baseline projection.

Recommendations to promote gender equality

Key recommendations

- Spur investment in high quality childcare facilities. Enhance the availability of full-day schools and care centres. Consider introducing legal entitlements for these services.
- Reduce the implicit taxation of transition from marginal and part-time to full-time employment and replace the sole-earner tax deduction by targeted transfers to families in need. Open active labour market programmes also for part time workers.
- Transform childcare allowance and parental leave schemes into a unique childcare account that allows parents to allocate subsidised absence from work flexibly over time. Reserve a sizeable part of this account, at least 33%, for the exclusive use of fathers.
- Raise awareness by publicising more information on innovations in study area choices of schoolgirls and schoolboys, earlier return to full-time work of mothers, and fathers' participation in care and household duties.
- Develop a comprehensive data base on social transfers or a comprehensive panel survey to assess the impact of alternative family policy schemes on labour supply, child care use and net budget costs, and adjust policy packages in the light of this information.
- The private sector should offer more family-friendly workplaces and more enabling working time options to employees of both genders. Policymakers should continue to support auditing and information campaigns to disseminate good practices.

Other recommendations

- Social partners should help develop practices that facilitate the reconciliation of family obligations and work responsibilities while preserving the enterprises' productivity and competitiveness. Wage negotiations should aim at reducing the gender wage gap.
- Promote gender diversity in leadership positions in private companies.
- Widen access of part-timer workers to active labour market programmes.

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ANNEX

Progress in structural reform

This annex summaries key recommendations made in previous Surveys and main actions taken since the OECD Economic Survey on Austria published in July 2013.

Fiscal and financial policy

Recommendations in previous <i>Surveys</i>	Action taken
Let automatic stabilisers operate freely around the announced structural consolidation path towards a balanced budget.	According to government calculations, the structural fiscal balance will improve by 0.25 percentage points of GDP between 2013-15. This amounts to a broadly neutral fiscal stance as recommended.
Internationally active banks should be required to present clear strategies to strengthen their capital base taking into account the need to repay government capital. The restructuring of the nationalised banks should be pursued.	The internationally active banks have gone through and passed the comprehensive assessment by the ECB. Their joint core capital ratio increased and approached 12% by end 2014. <i>Kommunalkredit Austria</i> is being liquidated. ÖVAG will also be liquidated after a restructuring. Some parts of <i>Hypo Alpe Adria</i> are being sold while consideration is given to bailing in some of its creditors.

Public governance and policy formation

Recommendations in previous <i>Surveys</i>	Action taken
Fully implement performance-based budgeting, regulatory impact assessment and long-term public spending simulations and extend them to the whole general government sector.	A comprehensive system of performance based budgeting and regulatory impact assessment has been implemented in 2013. An evaluation report on the new budgeting system at the federal level has been completed recently and identified areas for improvement. Its proposals will be discussed in Parliament. The federal government aims at extending the new budgeting rules to the entire general government sector.
Make sure that increasingly available indicators on different dimensions of well-being are integrated in the policy formation process. Encourage social partners to aim for representation of all stakeholders.	The project “ <i>Wie geht’s Österreich</i> ” (“How is Austria”) by Statistik Austria established a set of indicators on different dimensions of well-being. The publication which was developed in close cooperation with all relevant ministries as well as research institutes, social partners and other stakeholders is online; it is regularly updated and discussed.

Ageing, work/family obligations and the integration of migrant groups

Recommendations in previous <i>Surveys</i>	Action taken
<p>Reduce all remaining obstacles to the employment of older workers and close the remaining loopholes into early retirement. Reflect changes in life expectancy more directly in the sustainability mechanisms of the pension system. Calculate the “redistributive” and “deferred saving” elements in the system in order to improve the evidence basis for future measures.</p>	<p>A new “Employment Initiative 50 plus” initiative supports the employment of older workers with wage subsidies, in-work benefits and temporary employment opportunities in social firms. It has a budget of EUR 370 million for 2014-16 and is backed by an awareness campaign. Quantitative targets spelled out in the Government programme 2013-18 (effective retirement ages for both genders) are monitored on a semi-annual basis. If outcomes deviate from goals additional measures will be implemented.</p>
<p>Make high quality institutional child care available and affordable for children at all ages. Subsidies should be granted on a level-playing field between public, non-profit and private providers to stimulate entry and innovation in the sector.</p>	<p>The enrolment-rate of children up to age 3 increased to 25% and the <i>Barcelona target</i> agreed at the level of the European Union for children aged 3-6 was met. To reach the <i>Barcelona target</i> for children below age 3, and increase the quality of care, a budget of EUR 440 million will be spent over the period 2014-17.</p> <p>Subsidies to the operating expenses of public and private child care providers are granted by Länder and municipalities . In several Länder full-time child care is free of charge, or fees are adjusted to the income level of parents. Negotiations about an additional compulsory kindergarten year (free of charge) are starting.</p> <p>A pilot project in 70 locations aims at improving the quality of education for young children via an integrated curriculum across the last kindergarten year and the first 2 years of primary school. This approach will be generalised in the entire country in 2016-17.</p>
<p>Improve the dialogue with communities with migrant background to foster the education and labour market prospects of the next generation.</p>	<p>To improve language and reading capacities of children with migrant background, the recently introduced two-year language courses at kindergarten level (on the basis of a special agreement between Federal and Länder governments) are being extended to 2015-16. New projects enhancing the intercultural dialogue between migrants and the host society are subsidised by the Federal government, including projects supporting immigrants’ language skills and labour market integration. Around EUR 3.5 million was dedicated to these projects in 2014.</p>

Environmental sustainability

Recommendations in previous <i>Surveys</i>	Action taken
<p>Price externalities stemming from road transport better. Increase diesel taxes to reflect externalities. Consider extending the road pricing system. Abolish the favourable taxation of company cars and phase out the commuting subsidy.</p>	<p>The 2015/2016 tax reform reduces tax incentives for the use of CO₂-emitting company cars from 2016 onwards. Other tax incentives are offered for non-CO₂-emitting company cars (e-cars),</p>
<p>Develop instruments to improve co-ordination between the regional, Länder and federal levels to promote denser settlements well connected to public transport. To increase land supply in designated areas, raise property taxes by updating land values on which they are levied.</p>	<p>The Federal and Länder governments agreed on “minimum standards for accessibility by public transport”, based on number of inhabitants per settlement. This aims at “re-densifying” existing settlements in order to improve the quality of services. The <i>Austrian Conference on Spatial Planning</i> (ÖROK) issued new planning recommendations for settlements.</p> <p>The 2015/2016 tax reform changes the tax base for real estate transfers from the outdated cadaster value to an updated value.</p>

Responding to globalisation challenges

Recommendations in previous <i>Surveys</i>	Action taken
<p>Support the modernisation of corporate governance in family firms, notably in order to facilitate generational transmissions, and further foster venture capital supply. Reduce entry barriers for services, including social services, without reducing high quality standards and consumer protection.</p>	<p>A 2013 amendment to the Trade Act facilitated the intergenerational transmission of businesses, including provision of a transition period for full compliance with the requirements of the Trade Act.</p> <p>To foster the growth of start-ups and young businesses, new government schemes are offered to facilitate their financing in early and growth stages, and improve their long-term financial stability.</p> <p>Austria participates in the <i>Transparency Initiative</i> according to the EU Directive on professional qualifications. This covers all regulated professions with qualification rules and will provide, by the end of 2015, an overview of possible areas of overregulation. Austrian authorities emphasize the importance of formal qualification requirements for maintaining strong incentives for dual (apprenticeship) and vocational education.</p>

Recommendations in previous <i>Surveys</i>	Action taken
Implement policies to preserve high quality and labour market relevant education as the main driver of Austria's well-being in the future as in the past, as set out in the 2009 Survey and in the OECD's Skill Strategy.	<p>30% of all school places are planned to offer day-long education by 2018-19. New schemes to improve education quality are being introduced, including a standardised school-leaving exam from 2015, a new teacher training scheme also from 2015, and compulsory "quality management" systems to be applied in all schools.</p> <p>A <i>Higher Education Action Plan</i> was adopted, providing "a mapping process" for Austrian higher education. Performance agreements between the Ministry of Science, Research and Economy and individual universities will settle focal competence areas to improve the employability of graduates. The development of <i>Universities of Applied Sciences</i> continues to offer highly labour market-relevant tertiary curricula.</p>

Chapter summaries

Chapter 1. Austria's separate gender roles model faces tensions

Austria has a model of “separate gender roles” in work, family and life arrangements which persists despite efforts to better balance these roles. Irrespective of their education level – which is higher for new generations than men’s – the majority of women with children withdraw fully or partly from the labour force until their children reach school age, and beyond. This pattern has provided the Austrian population with generally high quality family services, but buttressed gender inequalities, and deprived society from the activation of existing talent, and therefore from additional household incomes, fiscal revenues and potential output. Gender differences in life-time career and income paths, well-being, and participation patterns in public life generate increasing dissatisfaction in growing segments of society, among both women and men.

Chapter 2. Towards more gender equality

Chapter 1 provides empirical evidence for strong and persistent patterns of separated gender roles in Austria. While this model is generally considered to have worked well in the past, it faces important challenges arising from societal and economic changes in Austria. Hence, gender mainstreaming with the aim of more gender equality ranks high on the agenda of Austrian policy makers. An integrated policy framework to make Austria more gender-equal should build on 3 pillars: i) make the tax and benefit system more employment friendly; ii) extend the care service infrastructure; and iii) encourage more flexible workplace practices. Streamlining family policies across regions and levels of government would entail efficiency gains for all pillars. Long-run simulations suggest that achieving more gender equality in Austria could boost GDP by 13 percentage points until 2060. In addition, promoting more gender equality in the Austrian Society will improve Austrians’ well-being.

This Survey is published on the responsibility of the Economic and Development Review Committee (EDRC) 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 11 June 2015. 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 23 June 2015.

The Secretariat's draft report was prepared for the Committee by Rauf Gonenç Volker Ziemann and Isabelle Hassler under the supervision of Andreas Wörgötter. Mathilde Mesnard (NAEC Unit), Monika Queisser and Willem Adema (ELS) provided valuable inputs. Research assistance was provided by Béatrice Guérard and secretarial assistance by Heloise Wickramanayake.

The previous Survey of Austria was issued in July 2013.

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.

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