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# Austria's Well-being Goes Beyond GDP

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## ABSTRACT/RÉSUMÉ

**Austria's well-being goes beyond GDP**

Austria enjoys strong material well-being and high quality of life. Steady convergence with top GDP per capita levels translated into decisive improvements in household disposable incomes while significant redistribution has ensured low income inequality and poverty. This has been combined with gains in leisure time, especially time spent in retirement, low unemployment, high environmental standards, rising life expectancy, a well-functioning social support network and high subjective well-being. This performance was achieved with a unique combination of supportive conditions for a dynamic business sector, priority for family based care, a wide supply of public services, and a well-functioning social partnership. Particularly remarkable for a small open economy has been the degree of stability, which may have contributed to Austria's high quality of life. However, a number of weaknesses also exist. Older, unskilled and in particular people with migrant background, have lower labour market attachments. Outcomes in education and health care are subject to inequalities. Family services are still mainly carried out by women, who have closed the gap in education attainment with men but face tensions between work and family responsibilities and a high wage gap. The gaps experienced by people with migrant background are in several dimensions larger than in the average OECD country.

This Working Paper relates to the 2013 *OECD Economic Survey of Austria* (<http://www.oecd.org/eco/surveys/austria-2013.htm>).

JEL classification: D31; D60; H40; I31; O52.

Keywords: Austria, well-being, quality of life, productivity, family, social partnership

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**En Autriche, le bien-être ne se limite pas au PIB**

En Autriche, le bien-être matériel et la qualité de vie sont élevés. Un mouvement constant de convergence vers un PIB par habitant élevé a permis une nette amélioration du revenu disponible des ménages. Parallèlement, une redistribution importante a permis que les inégalités de revenu et le taux de pauvreté soient faibles. À cela s'ajoutent une augmentation du temps disponible pour les loisirs, en particulier du temps passé à la retraite, un faible taux de chômage, une bonne qualité de l'environnement, un allongement de l'espérance de vie et un bien-être subjectif élevé. L'Autriche doit ces résultats à un modèle unique en son genre, qui associe des conditions favorables au dynamisme du secteur privé, une priorité accordée à la prise en charge familiale, une offre développée de services publics et un système de partenariat social efficace. Un certain nombre de faiblesses existent cependant. Ainsi, les travailleurs âgés et non qualifiés et, surtout, les personnes issues de l'immigration, sont plus éloignés du marché du travail. On observe des inégalités dans les résultats en matière d'éducation et de santé. Les services aux familles restent dans une large mesure l'apanage des femmes, qui, malgré la résorption de l'écart de niveau d'instruction avec les hommes, rencontrent des difficultés à concilier vie professionnelle et familiale et sont confrontées à un gros écart de rémunération. Pour plusieurs dimensions du bien-être, les différences entre les personnes issues de l'immigration et le reste de la population sont supérieures à celles observées dans le pays moyen de l'OCDE.

Ce Document de travail se rapporte à l'*Étude économique de l'OCDE de l'Autriche*, 2013 (<http://www.oecd.org/eco/surveys/austria-2013.htm>).

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Mots clés: Autriche, bien-être, qualité de vie, famille, productivité, partenariat social

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## TABLE OF CONTENTS

AUSTRIA'S WELL-BEING GOES BEYOND GDP .....	5
Austrian well-being outcomes .....	6
Austria has achieved remarkable gains in material well-being.....	7
Quality of life is high but some inequalities remain .....	17
Drivers of Austrian well-being.....	31
Productivity growth within stable enterprise and production structures.....	31
Families provide intensive services backed by local social connections.....	41
The role of social partnership in policy formation and implementation.....	44
Conclusions .....	49
BIBLIOGRAPHY .....	50
<b>Tables</b>	
1. Wealth inequality in Austria.....	11
2. Average collectively agreed normal annual working time, 2011 .....	22
3. Drivers of Austria's well-being .....	32
<b>Figures</b>	
1. Average well-being outcomes, 2011 .....	7
2. Income and wealth.....	9
3. Income inequality and poverty .....	10
4. Labour market .....	13
5. Earnings inequality .....	15
6. Housing conditions.....	16
7. Health outcomes .....	18
8. Education outcomes .....	20
9. Work-life balance .....	23
10. Social connections.....	24
11. Perceived security.....	25
12. Environmental quality .....	26
13. Life satisfaction.....	28
14. People at risk of poverty or social exclusion.....	30
15. The share of the manufacturing sector in the economy.....	33
16. Superior productivity growth and competitiveness have driven performance .....	34
17. Employment stability and occupational flexibility.....	37
18. Manufacturing is specialised in cumulative knowledge-based sectors .....	38
19. The adaptive vocational education and training (VET) system .....	40
20. Stability of living places.....	43
21. Size and structure of the public sector in international comparison.....	45
22. A high degree of macroeconomic stabilisation .....	47
<b>Boxes</b>	
Box 1. Beyond GDP: international and Austrian initiatives to measure and monitor well-being.....	5
Box 2. Well-being indicators and analysis: what lessons for policies?.....	6
Box 3. Determinants of subjective well-being .....	29
Box 4. Strengths and challenges of the Austrian VET system.....	40
Box 5. The Council for Economic and Social Questions .....	48
Box 6. When certain groups do not participate in social partnership.....	49
Box 7. Policy recommendations on strengthening the evidence basis of well-being policies .....	49

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## AUSTRIA'S WELL-BEING GOES BEYOND GDP

By Oliver Röhn, Rauf Gönenç, Christian Beer and Romina Boarini<sup>1</sup>

This paper deals with Austrian well-being outcomes and drivers. The discussion about the outcomes follows the *OECD How's Life* framework which assesses well-being achievements along 11 dimensions categorized under two broad pillars: *i*) material living conditions (income and wealth, jobs and earnings and housing); and *ii*) quality of life (health status, work and life balance, education and skills, social connections, civic engagement and governance, personal security, subjective well-being). This framework allows to go “beyond GDP” as a measure of a nation’s well-being (see Box 1) and can help inform policy-making (see Box 2). The paper then emphasises three different and specific features of the Austrian economy and society as the drivers of these outcomes: *i*) Steady productivity growth within stable enterprise and production structures, *ii*) families providing intense services to their members with the support of local social connections, and *iii*) the important role of social partnership for policy formation and implementation.

### Box 1. Beyond GDP: international and Austrian initiatives to measure and monitor well-being

GDP is the most important indicator for measuring the macro-economic performance of countries and for informing macro-economic policy about the position of the economy in the business cycle. However, GDP (and the system of national accounts) has a range of shortcomings as a measure of well-being. For instance, some factors that affect individual well-being such as a person’s health status, leisure, happiness, safety or social connections are not (or not fully) reflected in GDP as they are not transacted on markets and are thus not evaluated in monetary terms. At the same time, concerns have emerged about how economic growth led in many countries to environmental depletion and an erosion of social cohesion, elements that are also not appropriately reflected in GDP. Thus, GDP alone will not provide the right guidance for policies aiming at sustainable well-being. This dissatisfaction has generated a widespread consensus to search for robust statistical concepts which go beyond GDP. While measures augmenting GDP with data for example on health, leisure and inequality are usually highly correlated with GDP per capita, deviations are often significant in particular over time (e.g. Jones and Klenow, 2010; Boarini et al., 2006).

The OECD was at the forefront of efforts to construct indicators that go beyond GDP, for example by developing guidelines for social statistics already in the 1970s, and participating in the influential Stiglitz-Sen-Fitoussi Commission (Stiglitz et al., 2009) established by French President Nicolas Sarkozy in 2008. The framework and recommendations of the Commission, as well as earlier OECD work, underpins OECD’s *How's Life* report (OECD, 2011a), the flagship publication of the OECD *Better Life Initiative* launched in May 2011. Both the Commission and OECD’s *How's Life* stress the multidimensionality of well-being including both indicators of material well-being and quality of life. Moreover indicators of well-being should emphasise the household perspective, highlight distributional issues and differentiate between current well-being and its sustainability. The OECD Economics Department has recently devoted a chapter in its flagship publication *Going for Growth* (OECD, 2013c) on trade-offs and complementarities of growth-enhancing structural reforms on other dimensions of well-being, namely income distribution and the environment.

At the European level, the European Commission (EC) issued a communication on “GDP and beyond” in 2009 to identify actions to improve metrics of progress (EC, 2009). Some of these issues have been reflected in the targets of the EU growth strategy *Europe 2020*. Eurostat initiated a process to develop recommendations in line with the Stiglitz-Sen-Fitoussi Commission to be implemented within the European Statistical System. Apart from international initiatives, many OECD countries have by now launched well-being related initiatives. Examples include Australia (*Measures of Australia's Progress*), Finland (*Findicators*), Germany (*Enquete Commission “Growth, Prosperity and*

1 . OECD Economics Department and Statistics Directorate. This paper is a chapter from the *OECD Economic Survey of Austria* published in July 2013 under the authority of the Economic and Development Review Committee (EDRC). The authors thank Andrew Dean, Robert Ford, Andreas Wörgötter, Simon Field, Gernot Hutschenreiter and Kamran Kazemzadeh for very useful comments. Very valuable comments were also provided by Austrian social partner organisations: the Economic Chamber and the Chamber of Labour. Special thanks go to Béatrice Guérard, Seung-Hee Koh and Elena Tosetto for statistical support and to Sylvie Dewit and Mikel Inarritu for technical preparation.

*Quality of Life*”), Italy (*Measuring Equitable and Sustainable Well-being* (BES)), the Netherlands (*Sustainability Monitor*) and the United Kingdom (*Measuring National Well-being Programme*).

In Austria, several initiatives exist to measure and monitor well-being beyond GDP such as the *Growth in Transition* (*Wachstum im Wandel*) initiative led by the Ministry of Environment (in cooperation with other government agencies and think-tanks), which was already launched in 2008. *Growth in Transition* is a platform to strengthen dialogue about ecologically and socially sustainable growth to enable the transition towards a resource-efficient and environmentally compatible economy. At the end of 2012 the initiative organised a second international conference which concluded with a broad 10 point programme including suggestions to foster: *i)* sustainable development, *ii)* quality of life and workplaces, *iii)* measurement of well-being, *iv)* renewable energies, *v)* efficient natural resource use, *vi)* civic engagement in the political process, *vii)* generational fairness and social connections, *viii)* quality of urban and rural living spaces, *ix)* appreciation of natural assets, and *x)* sustainable agriculture. In addition, one of the main economic research institutes, WIFO, coordinates a pan-European project on “Welfare, Wealth and Work for Europe”, in co-operation with other European policy think-tanks, which aims to provide an analytical framework and policy recommendations to the European Union’s “Europe 2020” strategy.

The Ministry of Economy together with WIFO recently published a study (*Mehr als Wachstum*), which complemented the *OECD How’s Life* indicator set with additional indicators judged especially relevant for Austrians. Based on survey responses, which provided Austria specific rankings of the importance of indicators and dimensions for their well-being, weights were constructed and the indicators aggregated accordingly (see Box 3). Since 2004, *Statistik Austria* (the central statistical office) has published regularly an indicator report to monitor progress on goals formulated in Austria’s *Sustainable Development Strategy* for the Ministry of Environment. It also launched in October 2012 a new dataset (*How’s Austria – Wie geht’s Österreich?*) comprised of 30 headline indicators in three areas: material wealth, quality of life and environmental sustainability.

### Box 2. Well-being indicators and analysis: what lessons for policies?

There has been significant convergence in the understanding and measurement of the notion of well-being over the past ten years (see Box 1). Statistical advancements on well-being are strengthening the case for using well-being indicators in policy-making on a regular basis (see e.g. UK Green Book, New Zealand Treasury living Standards Framework). While still not a widespread practice, well-being indicators are increasingly used to inform policy-making:

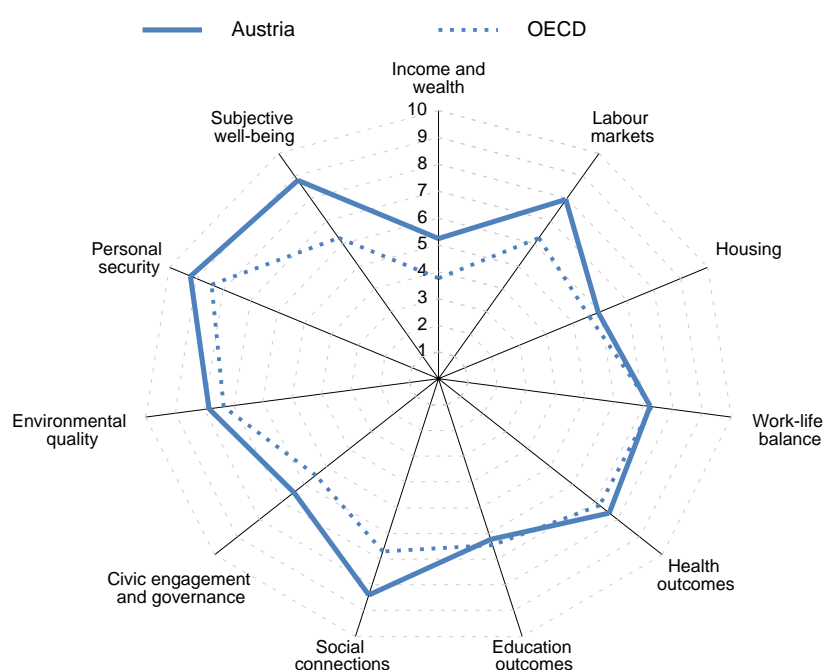
- First, because well-being indicators focus on households and individuals, they allow to monitor whether countries are effectively making progress in a number of important outcomes and their distribution that are important for people’s lives. In this respect they provide a comprehensive picture of both material and non-material conditions of households and individuals, and in particular to assess whether economic growth goes hand in hand with key well-being outcomes and to what extent these outcomes are shared across population groups.
- Second, well-being indicators may help to identify policy priorities in three ways: *a)* by providing information on individuals and societal preferences (see e.g. Box 3); *b)* by providing a diagnostic of the relative strengths and weaknesses of countries; this diagnostic may then inform on the areas where there is larger scope for improvement; *c)* by shedding light on the interrelations across well-being outcomes, that might be leveraged when designing policies.
- Third, well-being analysis makes it possible to implement a joined-up approach to policy making, enhancing the coherence and effectiveness of policies across the board. Well-being analysis allows to better grasp and manage trade-offs between policy objectives and identify possible synergies.
- Finally, embedding well-being in policies may increase the legitimacy and thus public acceptance of these policies as directly grounded in people’s preferences and values. More generally, people’s trust in policies and governments may increase when policies are explicitly conceived to improve people’s lives.

### Austrian well-being outcomes

Figure 1. provides an overview of Austria’s average well-being outcomes in each of the 11 dimensions based on the OECD *Better Life Index* (BLI) indicator set. It shows that Austria scores better

than the OECD average in almost all dimensions. Outcomes are particularly more favourable in the areas of income and wealth, labour market and subjective well-being. The overview provided in Figure 1 is broadly consistent with the results from the following sections, which provide in-depth discussions of each well-being dimension, drawing on a larger set of indicators than the BLI. A more nuanced picture emerges in the area of work-life balances, which appear to be somewhat special in Austria. Working hours per day are longer than in other Western European countries, but periods out of work, for example on holidays or retirement, are also longer. Additional insights emerge when inequalities in well-being dimensions, for example across income groups, gender or educational attainment groups, are investigated. Inequalities arise especially in education and health outcomes. Moreover, women face a high wage gap, despite closing the gap in education attainment with men. Finally, single parents and people with migrant background do not seem to have participated to the same degree as others in well-being gains.

**Figure 1. Average well-being outcomes, 2011**



*Note:* Each well-being dimension is measured by one to three 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:  $(\text{indicator value} - \text{minimum value}) / (\text{maximum value} - \text{minimum value})$  multiplied by ten.

*Source:* OECD Better Life Index.

### ***Austria has achieved remarkable gains in material well-being***

*Income and wealth grew steadily while income inequality and poverty remains low*

Income and wealth are essential components of individual well-being as they provide the ability to command resources to satisfy basic needs and pursue other goals deemed important in people's lives. Wealth, as the accumulation of personal savings, also protects individuals against economic and personal risks and allows them to smooth consumption over time, thereby ensuring the sustainability of material



living conditions over time. On a national scale, income and wealth provide the most important tax bases to finance public services such as health, education and safety that benefit the society as a whole.

The standard measure of income is GDP per capita. According to this measure Austria performed very well over the last four decades. Real GDP per capita growth averaged 2¼ per cent per year, the highest among peer countries, which includes Germany as well as a group of small open European economies (Figure 2). Through this long-term catching up process, Austria now has one of the highest GDP per capita levels at USD 40 145 (at current PPP, 2010) in the OECD.

This good performance was underpinned by steady gains in productivity (Figure 2) in particular in the export-oriented manufacturing sector (see below). Aspects of labour utilisation were more varied and partly offset each other. The employment rate increased over the past decades, thanks to a substantial increase in female labour force participation (Figure 2). However, the employment rate of older workers fell continuously until the early 2000s and is only more recently starting to trend up again owing to a range of pension reforms. Nevertheless the effective retirement age remains among the lowest in the OECD (Figure 2). While overall employment increased, average annual hours worked declined, similar to many other continental European countries, partly reflecting the increased share of part-time employment (see sections on jobs and work-life balance).<sup>2</sup>

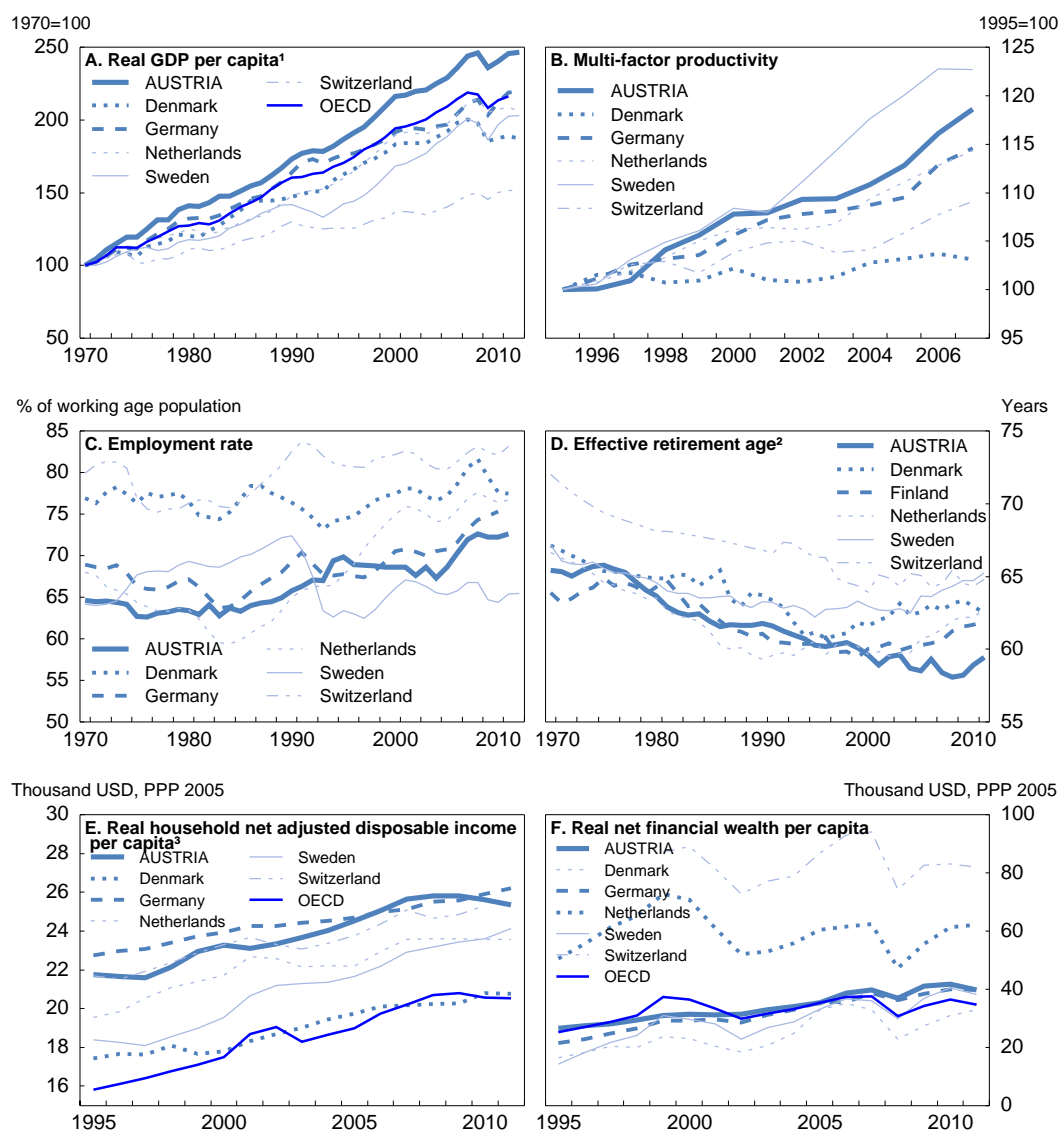
Compared to GDP per capita, household net disposable income adjusted for in-kind transfers received from government and non-profit institutions is a more appropriate measure of the individual command over economic resources. In 2009, **the average household net disposable income per capita adjusted for in-kind transfers stood at USD 27 951 (at current PPP) in Austria**, well above the OECD average of USD 22 827. However, disposable income per capita rose less rapidly than GDP per capita, with a gap of 0.7 percentage points on average annually over the period 1995-2011. Some shifts have taken place in the components of disposable income over time in Austria. While earnings from dependent employment remains the largest component of disposable income, its share fell slightly from 49% in 1995 to 47% in 2011. In contrast, the share of profits and self-employed income increased from 12% to 15% of total disposable income, while the shares of property income, cash transfers and in-kind transfers remained broadly stable at 6½ per cent, 21½ per cent and 10½ per cent, respectively (Statistik Austria, 2013).

Growth in net financial wealth averaged 2.7% per year over the period 1995-2011 in Austria (see Figure 2). Growth in net financial assets was more stable than in many other countries and the drop during the crisis in 2008 less pronounced. This may reflect the fact that Austrians hold a higher share of deposits in their financial portfolios and comparatively lower share of stocks (OECD, 2011). In 2009, the average net financial wealth of Austrians amounted to about USD 45 000 (in current PPPs), above the OECD average of USD 37 000. A newly established Survey, the *Household Finance and Consumption Survey* (HFCS) (Fessler et al., 2012), provides additional information on household wealth, including non-financial assets. Non-financial wealth according to this Survey comprises primary residential property, other real estate, vehicles, company assets if the company is owned by the household and one person of the household works in the company, and other valuables such as gold, jewellery and art collections. According to this survey, about 85% of Austrian households hold non-financial assets with a little under 50% possessing a primary residential property. On average the value of non-financial assets exceeds financial asset by a factor of 6. According to the survey, only about 36% of households are indebted and debt is primarily held to finance a residence and, to a much lesser extent, for consumption purposes. However, about a third of all outstanding loans for housing purposes are in foreign currency (mainly Swiss francs), constituting some risk for households and financial market stability.

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2. Due to a lack of a long series of official data on hours this declining trend in Austria can only be documented since 1995.

Figure 2. Income and wealth



1. Real GDP per capita is converted in US dollars using constant 2005 PPPs.
2. The average effective retirement age is calculated as a weighted average of (net) withdrawals from the labour market at different ages over a 5-year period for workers initially aged 40 and over.
3. Households include non-profit institutions serving households. Actual individual consumption of households is used as deflator.

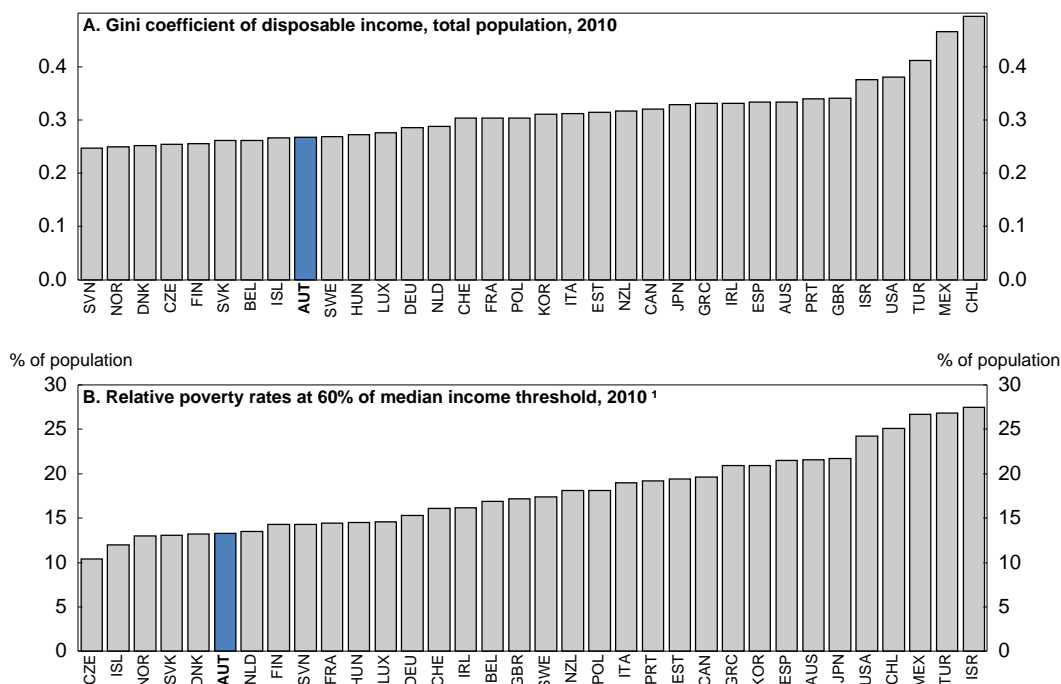
Source: OECD National Accounts Database; OECD Productivity Database; OECD Economic Outlook Database; OECD Statistics on average effective age of retirement; OECD Secretariat estimates.

In addition to high average material living standards, household disposable income inequality is low in Austria in international comparisons (Figure 3). While inequality has risen in many OECD countries over the past decades, a comparison with Austria is difficult due to changes in official data sources. Nevertheless it appears that disposable income inequality rose only slightly between the mid-1980s and the early 2000s, and it stayed relatively constant between 2004 and 2009. As in most other OECD countries, wages and salaries are the main driver of household income dispersion in Austria while self-employed income and capital income play a smaller role due to their lower share in overall market income (Hoeller et al., 2012). However, self-employed and capital income plays a role in the changes in the

income distribution over time in many countries. Labour market income inequality is discussed in the section on jobs.

Relative poverty, defined as the share of people with income less than 60% of the median income, is also low in Austria compared to other OECD countries (Figure 3). In contrast to many other OECD countries, relative poverty did not increase in Austria during the crisis. Similar to most OECD countries, poverty rates among women are higher, and this difference is particularly pronounced for women in retirement in Austria (Pisu, 2012), reflecting their more fragmented employment history. Till et al., (2012) report some evidence that hints at a stronger polarization of Austrian society in the recent past. They show that the share of the population that simultaneously falls below the relative poverty threshold (60%) *and* is financially deprived<sup>3</sup>, a measure which takes account of developments in purchasing power, has increased from 4.6% in 2005 to 6.2% in 2010. In addition, the share of the people who have been financially deprived for at least two consecutive years has been trending upward since 2005 and now stands at about 10% of the total population.

**Figure 3. Income inequality and poverty**



1. Relative poverty rate is the share of individuals with disposable income adjusted for household size after transfers and taxes less than 60% of the median for the entire population. Latest income distribution and poverty data refer to 2010 and 2009 for the majority of countries; 2011 for Korea; 2008 for Switzerland and 2006 for Japan.

Source: OECD Income Distribution and Poverty Database.

3. According to the national definition a person is financially deprived if at least 2 of the following 7 items applies: *i)* keep home adequately warm, *ii)* pay regular bills; *iii)* to see a doctor or dentist; *iv)* face unexpected expenses, *v)* buy new cloths; *vi)* eat meat, fish or a protein equivalent every second day, *vii)* invite friends for a meal.

Information on wealth inequalities in international comparisons is still scarce, though several new initiatives in OECD countries have been launched. A recent study (Fessler et al., 2012), using the new HFCS mentioned above, shows that wealth inequality is significantly larger in Austria than income inequality, in line with international evidence (Fredriksen, 2012; ECB, 2013). While the bottom 50% of households in the (gross) wealth distribution only hold 4% of total wealth, the top 5% hold 45%. Inequality is particularly high for non-financial assets (Table 1). This reflects the almost equal split between homeowners and tenants in the population as primary residential property is in terms of value the most important non-financial asset. Not surprisingly, high income households also tend to be high wealth households, as income is an important source of wealth accumulation, higher income households tend to hold higher risk and hence return assets, and high income households tend to receive larger inheritances (Fredriksen, 2012). Comparing data from the HFCS across 15 euro area countries, a recent study (ECB, 2013) suggests that wealth inequality is high in Austria. Average wealth is about three times higher than median wealth compared to an average across all countries of 1.8. This proportion is only higher in Germany. The high values in Austria and Germany are partly due to the fact that the median household does not own a primary residence. As in other countries, wealth inequality is likely to be underestimated in Austria as measurement relies on household surveys, which likely suffer from underreporting in particular at the upper end of the distribution. This distortion is likely aggravated by the fact that participation in the HFCS is voluntary (Fessler et al., 2012).

**Table 1. Wealth inequality in Austria, 2010**

	Gini coefficient	75/25	Percentile ratios	
			90/50	90/10
Non-financial assets	0.77	75.8	9.2	-
Financial assets	0.74	11.1	7.8	196.5
Total assets	0.73	22.4	6.2	233.7
Net worth	0.76	24.3	7.1	581.1
Household disposable income <sup>1</sup>	0.27	-	1.8	5.7

1. Household disposable income of the total population adjusted for household size in 2009.

Source: Fessler et al., (2012) and OECD Income Distribution and Poverty Database.

### *Labour market performance is strong but non-core groups are vulnerable*

The availability of jobs and their quality is essential to individual's well-being well beyond its role as a generator of income as having a job also helps individuals stay connected with society and develop skills and competencies. Unemployment has also been shown to be particularly detrimental to subjective well-being (e.g. Boarini et. al., 2012) and physical and mental health (Wilson and Walker, 1993). In addition, societies with high levels of employment are also more politically stable (OECD, 2011).

As alluded to above, the employment rate has continuously increased in Austria since the mid-1980s, thanks in particular to the increasing share of women and more recently of older workers in employment, and is higher than the OECD and EU averages, but somewhat below that of several peer countries such as Sweden, Denmark, the Netherlands and Switzerland (Figure 2). In addition, the unemployment rate, after temporarily edging up during the crisis, is currently the lowest in the European Union (March 2012) and both the long-term and youth unemployment rates are low in international comparisons (Figure 4).

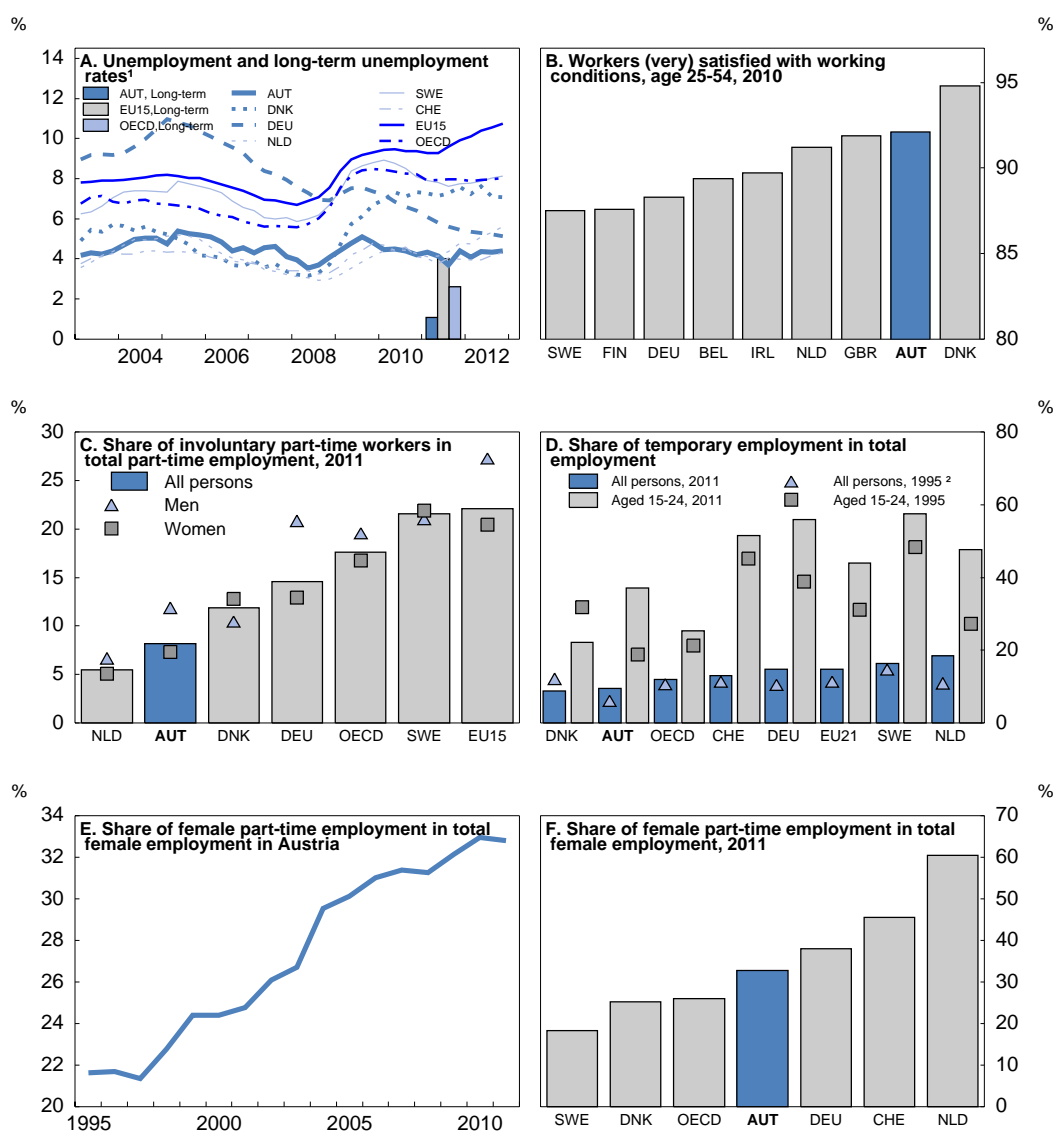
Satisfaction with working conditions is high in international comparison (Figure 4). This may reflect high average earnings in Austria, where people earn USD 41 904 (2010, in current PPP) per year on average compared to the OECD average of USD 34 033. But high job security may also play a role. The share of temporary contracts has been rising somewhat but is still below EU or OECD averages (Figure 4). The share among the young (aged 15-24) is higher than the OECD average, yet below many EU countries, despite the high share of apprenticeship contracts. In addition, the average employment tenure is high and

perceived job insecurity is low (see below; OECD, 2011). Perceived job insecurity is measured as the percentage of employees and self employed declaring that they might lose their job in the next six months. In Austria this percentage was 8.9% in 2005, lower than the OECD-EU average of 15% and most peers.

As described in detail in past *OECD Economic Surveys of Austria* (OECD, 2011b, 2009) the Austrian labour market is characterised by a well-performing core of skilled male prime-age workers, but also a number of more vulnerable groups, particularly older, unskilled, female and workers with migrant background. Employment rates of older workers (55-64) have increased since the pension reform in the early 2000s but are still well below OECD averages. However, unemployment rates of low-skilled workers with only compulsory schooling are high and have recently been rising. Finally the gap between employment rates of men and women has been narrowing over the last decade but has not closed.

The increase in female employment has predominantly taken place in the form of part-time work. Between 1995 and 2011 the employment rate of women increased from 60% to 68%. At the same time the share of part-time working women increased from 22% to 33%, encouraged also by the right to part-time work for parents introduced in 2004 (the legal right is available in companies with more than 20 employees, in smaller firms this may be granted via company agreements). Mothers with children under 15 years are indeed particularly likely to work part-time in Austria (OECD, 2012d). This development seems to be mainly voluntary, however, as involuntary part-time remains low (see Figure 4 and below). While part-time work facilitates combining work and family responsibilities, it frequently comes at a cost to women's long-term career and earning prospects. Evidence also suggests that in particular in Europe only a very small proportion of workers use part-time work as a stepping stone into full-time employment. Only 3% of European women and 1.5% of European men who have worked part-time for up to six years move into full-time employment (OECD, 2012d).

Figure 4. Labour market



1. Long-term unemployment rate refers to unemployment of one year and over.

2. Data refer to 1997 for Sweden and 1998 for Switzerland.

Source: OECD Economic Outlook Database; OECD Labour Force Statistics Database; OECD calculations based on Eurofound (2012), Fifth European Working Conditions Survey.

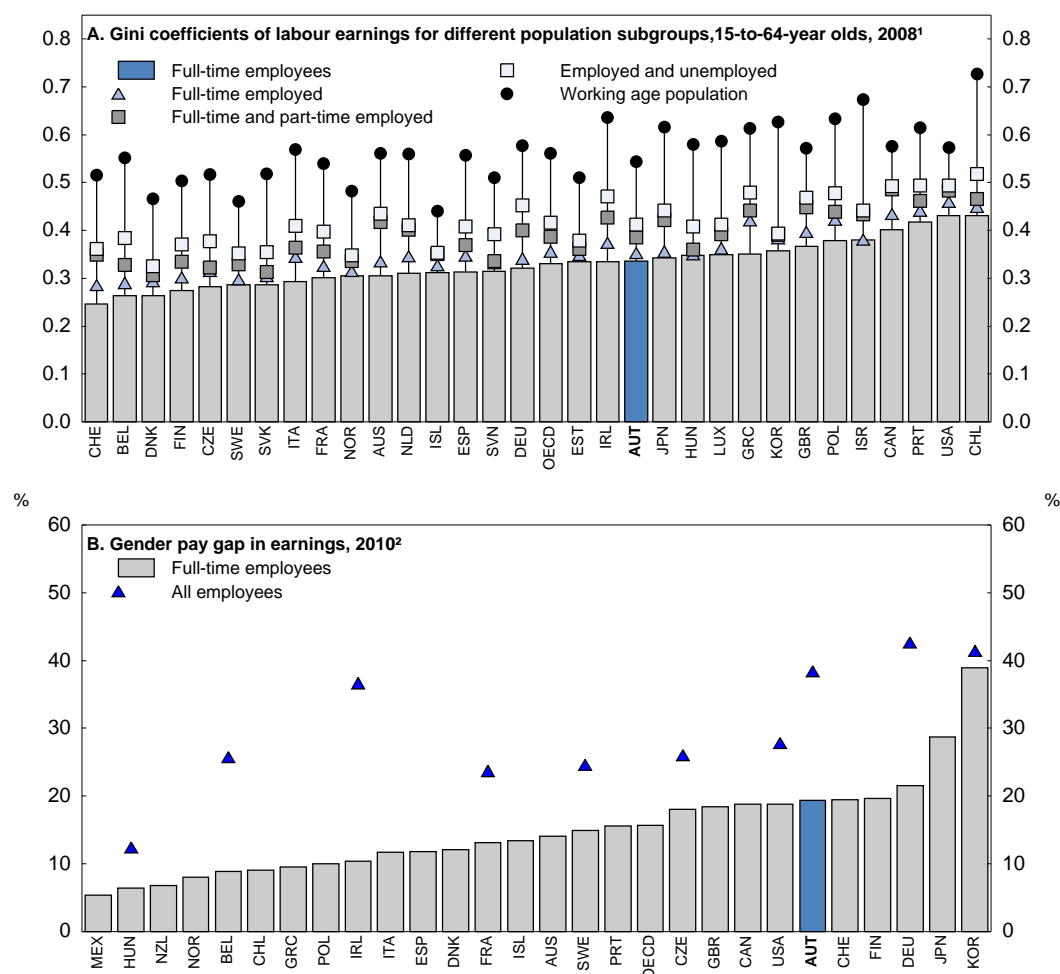
The gaps in labour market performance are particularly high for workers with migrant background. Their unemployment rate is about twice as high as that of natives and the unemployment rate of second generation migrants is almost four times that of other native born in the same age group (OECD, 2012). Women with migrant background fare particularly poorly. When coming from lower-income countries, their employment rate is almost 20 percentage points lower than that of native-born women. Women from Turkey are particularly disadvantaged: their unemployment rate is five times higher than that of native-born women, and only 38% of those in working-age are in employment, 30 percentage points less than native-born women. Likewise, native-born children of immigrant parents aged 20-29 are four times more likely than the offspring of natives to be both low-educated and neither in employment nor education or

training. Again, these gaps are particularly large for those from Turkish families and for women (see OECD, 2012c). In addition, income gaps exist for migrants in employment. Those from former Yugoslavia and Turkey in continuous employment earned about 20% less than the average, and this gap appears to have increased since 2006 (Statistik Austria, 2012).

As mentioned above, labour market income inequality is the main determinant of household income inequality in Austria as well as in most other OECD countries. Earning inequality among full-time employees is slightly above the OECD average in Austria and higher than in all peers (Figure 5; Koske et al., 2012). The relatively large share of part-time workers increases earnings inequality but less so than for example in Germany and the Netherlands. Once the entire working age population is taken into account, labour income inequality falls below the OECD average thanks to low unemployment and despite the relatively high share of early retirees in the working age population without labour income. While earnings inequality has increased over the recent decades, a relatively large share can be attributed to the rise in part-time work, in particular for women, and other forms of atypical work including seasonal employment (Guger and Marterbauer, 2007; Glocker et al., 2012). The increase in female employment, however, had a muting effect on the labour income distribution of the entire working age population and on labour income inequality of households, as the increase in employment rates was stronger for women with low-income husbands (OECD, 2011d).

The gender pay gap for full-time employees is larger in Austria than in the average OECD country and has fallen only slightly over the last decade (Figure 5). Progress in educational attainment of women and a convergence in the returns to education have both narrowed the pay gap. However, they have been largely offset by the decline in relative wages of unskilled workers, particularly in the service sector, where women are still overrepresented (Böheim et al., 2012a). The gender gap can be partly explained by observable characteristics such as occupational and sectoral differences in employment and the choice of the field of study. For instance the share of female graduates in lower-paying health related fields in Austria is more than three times higher than the share in computer sciences, and only a minority of young women complete vocational training in technical fields. In addition, the longer periods of parental leave (up to 2 years) and child care benefits (up to 3 years) in Austria appear to be associated with a higher wage gap (OECD, 2012d). Nevertheless, Böheim et al., (2012b) estimate that a wage gap of 11% remains even after accounting for a wide range of observable characteristics. This remaining wage gap may reflect discrimination but also factors such as differences in risk aversion, wage bargaining behaviour or attitudes towards competition (Böheim et al., 2012a). Recent OECD analysis (OECD, 2012d) finds that this unexplained wage gap is rather low in Austria in international comparison after accounting for differences in education, hours worked, age/work experience, job characteristics and other demographics.

Figure 5. Earnings inequality



1. Data refer to 2005 for Israel, 2006 for Brazil, 2007 for France, Korea and the United States, 2009 for Chile and Japan. The values for the OECD are calculated as unweighted averages across all OECD countries for which data are available.
2. The wage gap is defined as the difference between male and female median wages divided by male median wages. Earnings used in the calculation refer to gross earnings of wage and salary earners excluding self-employed women and unpaid family workers. Data refer to 1999 (instead of 2000) for the Czech Republic. Data refer to 1999 (instead of 2000) for the Czech Republic. Data refer to 2009 (instead of 2010) for Austria, the Czech Republic, Denmark, Finland, Germany, Ireland, Israel, Korea, Sweden and Switzerland; to 2008 for Belgium, France, Greece, Iceland, Italy, Poland, Portugal and Spain. The values for the OECD are calculated as an unweighted average excluding Mexico and Chile.

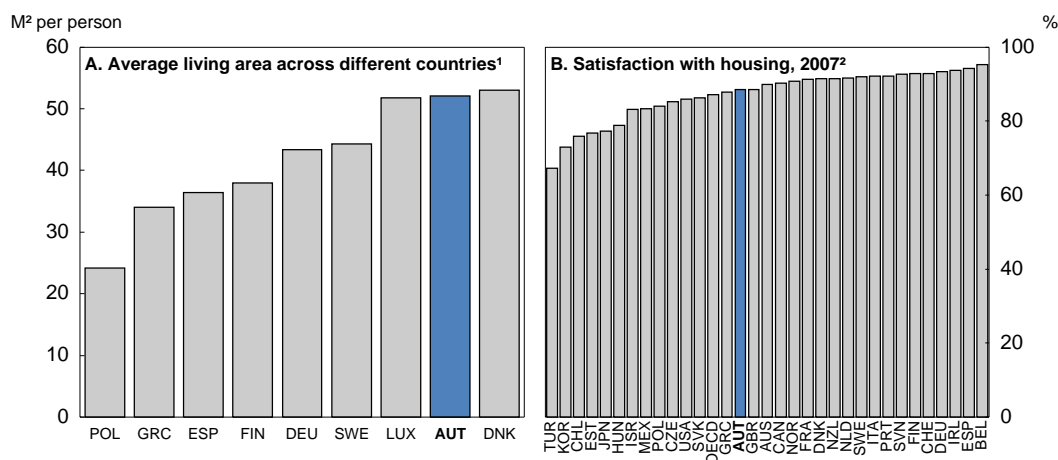
Source: Koske, Fournier and Wanner (2012), Less income inequality and more growth are they compatible? Part 2. The distribution of labour income, OECD Economics Department Working Paper n° 925; OECD (2012), Closing the Gender Gap: Act Now.

### *Housing conditions are satisfactory and housing remains affordable*

Housing is essential to meet basic needs such as shelter and give a sense of personal security, privacy and personal space. With about 1.7 rooms per person, living space requirements are well met in Austria and less than 2% of the population live in dwellings without basic sanitary facilities (Figure 6). In addition, the housing stock offers a large amount of square meters per person compared to other European countries (Figure 6). Almost 90% of the population state that they are overall satisfied with their housing conditions, which is slightly above the OECD average (Figure 6).



Figure 6. Housing conditions



1. Data refer to the period 2007-09 for Poland, Greece, Finland, Germany, Sweden, Luxembourg (Grand Duchy) and Austria. Data refer to the period 2003-06 for Spain and Denmark.
2. Data refer to people satisfied with the current housing, dwelling or place where they live. Data refer to 2009 for Turkey; 2006 for Austria, Finland, Ireland, Norway, Portugal, the Slovak Republic, Slovenia, Switzerland and the United States; and 2005 for Canada.

Source: EUROSTAT; OECD (2011), *How's Life? Measuring Well-Being*.

Housing also appears to be affordable in Austria, which is related to sizeable housing subsidies, a large social and cooperative housing market and widespread rent control in the private market. People spend about 22% of their disposable income on housing, which is in line with the OECD average, and less than 5% of the population spend more than 40%, below the OECD average of about 10% (OECD, 2011). However, despite the general affordability, about 12 000 people in Austria were homeless in 2010, an increase of 8% compared to 2008, with Vienna accounting for  $\frac{3}{4}$  of all homeless (Till et al., 2012).

Housing conditions vary quite significantly with income in most OECD countries and Austria is no exception. People below the relative poverty threshold are significantly more likely to live in overcrowded places, face insufficient housing quality and/or are overburdened by housing costs according to the national definition (over 25% of disposable income). Perceived disturbances through crime, pollution and noise are also twice as high for this group (Till et al., 2012). Again, the population with a migrant background appears to be particularly disadvantaged. Immigrant households face a significantly higher risk of living in overcrowded or deprived housing conditions compared to natives and this difference is larger than in many OECD countries (OECD, 2012).<sup>4</sup> However, some improvements in the living conditions of immigrants have taken place recently for example thanks to better access to social housing (Till et al., 2012).

4. The minimum number of rooms under which a dwelling is considered overcrowded is the following: two rooms for a maximum of two adults (including a couple); one additional room per additional adult (household member aged 18 years or over); one additional room for a maximum of two children. Deprivation refers to households living in a dwelling that is too dark; or without a bath, shower or indoor flushing toilet for sole use of the household; or with a leaking roof.

## ***Quality of life is high but some inequalities remain***

### *Health outcomes have improved considerably but inequalities in the society persist*

Good health is one of the most valued aspects of people's well-being and strongly affects other aspects of well-being such as the probability of having a job and sufficient income as well as participating in social activities (OECD, 2011).

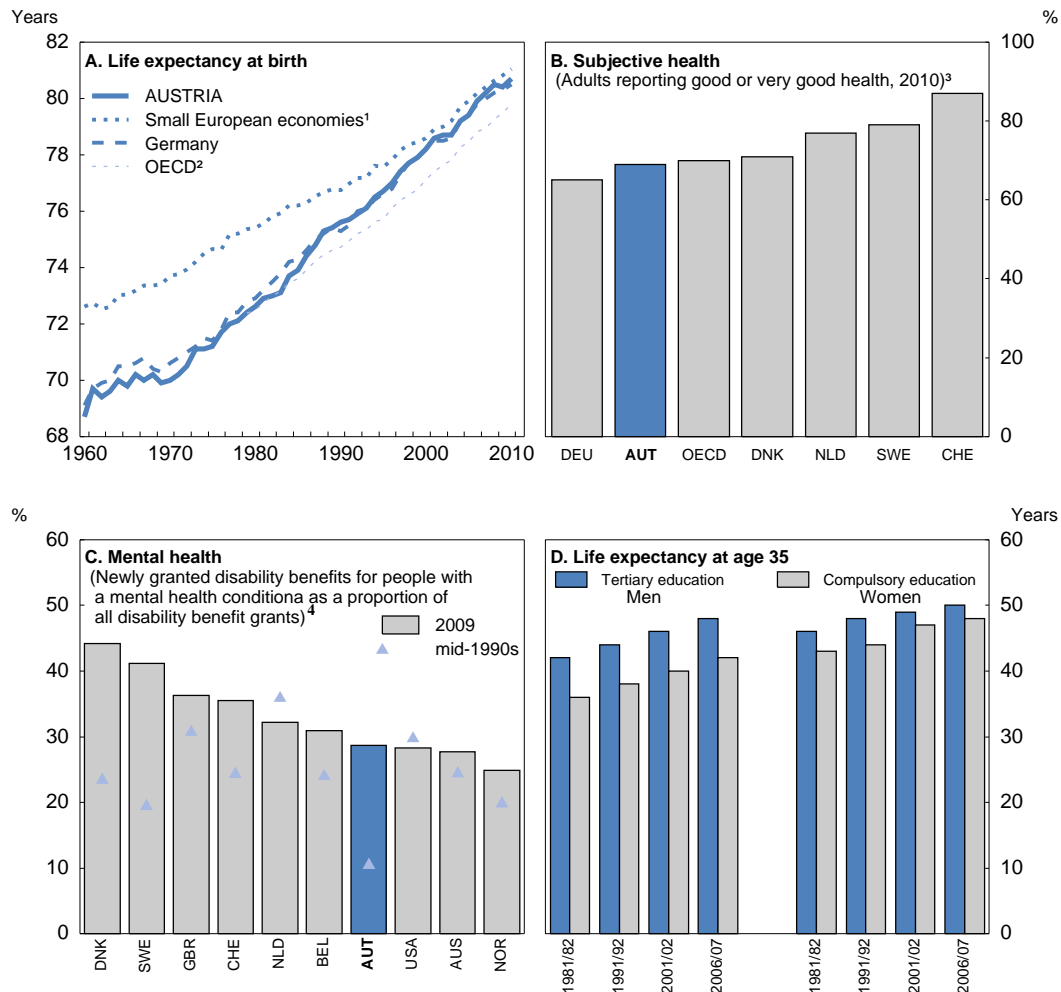
As analysed in detail in the special chapter on health of the previous *Economic Survey of Austria* (OECD, 2011b), health outcomes in Austria have improved considerably in the past half century on the back of ambitious public health policies. Total health spending accounted for 11% of GDP in Austria in 2010, more than one percentage point above the OECD average, and health insurance coverage is almost universal. Life expectancy at birth reached almost 81 years in 2010, a gain of more than 12 years since 1960 and slightly above the OECD average of 80 years (Figure 7). Gains in older ages have also been important: an Austrian woman aged 65 is expected to live an additional 21 years today (a difference of 6.7 years over 1960), and a man an additional 18 years (an improvement of almost 6 years). Living conditions at old ages have also improved and have become healthier (OECD, 2011b) as have life-style choices. Smoking rates among adults have been falling slightly since the mid-1980s and are close to the OECD average; obesity rates are below the OECD average (12.4% versus 17%). As analysed previously (OECD, 2011b), some imbalances in the provision of health services exist (e.g. between preventive and curative care) and health outcomes fall somewhat short of what could be expected given the size of the public resources devoted to this area.

Sixty-nine percent of people in Austria report to be in good health, close to the OECD average (Figure 7). This share has fallen slightly since the crisis when it peaked at 72%. About 32% of the population reports suffering from chronic diseases, close to the OECD-EU average, and 28% report being limited in their daily activities (10% strongly, and 18% limited to some extent) somewhat higher than the OECD-EU average of 25%.

Concerns about the adverse effects of mental ill-health are rising in all OECD countries. This is despite the fact that the prevalence of mental disorder has not increased (OECD, 2012b). But because of the gradually reduced stigma and discrimination and greater public awareness, more cases of mental disorders are being identified and disclosed. Austria is among the countries with the most rapid increase in disability claims due to mental health problems between the mid-1990s and 2009 (Figure 7). According to OECD research (OECD, 2012b) people of prime age are among the most distressed groups of workers due to higher family responsibilities, while younger and older people may have to cope with fewer financial pressures. However, Austria is peculiar in that reported mental-illness is highest at older ages (55-64). Mental health problems are also more prevalent for women and low skilled in Austria in line with OECD trends. Almost three out of four unemployed aged 55-64 experience mental health problems (severe and common) (OECD, 2012b). Causality is potentially running both ways, with mental illness leading to unemployment but being unemployed also affecting mental health.

Despite a high degree of equity in accessing services, health outcomes vary quite strongly with socio-economic background in Austria (Figure 7). For instance, the differences between the life expectancy at age 35 between people with compulsory and tertiary schooling remained surprisingly constant between the early 1980s and the late 2000s. For men this difference is 6 years and for women 2 years. The gap in reported health between the highest and lowest income quintile is also higher than in many other OECD countries (OECD, 2011). In the lowest income quintile, about 53% report good or very good health whereas this share increases to over 80% in the highest income quintile (Statistik Austria, 2013). Finally, people in Austria with a migrant background were almost twice as likely to report unmet medical needs as the native-born, even after adjusting for differences in age, education and income level (OECD, 2012).

Figure 7. Health outcomes



1. Arithmetic average of other small European high income economies: Denmark, the Netherlands, Sweden and Switzerland.
2. Arithmetic average over OECD countries.
3. Adults are generally defined as people aged 15 years and over.
4. Data include mental retardation/intellectual disability, organic mental disorders and unspecified mental disorders for: Austria, Belgium, Sweden and the United States (of which mental retardation/intellectual disability, accounts for 4.6% of the total inflow in 2006). Data for Australia include organic disorders and Switzerland mental retardation.

Source: OECD Health Statistics Database and OECD calculations; European Union Statistics on Income and Living Conditions (EU-SILC); OECD (2011), *Sick on the Job? Myths and Realities about Mental Health and Work*; Statistics Austria.

As analysed in the previous *Economic Survey* (OECD, 2011b), there is evidence that life-style choices and a lack of prevention are becoming significant sources of differentiation in health status across social groups and regions. Particularly large gaps exist in these areas for groups with migrant background (especially from Turkey and former Yugoslavia). These gaps are particularly worrying in the case of obesity, notably at younger ages, given the serious long-term health and cost implications. Migrants also tend to resort more to curative than preventive care.

*Educational attainment rates are high but there are quality and equity challenges in the educational system*

Education affects well-being through several channels. Education and skills have intrinsic values for individuals and enhances the control over one's life (OECD, 2011). Education is also correlated with many of the other well-being dimensions, in particular with income, wealth, employment and health. Besides private returns, the social returns include higher macroeconomic and political stability and lower crime rates (e.g. Grossman, 2006). Education can also foster resilience by enabling individuals to better cope with structural changes and is crucial to tackle earnings and income inequalities and hence social cohesion (OECD, 2010).

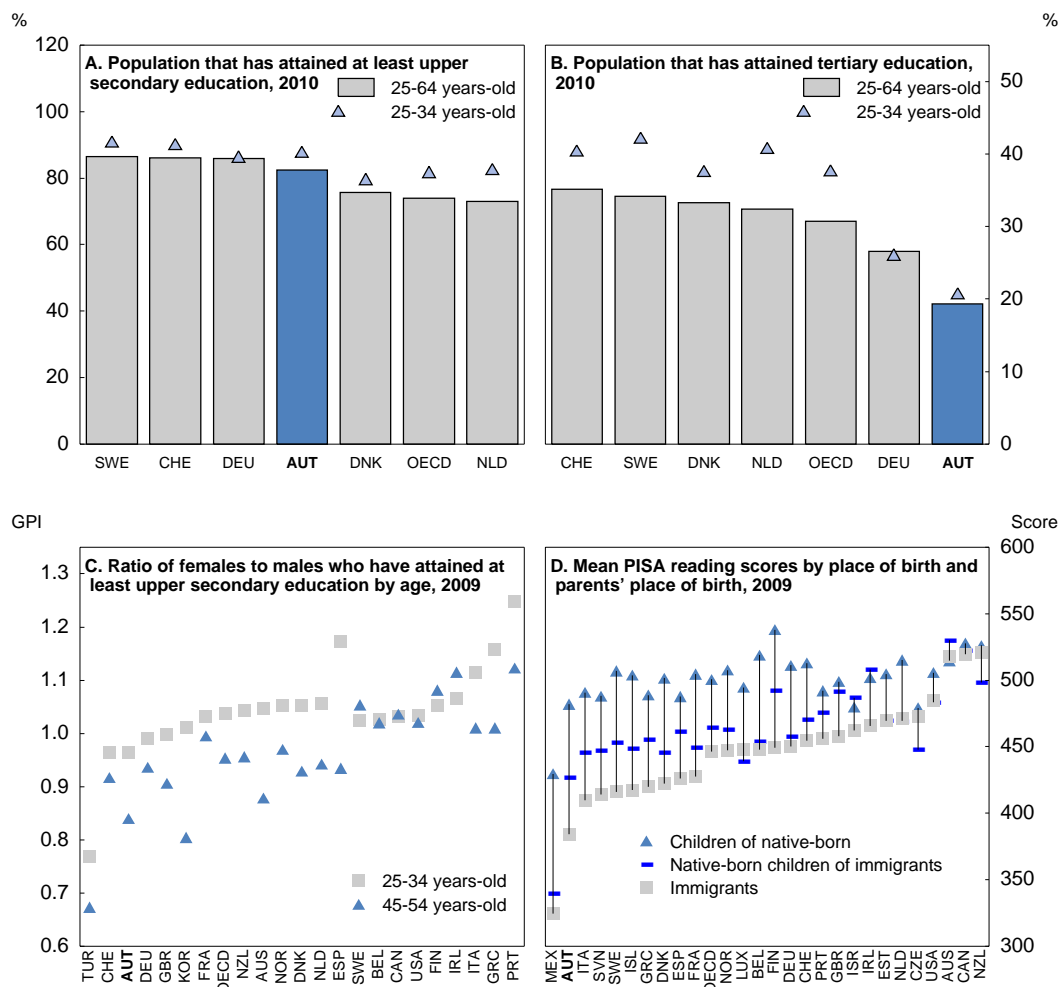
As analysed in the in-depth chapter on education of the 2009 *OECD Economic Survey* (OECD, 2009), Austria's educational system and in particular its very effective vocational training system has been one of the backbones of strong productivity growth and comparatively low youth unemployment (see below). The share of adults aged 25-64 having attained at least upper secondary education is higher than the OECD average and in line with peers (Figure 8). The share is even higher among the younger generation. The share of early drop-outs (people aged 18-24 with a maximum education level up to ISCED 3a/b) is low in comparison with the EU countries (8.3% vs. 13.5%) and is already below the Europe 2020 goal of 9.5%. However, the share of the population that has attained tertiary education is lower than the OECD average and drop-out rates from tertiary education are high (Figure 8). Austria's national Europe 2020 goal, however, includes post-secondary vocational streams deemed equivalent to tertiary education (ISCED 4a) and the adjusted tertiary attainment rate among the 30-34 year old was with 37% in 2011 already close to the goal of 38% by 2020 (Statistik Austria, 2013).

Adult learning is important to acquire new skills and improve performance in the labour market. In Austria, adults' participation in formal and non-formal education is around the OECD average of 40%, but below most of its peers and especially Sweden, where more than 70% of the population is involved in lifelong learning activities (OECD, 2011). Nevertheless, Austrians seem satisfied with the availability of lifelong learning opportunities provided within enterprises (Eurofound, 2009).

Overall education outcomes are not more than average. According to the latest OECD Programme for International Student Assessment (PISA, OECD 2010b), test scores of the average 15-year old student in reading ability, maths and science are below the OECD average. These findings are also confirmed in the more recent Trends in International Mathematics and Science Study (TIMSS, 2012) and Progress in International Reading Literacy Study (PIRLS, 2012), which test skills of fourth graders. In maths, Austria ranked 23<sup>rd</sup> out of 50 countries. Test scores have improved slightly since 2007 but are significantly below the scores in 1995. In science, Austria ranked 12<sup>th</sup>. Test scores have moderately improved since 2007 but were still below the scores in 1995. Austrian pupils scored considerably worse in reading and ranked only 25<sup>th</sup> out of 45 countries. More worryingly, test scores have deteriorated since 2006 and there are mounting complaints from recruiters about shortcomings in the general education of certain groups of school graduates (see Gönenç et al., 2013).

Weaknesses exist in the ability of the education system to provide equal opportunities for all youth. As analysed in the 2009 *Economic Survey* (OECD, 2009), Austrian students' academic achievements in PISA tests exhibit a bi-modal distribution, with one group of strong academic performers and another group of weak performers. Students' performance varies considerably with the school type, into which they have been streamed. Students in academic schools and advanced vocational colleges perform well in academic tests, while students from intermediary vocational and apprenticeship schools fall behind.

Figure 8. Educational outcomes



Source: OECD (2012), Education at a Glance; OECD (2012), Closing the Gender Gap: Act Now; OECD, Settling In: OECD Indicators of Immigrant Integration 2012.

Gender differences in educational outcomes persist, but have become smaller. In Austria, **87% of men have successfully completed upper secondary school compared with 76% of women**. This 11 percentage point difference is much higher than the OECD average of 2 percentage points (Figure 8). The difference is smaller among younger cohorts (age 25-34), but contrary to most other OECD countries, men continue to have somewhat higher attainment rates. In contrast, women have overtaken men in tertiary education, with 23% of women and 19% of men aged 25-34 years having attained a tertiary degree compared with 15% of women and 22% of men aged 45-54 years (OECD, 2012d). Girls score significantly lower in maths and science tests, but the TIMSS results suggest that the gap has narrowed in maths. In contrast, girls score higher in reading, as in most OECD countries.

Educational outcomes depend particularly strongly on socio-economic background. The difference in average PISA scores between the top 20% of the PISA index of socio-economic background and the bottom 20% is 117 points, higher than the OECD average of 99 points. Again, people with a migrant background (in particular from Turkey and the former Yugoslavia) fare especially poorly (Figure 8). Even after accounting for their socio-economic background, immigrants and native born children of immigrants do worse than the offspring of natives in PISA reading tests (OECD, 2012). The educational disadvantages of groups with migrant background are discussed in detail in Gönenç et al., (2013).

### *Work-life balance*

Obtaining a balance between work and other activities is central for well-being. Paid work is important to secure a desired material standard of living and a sense of purpose in life while leisure (“wealth-in-time”) ensures health and a personal life. However, it is challenging to measure the optimal balance as this will be different across individuals and depend on preferences.

Austrians work long hours while at work, at least compared to Western European countries, but they seem to enjoy longer periods out of work, for example through public holidays, vacation or early retirement. The share of employees working long hours (50 or more per week) is 9%, around the OECD average (Figure 9). Average actual annual hours worked per employed have declined continuously since the mid-1990s in Austria.<sup>5</sup> With roughly 1 600 hours per employed and year (2011), Austrians work less than the OECD average, yet more than most peers. The average collectively agreed normal annual working time per full-time employee is 1 746 hours (2011) in Austria, higher than the EU average (EIRO, 2012). This is entirely due to higher average hours per week. In contrast, leave days (vacation and public holidays) are at least as high or even higher than in most peers (Table 2) and the expected time spent in retirement approaches 30 years for the recently retired cohorts (see below and Gönenç et al., 2013).

Austrians seem relatively satisfied with their work-life balance (Figure 9). In addition, according to the *Second European Quality of Life Survey* (Eurofound, 2009) the majority of Austrians (62%) thinks that they spend the right amount of time in paid work, slightly below the OECD-EU average (66%). While the share of respondents feeling that they work too much is at the OECD-EU average (28%), the share of respondents stating that they work too little (7.1%) is higher than the OECD-EU average (4.3%) and higher than in all peers. Despite the general satisfaction with the work-life balance, there are some signs that work-related stress (work strains) has increased in Austria, especially in low skilled occupations (OECD, 2012b).

According to the *Third European Quality of Life Survey* (Eurofound, 2012), the share of people participating in unpaid voluntary work is highest in Austria, followed by Sweden and Ireland. Fifty-three percent of respondents stated to take part regularly or occasionally in voluntary work, compared to 32% in the EU.<sup>6</sup>

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5. This is likely to be a longer-term trend as in many other continental European countries (see e.g. Blanchard, 2004) but data is not available for Austria over a long time-span.

6. Voluntary work includes: *i*) education, cultural, sports or professional, *ii*) community and social services, *iii*) social movements or charities, *iv*) political parties, trade unions, and *v*) other voluntary organizations.

Table 2. Average collectively agreed normal annual working time, 2011

Country	A. Weekly hours	B. Gross annual hours (Ax52)	C. Annual leave (days)	D. Public holidays (days)	E. All leave (C+D) expressed in hours	F. Annual hours (B-E)
Hungary	40	2 080	20	7	216.0	1 864.0
Romania	40	2 080	21	6	216.0	1 864.0
Estonia	40	2 080	20	8	224.0	1 856.0
Poland	40	2 080	20	9	232.0	1 848.0
Latvia	40	2 080	20	10	240.0	1 840.0
Lithuania	40	2 080	20	10	240.0	1 840.0
Slovenia	40	2 080	20	10	240.0	1 840.0
Bulgaria	40	2 080	20	11	248.0	1 832.0
Greece	40	2 080	23	10	264.0	1 816.0
Luxembourg	40	2 080	25	8	264.0	1 816.0
Malta	40	2 080	24	12	288.0	1 792.0
Ireland	39	2 028	24	8	249.6	1 778.4
Slovakia	39	2 028	20	12	249.6	1 778.4
Portugal	38.9	2 022.8	22	11	256.7	1 766.1
<b>Austria</b>	<b>38.8</b>	<b>2 017.6</b>	<b>25</b>	<b>10</b>	<b>271.6</b>	<b>1 746.0</b>
Cyprus	38	1 976	20	12	243.2	1 732.8
Belgium	37.6	1 955.2	20	10	225.6	1 729.6
Spain	38.5	2 002	22	14	277.2	1 724.8
Czech Rep.	38	1 976	25	9	258.4	1 717.6
Norway	37.5	1 950	25	8	247.5	1 702.5
Netherlands	37.1	1 929.2	25	6	230.0	1 699.2
UK	37.5	1 950	24.7	9	252.8	1 697.3
Finland	37.5	1 950	25	9	255.0	1 695.0
Sweden	37.2	1 934.4	25	9	253.0	1 681.4
Italy	38	1 976	28	11	296.4	1 679.6
Germany	37.7	1 960.4	30	10	301.6	1 658.8
Denmark	37	1 924	30	9	288.6	1 635.4
France	35.6	1 851.2	30	8	270.6	1 580.6
<b>EU27</b>	<b>38.1</b>	<b>1 981.2</b>	<b>25.3</b>	<b>8.9</b>	<b>260.9</b>	<b>1 720.3</b>
<b>EU15</b>	<b>37.6</b>	<b>1 955.2</b>	<b>26.7</b>	<b>9.2</b>	<b>269.6</b>	<b>1 685.6</b>
<b>NMS12</b>	<b>39.7</b>	<b>2 064.4</b>	<b>20.8</b>	<b>8.6</b>	<b>233.6</b>	<b>1 830.8</b>

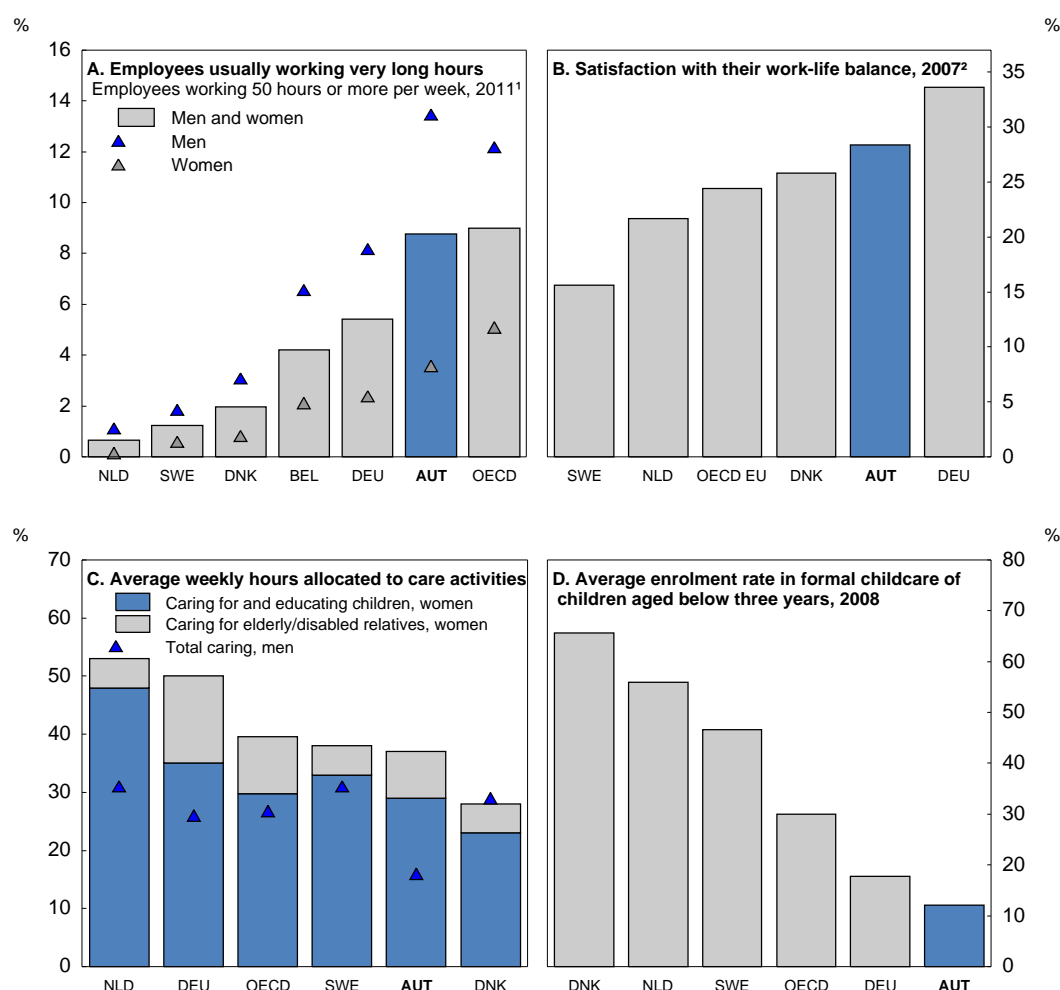
1. Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

2. Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Eurofound (2012c).

Working time arrangements provided by Austrian employers are among the most flexible in the EU (EC, 2010a); however, flexible work time is mainly used by women. This may have contributed to a stronger persistence of traditional gender roles than in most countries. Women spend more than twice as much time caring for children and/or elderly per week than men, the largest difference among OECD countries (OECD, 2011c) (Figure 9).

Figure 9. Work-life balance



1. Data refer to employees usually working 50 hours or more per week. Jobs covered are the main job for Austria and Sweden.
2. The figure shows the proportion of people feeling that they spend "just the right amount" of time in each of the following areas: job/paid work; contact with family members living in this household or elsewhere; other social contact (not family); and own hobbies/interests.

Source: OECD Labour Force Statistics Database; OECD (2011), *How's Life? Measuring well-being*; OECD Family Database.

### *A strong local social support network*

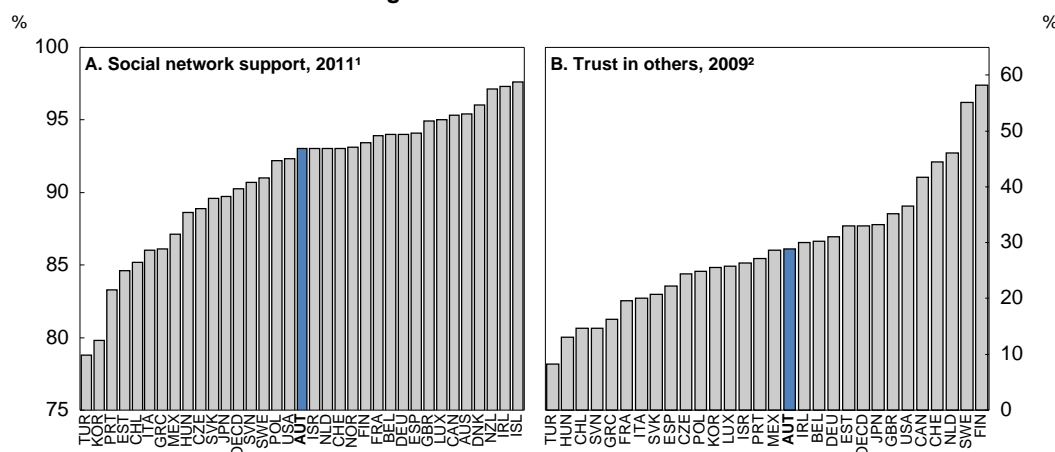
Social connections are important for individual's well-being as people derive pleasure from spending time with others (Kahneman and Krueger, 2006). Besides, social networks can provide material or emotional support in times of need as well as jobs and other opportunities (OECD, 2011). Social networks and the shared values and norms are crucial for social capital, which may facilitate co-operation within or among groups and positively affect growth (*e.g.* Ishise and Sawada, 2009).

In Austria social support networks appear to be functioning well. Ninety-three percent of people report that they have friends or relatives who they can count on in times of need, somewhat higher than the OECD average of 90% (Figure 10). The social support network appears weaker for lower income groups, but still 87.5% of respondents from this group state that they have someone to count on (Statistik Austria, 2013).



In contrast, general trust in others is not particularly high in Austria. About a third of the population states that most people can be trusted, similar to the OECD average (Figure 10). But in Denmark and Sweden, more than 50% of the population believes that others can be trusted. These findings suggest that social capital is formed more locally in Austria than with respect to the entire society (see below).

**Figure 10. Social connections**



1. Percentage of people declaring having friends or relatives they can count on in case of need. Data refer to 2008 for Iceland and Norway; and to 2009 for Estonia, Israel, Switzerland and South Africa.
2. Percentage of people saying that most people can be trusted. Data refer to 2010 for Austria, Belgium, Chile, the Czech Republic, Denmark, Finland, Hungary, Luxembourg, Mexico, the Netherlands, Poland, Portugal, the Slovak Republic and Sweden.

Source: Gallup World Poll.

### *Civic engagement and governance*

Through civic engagement and participation people express their political voice, contribute to the functioning of society and shape the political decision process. Moreover, by expressing their preferences and needs, public policy is better informed and policies can be better shaped, thereby increasing the effectiveness of public policy (Knack, 2002). Governance relates to the quality of setting regulations, defining and implementing public policy and establishing the rule of law. Effective governance thus also contributes to building confidence in the government and public administration. Measuring these concepts is particularly difficult and the few indicators that exist are limited.

In Austria, voter turnout rates have been slightly higher than in the OECD on average, but have been falling over the last two decades, as in most other OECD countries. The degree to which governments have open and formal consultation procedures differs widely across the OECD, but in general has become more formalised, according to an OECD indicator (OECD, 2009b). Austria scores around the OECD average but had lost some ground between 2005 and 2008 as other countries caught up. In Austria, the social partnership process plays a crucial role in forming consensus for political decisions on a wide range of issues including structural, regulatory and redistributive issues (see below for more details).

Trust varies across different public institutions. In 2010, more than 60% of Austrians stated that they highly trusted the judicial system, while this figure dropped to around 50% for the national government and to slightly below 40% for the media. A similar ranking of trust can be found in other OECD countries as well (OECD, 2011). In addition, about 72% of Austrians believe the political system works sufficiently well (Statistik Austria, 2013). More recently, the disclosure of several corruption cases in the political and economic sphere dating back to the last decade appear to have had a negative impact on the perceived level of corruption and may well have affected public trust (Transparency International, 2012).

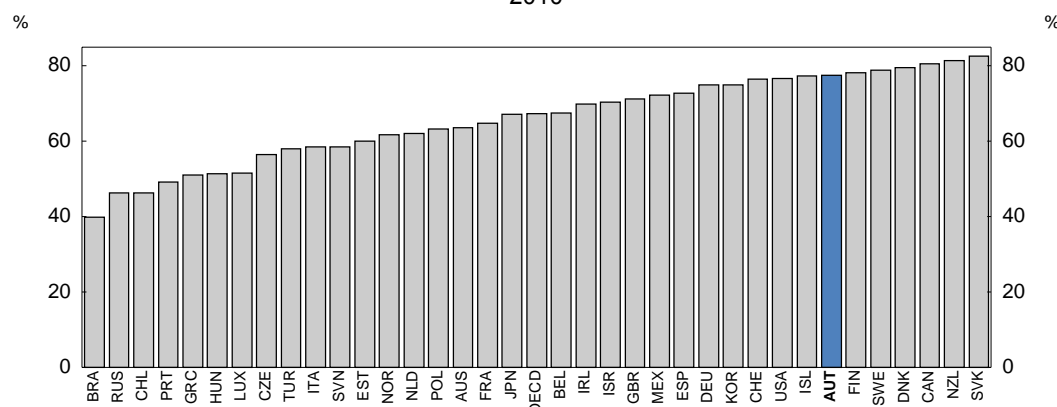
### *Personal safety is high*

Personal security, in the sense of being sheltered from personal harm or crime, prevents people from suffering from long lasting and severe effects on personal well-being. Crimes can directly affect an individual's physical or mental health or indirectly affect it through an increase in worry and anxiety hampering daily activities (Amerio and Roccato, 2007). Living in safe communities can also foster closer inter-personal relationships (Detotto and Otranto, 2010).

Austria enjoys a high level of personal security. The intentional homicide rate in Austria is 0.5 per 100 000 people, one of the lowest in the OECD, and has fallen continuously since the early 1990s. The share of the population that reports having fallen victim to assault over the last 12 months is 3%, also below the OECD average of 4% (OECD, 2011). In addition, robberies and domestic burglaries are less frequent than in other EU countries, although both have increased since the early 2000s.<sup>7</sup> (Eurostat, 2012). These low crime levels are also reflected in a high perception of safety in Austria (Figure 11).

**Figure 11. Perceived security**

Percentage of the population declaring feeling safe when walking alone at night in the city or area where they live, 2010



Note: Data refer to 2008 for Iceland and Norway; and to 2009 for Estonia, Israel, Switzerland, and the Russian Federation.

Source: OECD (2011), *How's Life? Measuring Well-Being*.

Men are more likely to fall victim to homicide and assault, although women report slightly lower perceived security. In most OECD countries, people with higher income and higher education usually report higher feelings of security and indeed face lower risks of crime. This can be explained by the fact they can afford better security and are less exposed to criminal activity in their neighbourhoods. This is, however, not the case in Austria, where both the assault rates and perceived insecurity seem somewhat higher among the highest income groups (Statistik Austria, 2013).

### *Environmental quality is satisfactory*

People's well-being and quality of life is strongly affected by a healthy physical environment (Khan, 2002; Holman and Coan, 2008). Environmental pollutants, hazardous substances and noise have a strong impact on people's health. More extreme environmental events such as natural disasters may cause death, injury and disease. The environment may also affect citizens intrinsically as they attach a value to the beauty and healthiness of the place where they live and they benefit directly from environmental assets

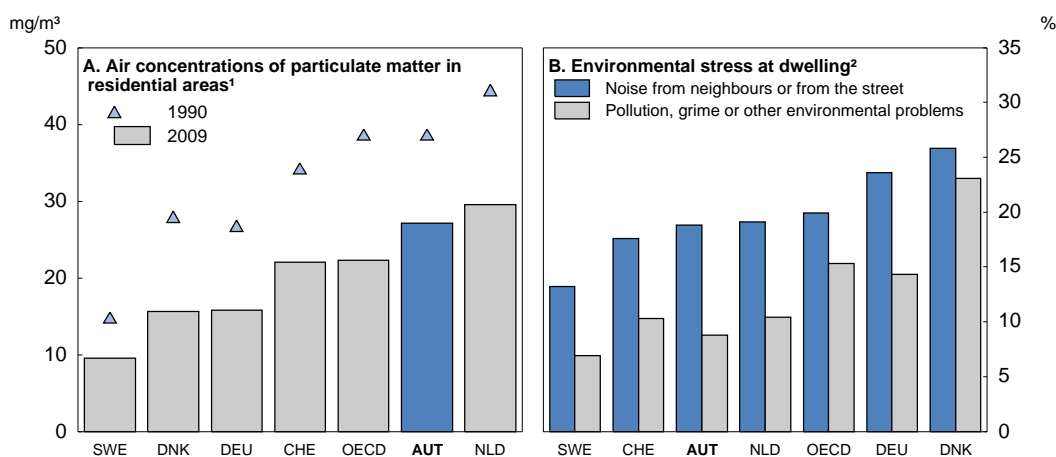
7. Data on the level of crimes are difficult to compare internationally as the exact definition, legal system and how they are counted may differ. This is a greater problem for robberies and burglaries and less of a problem for homicide data.

such as clean water and air, and access to green space. This section looks at the importance of the environment for current well-being. The question of environmental sustainability is dealt with in Gönenç et al., (2013).

Austria has rich natural assets. Forests and other woodlands represent nearly half of the territory with a wide diversity of flora and fauna, but urban sprawl and land sealing has become a concern (see Gönenç et al., 2013). The natural assets are likely to contribute to the value of leisure time activities. Furthermore, Austria's cultural and environmental assets also attract tourists. Tourism's direct value added is estimated to have contributed 5.5% to GDP in 2011 (excluding business trips: 5.1%) and tourism accounts for 7.3% of total employment (2011).

Air pollution can have severe effects on human health, ecosystems and cultural heritage. Austria has managed to reduce air pollutants further and cleared the targets set by the EU National Emission Ceilings (NEC) directive for sulphur dioxide (SO<sub>2</sub>), non-methane volatile organic compound (NMVOC) and ammonia (NH<sub>3</sub>) in 2011. However, emissions of nitrogen oxides (NO<sub>x</sub>), while declining more recently, are still well above the NEC target. Emissions of total suspended particulates are also on a slowly declining trend since 1990. Despite these trends, in several urban areas and along transport routes concentrations of air pollutants, especially of particulate matters (PM10), ozone and nitrogen oxides, have been above the national limits set by the Ambient Air Quality Act and the Ozone Act (Umweltbundesamt, 2012). PM10 concentrations in urban areas are also above the OECD average (Figure 12).

**Figure 12. Environmental quality**



1. Data are urban-population weighted particulates PM10 levels in residential areas of cities with more than 100 000 residents.

2. Percentage of total population feeling disturbed by environmental stress at dwelling.

Source: World Bank; Eurostat, EU-SILC.

According to the latest *OECD Environmental Performance Review* of Austria (OECD, 2013b), water quality is good and has generally improved, owing to more advanced wastewater technology, increasing connection rates to wastewater treatment plants, specific action programmes to reduce nitrates and more widespread use of environment-friendly agricultural practices, all supported by government investment aid. Water is an abundant resource in Austria and only a small proportion of it is used: annual abstractions are around 4% of total available water resources. The share of Austria's population connected to public wastewater treatment plants increased from 88% in 2001 to 94% in 2010, one of the highest shares in Europe. However, extensive flood protection measures, intensive use of hydropower, and diversions of water flows for irrigation purposes have altered river morphology and hydrological conditions. As a result,

11% of surface water bodies are heavily modified or artificial; of these more than 80% fail to meet “the good ecological potential” required by the EU Water Framework Directive (WFD).

According to the *EU Survey of Income and Living Conditions* (EU-SILC), about 19% of the population state that they feel disturbed by noise from the streets or neighbours, similar to the European average and most peers (Figure 12). In contrast, only about 10% of the population complain about pollution, grime or other environmental problems in the areas where they live which is lower than the European average and most peers. In addition, 94% of Austrians state that they are satisfied with water quality, higher than the OECD average of 85% and most peers (OECD, 2011).

Nevertheless, some inequalities also appear to exist in the domain of environmental quality. According to EU-SILC, about 21% of the population in the highest income quintile feels disturbed by noise, grime or pollution in their living environment, while this share increases to 30% in the lowest income quintile.

### *Subjective well-being is high in international comparison*

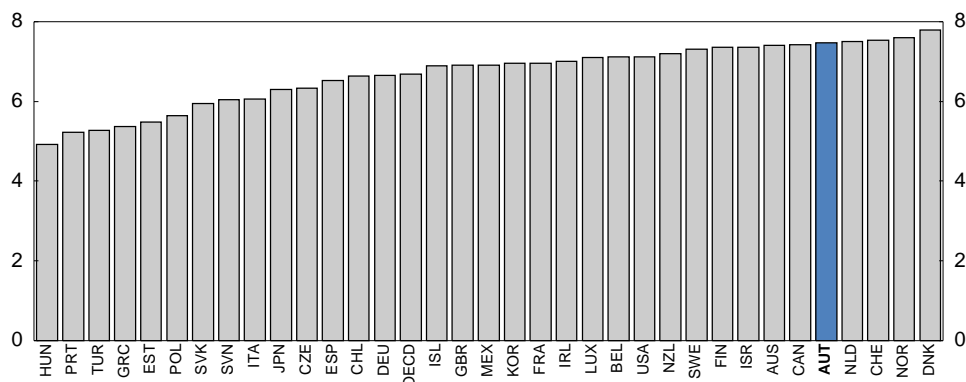
Subjective well-being tries to capture the notion that the way people experience a set of circumstances is as important as the circumstances themselves, and that people are the best judges of how their own lives are going. Three concepts of subjective well-being are often distinguished: life satisfaction, “affect balance” (the share of respondents who report having experienced more positive than negative emotions on the previous day) and “flourishing” (the set of potential and actual achievements that are available to an individual).

Life satisfaction captures cognitive assessments of one’s life. It presents an overall assessment of well-being that is grounded in people’s preferences rather than in a-priori judgments about the important drivers of individual well-being. Affect measures emotions at a point in time such as happiness, joy and excitement (positive affect) or anger, pain and sadness (negative affect). Affect balance is the difference between positive and negative affect. Flourishing is a more fundamental concept to capture notions of “capabilities and functionings”, which reflect the set of potential and actual achievements that are available to an individual (Sen, 1992). While functionings are usually thought of as objective circumstances of an individual, some researchers have also sought to measure them via individuals’ subjective appreciations and have, for example, combined survey questions on autonomy, determination, interest and engagement, aspirations and motivation, and a sense of meaning, direction or purpose in life (Clark and Senik, 2011).

Austrians appear to be satisfied with their lives. When asked to rate their general satisfaction with life on a scale from 0 to 10, **Austrians assigned it a score of 7.5, higher than the OECD average of 6.7 (Figure 13). Only people in** Denmark, Norway, the Netherlands and Switzerland seem to be more satisfied with their lives. A similar picture emerges from a different survey (EU-SILC), in which 79% of respondents stated being satisfied or very satisfied with their lives. This share has been relatively constant since 2005 except for a small drop to 76% during the crisis in 2008. Turning to a measure of affect balance, **75% of people reported having more positive experiences in an average day** (feelings of rest, pride in accomplishment, enjoyment, etc.) than negative ones (pain, worry, sadness, boredom, etc.). This figure is slightly higher than the OECD average of 72% (OECD, 2011). Finally, Huppert and So (2011) construct a measure of flourishing for 23 European countries and find that almost 28% of Austrians meet their criteria for flourishing. This share is only higher in Denmark and Switzerland.

**Figure 13. Life satisfaction**

Cantril ladder, mean value, 2011



*Note:* The Cantril ladder is measured on a scale from 0 to 10. Data refer to 2008 for Iceland and Norway; 2009 for Switzerland; and 2010 for Chile, Israel and Brazil.

*Source:* Gallup World Poll.

Women appear to be more satisfied with their lives in Austria than men while their affect balance appears slightly lower, a pattern consistent with the majority of OECD countries. People with higher education also tend to be happier. This difference is also visible in Austria, where the gap between life satisfaction of tertiary and primary graduates is slightly above the OECD average (OECD, 2011). This is likely to reflect mainly the better income and employment outcomes of the better educated (see Box 3).

Differences in subjective well-being between native born and people with migration background appear to be relatively limited, despite the fact that the latter are faring less well in a range of well-being dimensions. Boarini et al., (2012) do not find a significantly negative effect on life satisfaction from being born abroad in Austria, contrary to the findings for the average OECD country (see also Box 3). Moreover, 87% of immigrants reported feeling completely or mostly at home in 2012, against less than 5% not feeling home at all. Some differences between groups exist: 92% of the people from former Yugoslavia felt completely or mostly at home, against slightly below 80% from Turkey. However, 44% of immigrants from Turkey stated that their personal circumstances have deteriorated in recent years, against 16% for those from former Yugoslavia (Statistik Austria, 2012). The proportion of those feeling discriminated varies across groups: 26% from former Yugoslavia and 58% from Turkey felt discriminated. This feeling declines for younger generations (from 42% for those aged 40-59 to 28.6% for those aged 15-19) (Statistik Austria, 2012).

### Box 3. Determinants of subjective well-being

Analysing the determinants of subjective well-being can give hints about social preferences and can hence provide valuable information for policy makers. Much of the literature has focused on the relationship between income and subjective well-being. In several papers Richard Easterlin (e.g. 1974, 1995, 2001, 2005) investigated the relationship between income and happiness both across countries and within countries over time, without finding significant evidence of a relationship. In contrast, robust evidence appears to exist that within countries at a point in time, richer individuals are happier (e.g. Layard, 1980). This so-called Easterlin Paradox can be reconciled if relative and not absolute income matters for individual subjective well-being. A related idea is that subjective well-being adapts to circumstances and hence increases in income only have a temporary positive effect on happiness (e.g. Di Tella and MacCulloch, 2010). Alternatively, absolute income may only matter at low income levels but happiness and income are independent beyond a certain satiation point.<sup>1</sup> However, the Easterlin Paradox is still debated with studies finding evidence that absolute income plays a major role in determining happiness both across countries and over time (e.g. Sacks et al., 2010 and Stevenson and Wolfers, 2008). Other factors commonly found to have a strong impact on subjective well-being include health (both physical and mental), social contact and employment status. While being employed as opposed to for example being retired or looking after children does not appear to influence life satisfaction, unemployment has a large negative impact beyond the effect associated with the loss of income (Flèche et al., 2012).

Two recent OECD studies (Flèche et al., 2012; Boarini et al., 2012) investigate drivers of subjective well-being in OECD countries.

Flèche et al., (2012) use data from the World Values Survey (WVS) and European Values Survey (EVS) over the time period 1994-2008 to investigate determinants of life satisfaction. The Austria specific regressions suggest significantly positive effects from good health, freedom of choice and control, and trust in people, while the impact of being unemployed or divorced is significantly negative. In contrast to the sample including all OECD countries, no significant effects are found for income (+), income inequality (-), being female (+) and having children (+).

Boarini et al., (2012) use data from the Gallup World Poll for 2009-10. They use proxy variables for all 11 *How's Life* well-being dimensions. In the OECD sample, they find for all variables significant coefficients with the expected signs on both life satisfaction and affect balance. For life satisfaction they find particularly strong effects from not having enough money for food, unemployment, health problems, having friends to count on and freedom to choose what to do with one's life. While they find significant effects from education the magnitude of this effect decreases as other areas of well-being are controlled for, lending support to the notion that education primarily affects life satisfaction through other well-being areas. Comparing the results between the drivers of life satisfaction and affect balance they find very similar results, however the effect of economic variables (e.g. income, unemployment) have a somewhat weaker effect while social variables (health, freedom to choose, personal security) have a larger impact. For Austria they find similar effects to the OECD average.<sup>2</sup> However, the results for Austria do not suggest a significantly negative impact from being born abroad on life satisfaction in contrast to the results for all OECD countries.

Another way of gauging information about the social preferences of a country is to ask individuals directly about the importance they ascribe to certain well-being dimensions for their individual well-being (stated preferences). This is the approach taken by the Austrian research institute WIFO in a recent study (WIFO, 2012). In 800 personal interviews, individuals were asked to rate each of the 11 *OECD How's Life* well-being dimensions on a scale from 1 to 6. The study finds that Austrians ascribe the highest importance to health, subjective well-being and safety. However, the differences in importance between all areas are small, as are the differences between the sub-indicators in each well-being dimension. Differences in assigned ratings between socio-economic (men/women; age groups; educational levels) groups are also small. All groups rate health the highest and political engagement lowest. Using these ratings as weights, the 11 dimension were aggregated into a composite indicator. Based on the OECD Better Life Index Indicator set, Austria ranks 10<sup>th</sup> among the 18 countries with sufficient data. The Nordic countries Norway, Denmark and Sweden rank highest, whereas the eastern European countries Poland, Hungary and Estonia rank lowest. When using an extended dataset with additional indicators found important for well-being in the interviews (e.g. income inequality, voluntary work and health insurance coverage) Austria ranks 4<sup>th</sup> among 11 countries, behind Sweden, Denmark and Finland.

1. Layard (2003) suggests an income threshold of USD 15 000 per head.

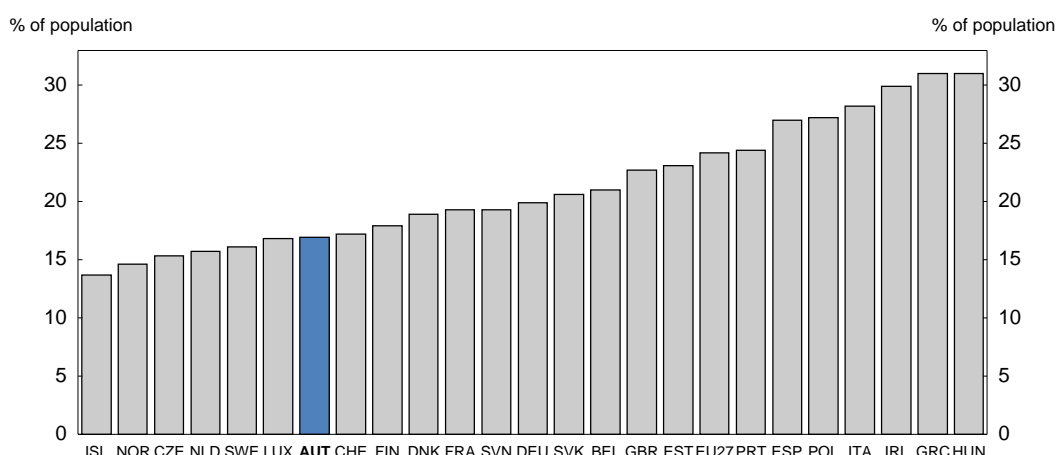
2. Country specific results are not reported in Boarini et al., (2012) but have been made available for this Survey.

### Groups with multiple well-being disadvantages

The previous sections have looked at average well-being outcomes and have shed some light on inequalities in each well-being dimension separately. However, outcomes in different well-being dimensions are correlated and certain groups in the population tend to cumulate multiple disadvantages (or advantages) at the same time. This section tries to shed some light on this issue in Austria.

Austria has committed itself under the EU's ten year growth strategy Europe 2020 to reduce the number of people at risk of poverty or social exclusion by 235 000 within the 10 years between 2008 and 2018. People at risk are people for which at least one of the following criteria holds: *i)* a disposable household income adjusted for household size below 60% of the median income; *ii)* severe material deprivation which covers indicators relating to economic strain, durables, housing and environment of the dwelling<sup>8</sup>; or *iii)* live in households with very low work intensity.<sup>9</sup> In 2011 about 1.4 million people (17% of the population) were at risk in Austria according to this definition, which is significantly below the OECD and European Union average (Figure 14). For about 7% of this group (99 000 people) all criteria are relevant at the same time. 12% (166 000) are both at risk of poverty and live in households with low work intensity, while 7% (97 000) are both at risk of poverty and materially deprived. Finally only about 1% are materially deprived and live in households with low work intensity (14 000) (see Till et al., 2012). Austria managed to reduce the number of people at risk even during the crisis. Despite a small increase in 2011 the number of people at risk has fallen by 125 000 compared to the reference year 2008 and Austria appears to be on track to meet its Europe 2020 commitments.

**Figure 14. People at risk of poverty or social exclusion, 2011**



*Note:* People at risk of poverty or social exclusion refers to those who meet at least one of the following three conditions: at-risk-of-poverty, severely materially deprived or living in households with very low work intensity. Risk-of-poverty is defined as the share of individuals with disposable income adjusted for household size after transfers and taxes less than 60% of the median for the entire population. Severely materially deprived is measured as the share of individuals experiencing at least 4 out of the 9 following deprivation items: cannot afford *i)* to pay rent or utility bills, *ii)* keep home adequately warm, *iii)* face unexpected expenses, *iv)* eat meat, fish or a protein equivalent every second day, *v)* a week holiday away from home, *vi)* a car, *vii)* a washing machine, *viii)* a colour TV, or *ix)* a telephone. Living in households with very low work intensity is defined as the share of individuals living in households where the adults have worked less than 20% of their total work potential during the past year. Data refer to 2010 for Ireland.

*Source:* EU-SILC Survey.

8. A person is considered severely materially deprived according to the EU definition, if they experience at least 4 out of 9 following deprivations items: cannot afford *i)* to pay rent or utility bills, *ii)* keep home adequately warm, *iii)* face unexpected expenses, *iv)* eat meat, fish or a protein equivalent every second day, *v)* a week holiday away from home, *vi)* a car, *vii)* a washing machine, *viii)* a colour TV, or *ix)* a telephone.
9. People aged 0-59 living in households where the adults worked less than 20% of their total work potential during the past year.

Till et al., (2012), also show that people at risk of poverty and social exclusion face disadvantages in several other well-being dimensions. For example they are 3 to 5 times more likely to live in poor housing conditions (overcrowded dwellings, overburdened by costs, insufficient basic housing conditions such as sanitary facilities, or strains in the neighbourhood (noise, pollution and crime). They are also less likely to have taken part in educational activities over the last year and they are twice as likely to have long-standing illnesses and or face health related limitations in their daily lives compared to people not at risk of poverty and social exclusion.

Analysing this group in greater detail, Till et al., (2012) show that women and children and young people under the age of 18 face a higher risk of poverty and social exclusion. The higher risk of women mainly reflects their lower labour market attachment. Across different household sizes, the risk of a household belonging to the poverty and social exclusion group is 3-4 times higher if no woman in the household works. In addition, people with a migrant background are also particularly likely to be at risk. About 35% of the people at risk are either immigrants from non-EU/EFTA countries or naturalised citizens.

### **Drivers of Austrian well-being**

Special economic and social features have played a distinct role in Austrian well-being achievements. Three key factors appear to have reinforced each other and bolstered well-being: *i)* steady productivity growth within broadly stable enterprise and production structures; *ii)* families providing intense services to their members with the support of local social connections; and *iii)* the important role of social partnership for policy formation and implementation. Certain factors within these drivers influence individual dimensions of well-being (for example the contribution of productivity growth to material foundations of well-being), while others bear on wider outcomes (medium-sized family firms providing not only incomes but employment stability, satisfaction in workplaces, and stability of living places). Certain factors raise trade-offs between dimensions of well-being. For example, families' providing care for their young and old members increases household services and social connections, but limits market incomes, the employability of the caring family member and increases gender wage gaps. Table 3 summarises these links between specific economic and social drivers and different dimensions of well-being (with examples of these links relevant in the context of this Survey) (Table 3).

#### ***Productivity growth within stable enterprise and production structures***

##### ***Steady productivity growth and competitiveness gains...***

Austria's economic performance has been backed by successful international economic integration through post-war decades, first with the German economy, then more generally with Western Europe and the formally centrally planned economies of Central and Eastern Europe. Economic performance has permitted steady gains in the purchasing power and material well-being of citizens, has made their work and living conditions more satisfactory, facilitated life-long learning and has helped generate "wealth in time" by lowering working hours and lengthening retirement periods. Growth has also produced fiscal resources for large public services and social transfers (Figure 21). Nonetheless, it has also created tensions with the quality of the environment through emissions, the growth of road traffic, and urban sprawl.

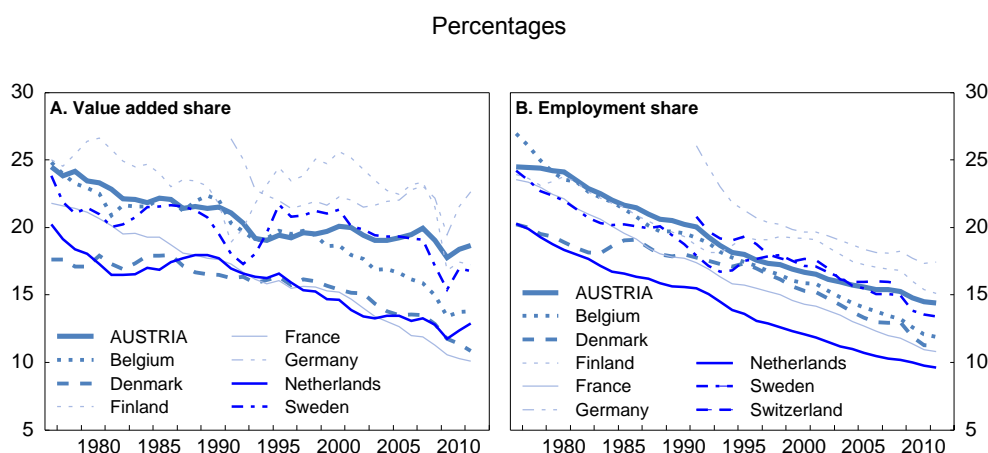


**Table 3. Drivers of Austria's well-being**

Outcomes Drivers	Income and wealth	Education and skills	Work-life balances	Health status	Jobs and earnings	Housing	Social connections	Environmental quality
Productivity and competitiveness	1	2			3			4
Medium-sized firms and stable employment			5		6	7	8	
Vocational education and training	9	10			11			
Stability of living places			12			13	14	15
Service intensive families	16	17	18	19	20		21	
Public services		22		23		24		25
Social partnership	26	27	28		29			

1. Productivity and competitiveness growth fosters material sources of well-being.
2. Highly productive and competitive firms provide labour market relevant on-the-job training.
3. Highly productive and competitive firms offer high-quality, well-paying jobs.
4. Economic growth puts pressure on environmental resources, e.g by increasing freight transport or land-use.. Aiming at increasing competitiveness can lead to an underpricing of environmental externalities. On the other hand, productivity increases achieved by a more economical use of resources can improve environmental quality.
5. Long-tenure employment with stable medium-sized firms may contribute to work-life balances by increasing stability.
6. Successful medium-sized firms offer jobs in "organic" teams.
7. Long-tenure employment with medium-sized firms facilitates the stability of living places.
8. Long-tenure employment promote stable living places which in turn fosters social connections and local social capital
9. High quality vocational education is a key driver of income growth and income equality.
10. High quality vocational education produces labour market-relevant skills.
11. High quality vocational education helps secure high quality jobs and earnings.
12. The stability of living places may contribute to work-life balances.
13. The stability of living places may help improve housing conditions. In turn, housing policies (social housing, rent control) contribute to stable living conditions.
14. The stability of living places facilitates social connections and hence fosters local social capital. Larger families living in geographically close places also strengthen social connections.
15. The stability of living places may increase commuting pressures.
16. Service intensive families may lead to lower labour market participation thereby lowering material income and wealth.
17. Service-intensive families contribute to the education of pre-school and school age children.
18. Family services contribute to the well-being of family members but create tensions between work and family responsibilities of women (especially when labour within families is divided according to gender).
19. Families provide care for children and elderly. Families with strong human capital promote good health practices (the opposite may be true for disadvantaged families).
20. Care responsibilities taken over predominantly by women may have contributed to the persistent gender earnings gap.
21. Intensive services within small and broader families contribute to closer connections and hence social capital.
22. Public education plays a central role in education and skill formation.
23. The public health service network is dense and highly appreciated by the population.
24. Subsidised social and co-operative housing plays a major role in the rental housing market, notably in Vienna.
25. Public regulations and services shape production costs of environmentally-harmful activities (e.g. fuel taxes), may subsidise environmentally friendly behaviour (e.g. organic farming), and influence settlement structures.
26. Social partnership shapes wage bargaining and strongly influences the distribution of the fruits of growth.
27. Social partners co-manage vocational training and the apprenticeship system.
28. Social partners shape work-life balances (working hours, vacation time etc.).
29. Social partners negotiate employment and pay practices.

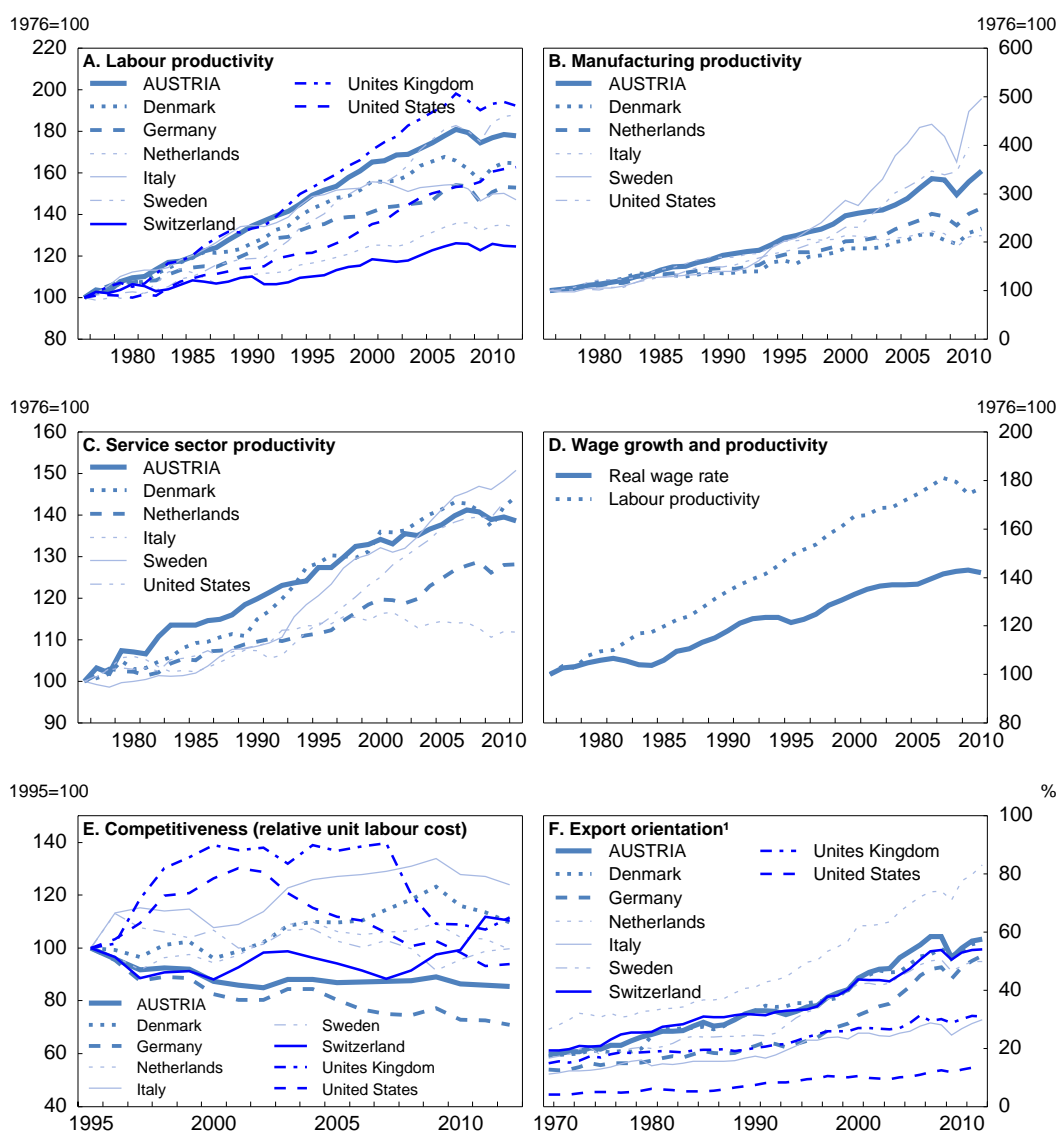
The manufacturing sector has played a special role in strong economic performance. It has expanded and diversified through the post-war decades, benefitting also from Austria's favourable geographical position. It has attained a high degree of sectoral and technological diversification (Hausmann et al., 2011). It has kept a larger share in the economy than in most other small European economies (Figure 15).

**Figure 15. The share of the manufacturing sector in the economy**

Source: OECD STAN Database.

High productivity and high income jobs in manufacturing stimulated demand for domestic services. Wage growth in the overall economy tracked these productivity gains, albeit with a gap, as international competitiveness was preserved and a sustainable balance between domestic and external demand was achieved (Figure 16). ‘Social partnership’ (discussed below) stimulated technical progress, productivity gains and helped distribute benefits in the form of profits, wages and taxes.

The performance of the economy along this path was strengthened with its further globalisation after opening to Central and Eastern Europe after the fall of the Berlin wall, accession to the European Union in 1995 and the launch of the Economic and Monetary Union in 1999. Austria is now one of the most deeply integrated economies with global production chains – its upstream vertical integration indicator (share of foreign value added in gross exports) reached 33%, one of the highest levels among comparable countries (OECD *Trade in Value Added Indicators*, 2012). The share of exports is also at a high level (Figure 16). Export orientation, import competition and inward and outward FDI flows have fostered efficiency gains, technology transfers and scale economies (Stöllinger et al., 2010). It is estimated that this successful pattern of international integration added 0.5 to 1 percentage point to annual GDP growth since the mid-1990s (Breuss, 2010). Strong economic fundamentals, despite structural shortcomings in sheltered service sectors discussed in previous *Economic Surveys* (OECD, 2007; OECD, 2009) have persisted to date and have been rewarded with high resilience of output and employment during the global financial crisis.

**Figure 16. Superior productivity growth and competitiveness have driven performance**

1. Real exports in percentage of real GDP.

Source: OECD Economic Outlook Database; OECD STAN Database.

*...driven by flexible medium-sized enterprises...*

Flexible, well-performing medium-sized firms – employing more than 25 but less than 500 employees – have played a special role in the growth and international integration of the business sector. Their performance has contributed not only to the material sources of well-being but, also, to the work-life balances and the geographical settlement patterns of the population and to the formation and resilience of local communities.

The economy boasts many large size enterprises, which had been directly or indirectly state-owned but were privatised in the 1990s, mostly to foreign investors. Inward FDI generated also large greenfield production units, notably in the automotive sector. These large firms played a major role in the

introduction of new technologies and organisation techniques in Austria. However, locally-owned manufacturing remained dominated by medium-sized firms, which have diffused these techniques and productivity gains. Despite the importance of large enterprises in the overall economy, the enterprises employing between 10-49 workers represent 24% of total employment (2011 figures), against a EU27 average of 21%, and they continued to grow after the global crisis (de Kok et al., 2011). Those employing between 50-249 workers account for 19% of total employment, against the EU27 average of 17% (EC, 2013). Similar data is not available for enterprises employing between 250-499 workers.

Research suggests that gradual growth of existing firms, rather than new entrants, had the strongest impact on the expansion of the business sector (Hölzl, 2011). The recent surge in R&D expenditures has taken place mostly within existing medium-technology firms (EC, 2013). The share of SMEs participating in international research projects is significantly higher than in other EU countries. Productivity improving technological progress appears to take place to a large extent within existing medium-sized firms.

Medium-sized enterprises are mostly family-owned (and the majority of family firms belong to this size category) (KMU, 2008). Fully or largely family-controlled enterprises employ about 75% of all employees, and account for about 70% of business entities in chemicals and plastics, and 80% and more in metalworking and electronics. The majority of family firms own all equity in their company, and in 40% of the cases management consists entirely of family members. Typically, such firms nurture special team relations with employees in the so-called “organic” ways of functioning with “routine social competencies cultivating team spirit” (KMU, 2008; WIFO, 2012). Enterprises accumulate experience-related know-how, and workers enterprise-specific human capital. Family firms are reported to be particularly focused on customer relations, adapting products and services to special customer needs, possibly as a consequence of a high degree of continuity in their management (Frank and Keßler, 2009).

Regarding dismissals in times of economic strains, recent research suggests that two types of company behaviour were observed in Austria in the global crisis (EFIGE, 2012): *i*) firms employing mostly mid-age and skilled workers tried to limit dismissals; and *ii*) firms employing younger and/or low-skilled workers tended to reduce their workforce in larger numbers. Hölzl (2012) found that Austrian SMEs could maintain a strong performance during the global crisis without firing employees thanks in part to flexible employment arrangements negotiated with workers. If employment adjustments became unavoidable, workers were supported and their outplacement promoted by employer firms, with the help of social partner organisations. The so-called Re-training Foundations (*Arbeitsstiftungen*) contributed to industrial adjustments. They offer re-training and out-placement support to employees and in-placement services to companies. They are jointly managed by social partners and are co-funded from public sources. Foundations and similar adjustment mechanisms already helped avoid social tensions in the past. Textile sector employment was reduced by 50% within a decade and steel and ceramic sectors experienced similar downsizing (Wagner and Lassnigg, 2005). In 2010, 9 300 employees were being re-trained by foundations.

There is room for improving corporate governance of family firms. About half of Austrian family enterprises operate without formal governance rules (*PriceWaterhouseCoopers*, 2008). Modern corporate governance would facilitate adjustments to structural changes in the global economy. For example, joint ventures and mergers with foreign firms may become necessary, and in several enterprises this needs to take place in the context of generational ownership transmissions. More formal governance arrangements facilitate these adjustments. According to recent research, family ownership has not hindered organisational innovations in Austrian firms so far (Altomonte et al., 2012), but the high degree of informality in corporate governance may become a handicap in future strategic restructurings (KMU, 2008).

Medium-sized firms’ employment and human resource management practices appear to have far-reaching implications on the functioning of the economy and society. Empirical evidence is sparse, but

available information suggests that these enterprises hire a significant part of their workforce from the graduates of apprenticeship schools and vocational colleges, train them further, and keep them within the enterprise for long-periods (KMU, 2008; Hoeckel, 2010; Bock-Schappelwein et al., 2012). Mahlberg et al., (2011) find a positive link between employee age and productivity, reflecting learning-by-doing, and suggest that previously assumed productivity declines in subsequent years may be less severe due to these experience effects.

A large part of employment relations are, as a result, of very long duration (Figure 16). The average tenure of workers aged 25-54 is longer even than in Germany and Sweden which have similarly stable employment practices (Figure 17). The number of times Austrian workers change employers is the lowest in Europe. The rate of job destruction in existing firms is also the lowest, while the proportion of workers looking for another job is very low. This distinct environment may account for Austrian workers reporting the highest degree of satisfaction with their employment conditions and professional development in Europe (Eurofound, 2012).

The stability of employment relations persists despite extensive recourse to seasonal employment, both in manufacturing and services (Schuh et al., 2000). Many seasonal workers are recurrently re-employed by the same enterprises and job turnover is even lower than actually measured (Stiglbauer, 2006; Huber and Smeral, 2006). This stability of employment is not imposed by regulations, and does not hinder occupational flexibility. Austria has indeed one of the most flexible employment protection legislations in Europe. On the other hand, the occupational flexibility of the workforce is very high. The European Labour Force Survey distinguishes three forms of flexibility (change of contract type, change of job profile, and change of employer), confirming that in Austria: *i*) employer mobility is very low, *ii*) the proportion of those looking for a new job is also very low, but *iii*) there is a high degree of occupational flexibility, as shown on Figure 16 (Andersen et al., 2008). OECD Employment Outlook 2012 confirms this particularly high degree of occupational flexibility in Austria. Structural adjustments are supported by internal re-training, also with the help of the social partner organisations. Occupational flexibility encompasses both “upward” and “downward” mobility: when necessary, employees in many firms accept to fulfil less qualified tasks, although pay levels usually cannot be reduced.

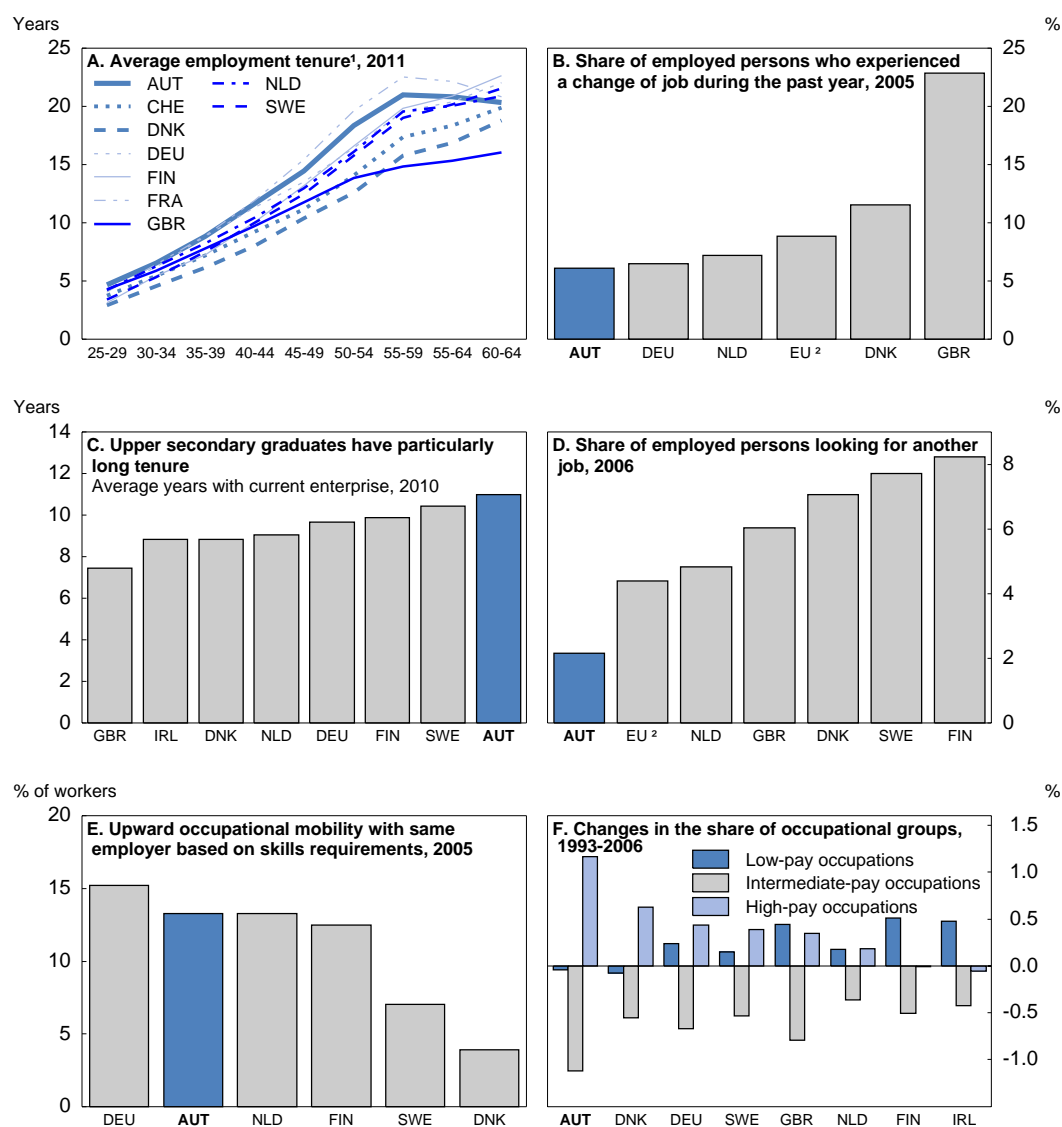
These relations are not universal in Austria. Many firms follow less committal, arms’ length labour relations. A study found that 30% of enterprises realised 70% of total job turnover, with 10% of enterprises generating 50% of total turnover.<sup>10</sup> Long tenure and mutual commitment between employees and employers has nonetheless typified the core labour force so far. This especially concerns the vocational education graduates employed in the manufacturing sector.

This business model underpins Austria’s technological and trade specialisation (Figure 18). Enterprises have built robust market shares in the sectors based on cumulative knowledge (Kegels et al., 2008). They excelled in particular in medium-technology, engineering-centred activities, and in sub-sectors based on medium-level vocational training (Peneder, 2009). In several sectors companies gain hold in the higher quality segments of the international markets (Bock-Schappelwein et al., 2012). Industry’s diversification towards more sophisticated, information technology-centred activities has been slower than in comparable countries, but, despite this apparent gap, Austrian economy remains highly diversified across a large spectrum of sectors (Hausmann et al., 2011). This appears to have increased its resilience in export markets (Ragacs et al., 2011).

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10. This may also be related to the size of the companies: the small number of companies that are responsible for the largest part of turnovers may have high levels of employment and low turnover *rates* (Pichelmann and Hofer, 1999).

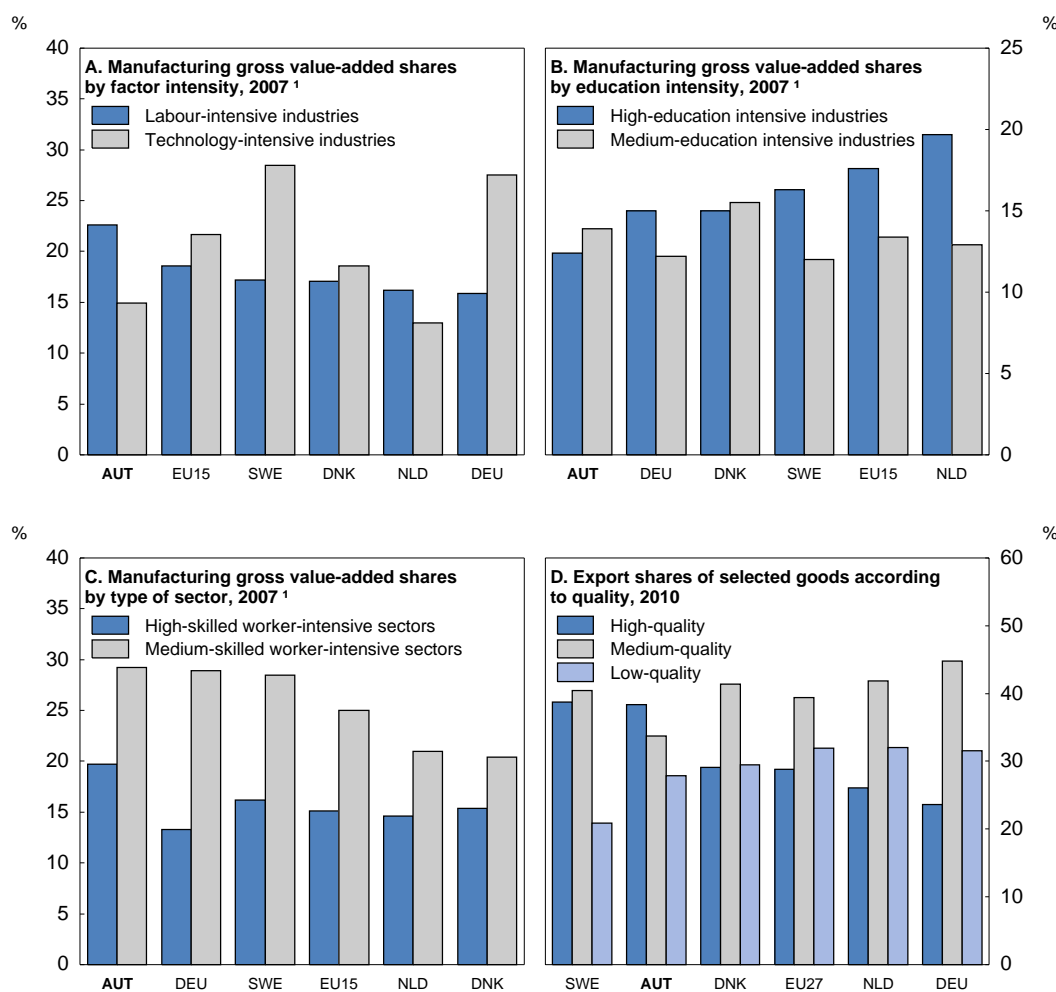
Figure 17. Employment stability and occupational flexibility



1. Job tenure is measured by the length of time workers have been in their current or main job or with their current employer.

2. Weighted average for the EU Member States for which data is available in 2005.

Source: OECD Economic Outlook Database; OECD, Labour Force Statistics Database; Danish Technological Institute (2008), Job Mobility in the European Union: Optimising its Social and Economic Benefits, Final Report; OECD, Employment Outlook 2012.

**Figure 18. Manufacturing is specialised in cumulative knowledge-based sectors**

1. The percentage shares of sectors shown on figures do not add up to 100% due to the presence of other sectoral categories in the underlying data.

Source: WIFO (2012), Bildung 2025: Die Rolle von Bildung in der österreichischen Wirtschaft.

*...backed by a distinct vocational education and training system*

The development of the business sector has been supported by the vocational education and training (VET) system. This structure, which is specific to Austria, differs even from its closest peers in Germany and Scandinavia. It has a particularly large weight in the education sector (the majority of the labour force is vocationally trained), has a complex bottom-up structure with many sectoral and regional layers, and is closely steered by the social partners. It directly supports material sources of well-being, skills, jobs and earnings.

The VET system has three components which differ in sophistication and respond to three broad types of labour market demands (Figure 19):

- Apprenticeship-based education (*Lehre*) which lasts 3 to 4 years after 9 years of compulsory education. Presently there are about 250 apprenticeship programmes in Austria. Students aged 15

to 18/19 spend 20% of their time in school and the remaining 80% with their employer. This stream accounts currently for 30% of new entrants to the labour force but had an even larger weight in the past.

- Intermediary (*berufsbildende mittlere Schule*) and advanced (*berufsbildende höhere Schule*) vocational colleges. These provide full-time vocational education, with some academic content, which lasts respectively 3 to 4, and 5 years after lower secondary education. Advanced colleges provide access to tertiary education. Students are aged 14-17/18 and 14-19. These schools train about 25% of all new entrants to the labour force.
- Universities of Applied Sciences (UAS) offer three to five years of applied professional education after high school. They admit graduates from both academic and vocational colleges, after individual selection (a possibility not granted to universities). They were created in the mid-1990s (110 graduates in 1996), and have expanded remarkably, from 3 000 students in 2003 to 12 000 in 2010. A further extension by 4 000 additional student places is planned.

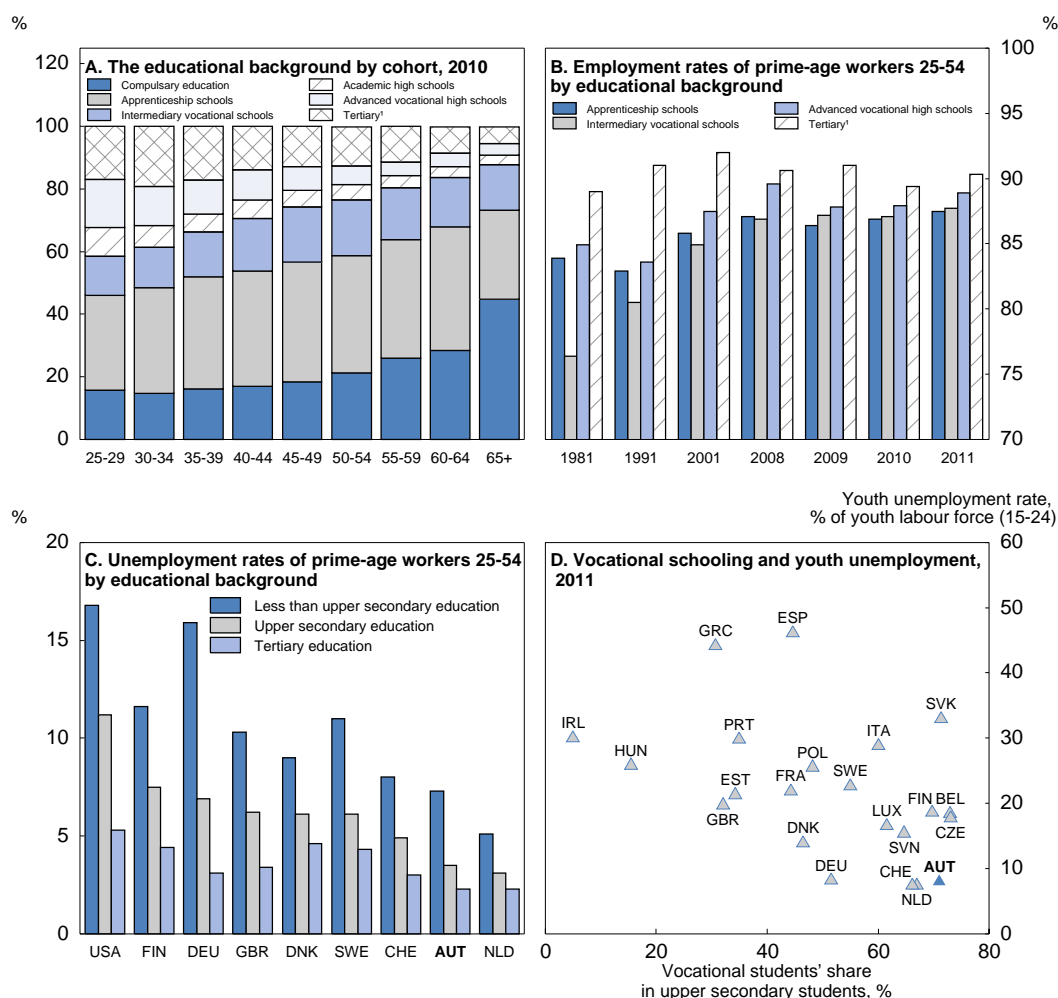
Graduates from VET streams are highly demanded in the labour market. In 2011, the unemployment rate of apprenticeship school, vocational college, and tertiary education graduates aged 25-54 remained as low as 3.2%, 2.6% and 2.8% respectively. Employment rates of VET graduates were around 90% in 2011 (Figure 19) – an exceptionally high level in international comparison.

The composition of vocational education evolves according to student demands and market needs. The share of apprenticeship students has been contracting, whereas that of intermediate and advanced vocational colleges increased. Graduates of apprenticeship schools from older generations face signs of obsolescence in their skills (as reflected in their weakening labour market performance), but the qualifications of younger cohorts appear to be more versatile - as suggested by their significantly stronger employment rate which reached 88% (for the 25-54 cohort) in 2011. The globalisation of the Austrian economy creates robust demand for qualified production workers, and the employment prospects of well-trained apprentices are good. Likewise, market demand for the graduates of 3-4 and 5 year vocational colleges remains very strong (the employment rate of the 25-54 cohorts reached respectively 88% and 89% in 2011).

What makes Austria's VET system so responsive to market needs is a high degree of participation of economic actors in its governance. Contrary to other key public services dominated by suppliers, the VET system has been traditionally open to the "voice" and influence of employers. It is a *de facto* part of the social partnership system: Economic and Labour Chambers actively steer its evolution. In particular, they are involved in the development of curricula of apprenticeship trades. Mismatches between the skills of graduates and labour market demands are in a number of instances reduced by comprehensive on-the-job training. And, equally importantly, employers decide about the accession of candidates to the apprenticeship system.

However, the VET system faces also adjustment challenges. Skill demands on the market may be diverging from the existing "path dependent" vocational streams, and more sophisticated and portable skills may be required by the market. Student preferences for training in managerial white-collar jobs, rather than in production-related scientific, technical and vocational skills may also be becoming a source of mismatch. Recent OECD assessments of Austria's VET system highlight the traditional strengths and these new challenges (Box 4).



**Figure 19. The adaptive vocational education and training (VET) system**

1. Universities of advanced sciences and general universities.

Source: Statistics Austria; OECD, Employment Outlook 2012; OECD, Education at a Glance 2012; OECD, Employment and Labour Market Statistics Database.

#### Box 4. Strengths and challenges of the Austrian VET system

An OECD review of Austria's VET system in 2010 documented the following strengths: the quality of apprenticeship, the high level of social partner involvement, capacity to cater to a broad range of labour market needs, and the links between VET and general tertiary education. The teacher workforce was found to be well-prepared, with industry experience. The review had recommended strengthening academic standards in apprenticeship training, and literacy and numeracy skills in VET curricula (OECD, 2010a).

A subsequent review in 2013 updated this analysis and emphasised the following points (OECD, 2013):

##### Strengths

- The system is highly diverse with many different programmes and institutions offering access to different social groups through different modes of provision. A range of pathways allow students to access higher education. These are substantial achievements in international comparison.
- Student numbers continue to grow in VET colleges and graduates gain high earnings in the labour market.

- Universities of Applied Sciences have built a high reputation amongst students, employers and the general public.
- Highly structured professional examinations offer a route to higher earnings and more senior positions to those acquiring skills on the job. They also offer a way to independence as owners of small businesses.
- Social partners have high levels of engagement in the VET system, through the Economic Chamber and the Chamber of Labour. They are active members of many commissions and co-ordination councils.

#### **Challenges**

- The VET system remains composed of many different institutions, subject to different and un-coordinated governance systems. This allows innovation and entrepreneurial responses to the needs of different groups of students. The challenge is to ensure that this diversity is adequately managed and coordinated.
- The mix of training provision between different fields is “mainly driven by student preferences and may not fully reflect the needs of the economy”. The Review highlights this as a challenge as the VET system is publicly funded.
- Given increased demand for higher level skills, access to further learning opportunities is critical. There are two key challenges. Secondary vocational graduates often fail to receive adequate recognition for their qualifications when proceeding to tertiary education. New pathways created for apprentices and others without a formal qualification to enter tertiary education are little used.

#### **Recommendations of the 2013 *Skills Beyond School* Review of Austria**

- Building on recent initiatives by the government and social partners, establish a national advisory body on VET involving all key stakeholders. The objective should be to ensure more strategic coherence in the VET system without damaging its vibrant diversity.
- To improve access to UASs and universities, establish a commission to facilitate the transition from vocational colleges to UASs. Take steps to improve the access of apprentices into tertiary education.
- Workplace training should remain a substantial and mandatory part of VET programmes. Learning objectives for workplace training should be built into curricula and into quality assurance schemes.
- New institutional mechanisms should be developed to ensure that the mix of provision in UASs and VET colleges takes account of employers’ needs alongside student demand.

Source: OECD, 2010a; OECD, 2013.

### ***Families provide intensive services backed by local social connections***

#### ***Families’ role in care for members***

Families have long been central pillars of social life in Austria. They complete market and public services in particularly important ways (Frèche et al., 2012). They secure for example the lion’s share of care for low-age children and dependant elderly. They also provide essential complements to school services in the later education of children (OECD, 2009). These roles go beyond what is found in most other OECD countries and influence significantly the education and health outcomes of the new cohorts and the work-life balances and social connections of all generations.

Early child care until 2 years has been largely a family responsibility to date. Austria has the lowest proportion of children aged 0-2 in institutional facilities among high income European countries, at 12%, against an EU average of 28% and 65% in Denmark, 55% in Netherlands and 48% in Sweden (Hofmarcher-Holzhaecker, 2012). Family policies facilitate this option by offering generous child cash benefits and letting families decide between external and internal care. Policies give incentives to parents staying with children below three years old (by providing allowances but withdrawing them if the market income of the recipient exceeds a threshold). At the same time they support external care by strongly subsidising child care institutions when these services are available, which is not the case across all regions

for children of very young age (Gönenç et al., 2013). From the viewpoint of children's development, an open policy stance permitting families to combine internal and external care may be appropriate (OECD 2011a, OECD 2004, US Committee on Integrating the Science of Early Childhood Development, 2000). In families with strong human capital, very young children seem to benefit from close parental presence. For the development of children born into less advantaged environments, external care tends to be more effective even at very young age and such children benefit from participation in early childhood education and care (ECAC) from a very early stage. Needs and best adapted solutions differ according to circumstances – with limited empirical research so far in Austria on alternative care solutions, children's development and parents' well-being.

The special role of families is also reflected on health care practices for children. Families have larger responsibilities in this area than in other OECD countries. Even if a range of medical tests are a prerequisite for child care subsidies (the *Mutter-Kind-Pass* scheme), a number of preventive measures are decided within families rather than being mandated by law. This is the case for example for a number of vaccines for immunisation. Many families (notably families with an immigration background) have difficulty fulfilling these responsibilities and, as a result, Austria has started to fall behind in international child health indicators. Austria's position in the standard *Bradshaw Child Health Index* is the EU 27's lowest, except for Romania and Greece, due to low immunisation (Hofmarcher-Holzhacker, 2012). Gaps seem to reflect shortcomings in families' awareness and shortfalls in supporting public services.

Families' support to the dependant elderly follows a similar pattern. About 75% of all dependants in Austria are taken care of in families, with the lion's share of responsibilities falling on women and on helpers under their governance. The increase in female labour force participation in the 2000s was accompanied by an increase in the share of institutional care, but its role remains limited. Mühlberger et al., (2008) found that women's labour force participation increasing by 5 percentage points between 1995 and 2006 was accompanied by a shift in the share of formal care for elderly from 20 to 25%. Family responsibilities in this area may be increasing as a result of ageing and the prevalence of new forms of dependence, including mental dependence (OECD, 2011e).

Public policies support a variety of options in old-age care. Austria has developed a particularly elaborate system for long-term care based on lump-sum subsidies corresponding to seven different levels of dependency, which gives the choice to dependents and their families between internal and external care. To help family caregivers new services are becoming available as discussed in Gönenç et al., (2013).

Tensions between work and family responsibilities put a large burden on working age women. This tension is discussed in Gönenç et al., (2013) as a key challenge to the future sustainability of the Austrian well-being model.

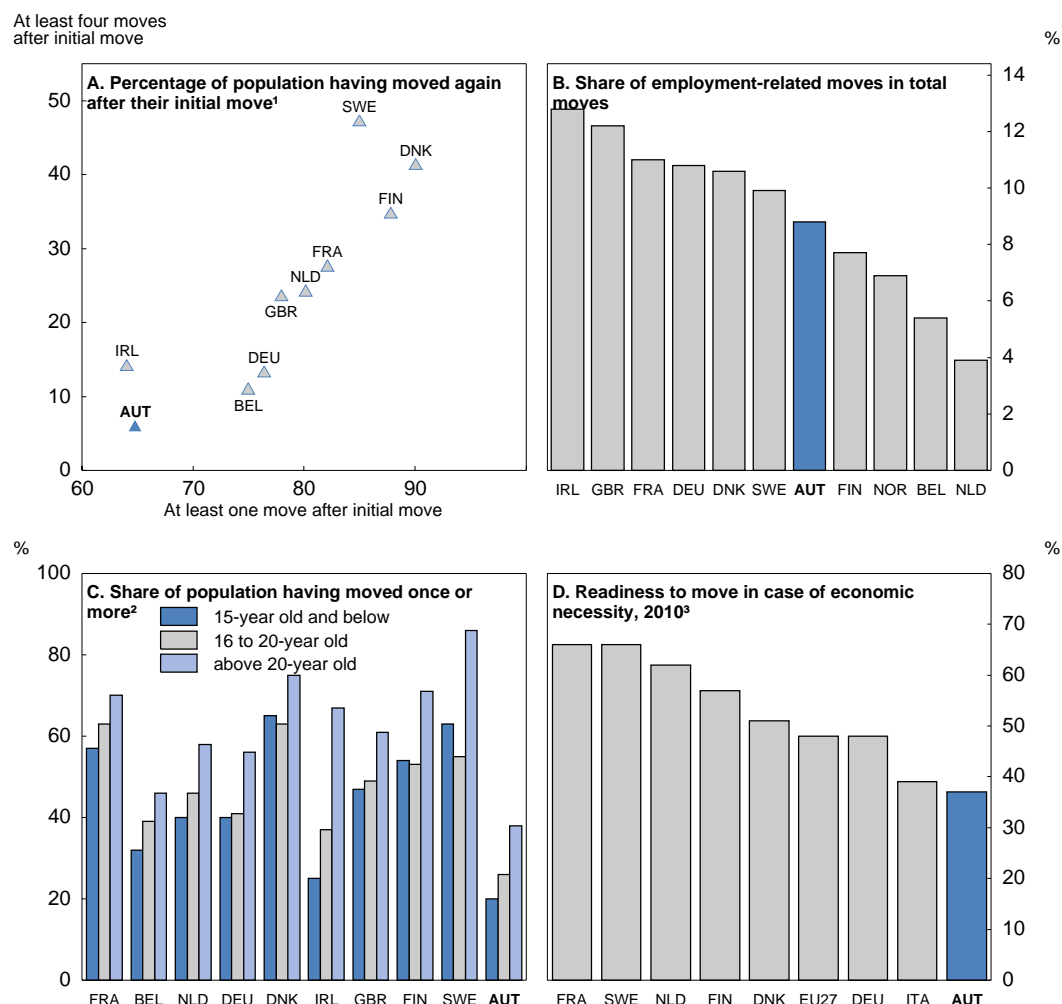
#### *The geographical stability of living places and social capital*

The population is more geographically stable than in other high income OECD countries. This stability appears to contribute to important dimensions of Austrian well-being such as high appreciation of local social relations, strong feeling of safety in neighbourhoods, comfortable housing conditions and vibrant local voluntary activities. It also facilitates co-operation and exchanges of services within broader families.

Internationally comparable data on geographical mobility are sparse. Data from the "European Year of Workers' Mobility 2006" confirm that the proportion of Austrian people changing NUTS 2 level regions is very low, at 0.6% per year, whereas it fluctuates around 2% in peer countries. Two thirds of young adults move at least once more after leaving their parents' house, and 40% of them twice, much less than in comparable countries, where rates are respectively between 80-85% and 60-80%. The young and higher

educated are more mobile, but less than their counterparts in other countries.<sup>11</sup> Austrians also declare to be the least willing to change living places in case of economic necessity (Figure 20).

**Figure 20. Stability of living places**



*Note:* Internationally comparable mobility data is usually presented in terms of number of moves after initial move out of the parents' house.

1. With at least one of the four moves to another city. The initial move out of parents' house is not counted.
2. With at least one move to another city after moving out of parents' house.
3. Percentage of responses to the question, "If you were unemployed and had difficulties finding a job here, would you be ready to move to another region or country to find one?"

*Source:* EC, Eurobarometer 64.1, "Mobility, Food Risk, Smoking, AIDS Prevention, and Medical Errors", September-October 2005; EU-SILC 2007, ad-hoc module on housing conditions; EC, Special Eurobarometer 337, Geographical and labour market mobility, June 2010.

11. The 15-24 cohort is more mobile than the 25-64 group. But 15-24 year old Austrians (with 0.8% NUTS 2 mobility in 2003) are much less mobile than the 15-24 year old Dutch (nearly 3.5%), Germans (more than 2%) and British (4%). The same pattern recurs across education groups.

Preference for residential stability reveals a special appreciation for local community connections. David et al., (2008) found that Austrians have more frequent daily contacts with neighbours than in peer countries. Local connections account for their sense of solidarity and feeling of security. While employment suffers in other countries with largely local social capital and low mobility, Austria is an exception: social capital is mainly local but employment has not been hampered. This reflects the stability of employment and long tenure in successful medium-sized enterprises spread across the territory.

As discussed above, intensive voluntary work, including for the production of local public goods such as fire brigade services are a local characteristic. Austria is the European country with the highest degree of participation in unpaid voluntary activities (Eurofound, 2012).

Public policies support this pattern through two channels, as discussed in Gönenç et al., (2013). First, transaction costs make moving more costly. Second, transportation policies facilitate long-distance commuting, both by car and public transportation. Eligibility rules for unemployment benefits also do not actively promote mobility.<sup>12</sup>

### ***The role of social partnership in policy formation and implementation***

#### *A strong but costly public sector...*

The public sector offers a dense service network, large social transfers and a comprehensive range of regulatory functions. Its activities influence directly the education, health, housing and environmental outcomes of the population. Its funding requires a high public revenue ratio at 47% of GDP (Figure 21). This is one of the highest shares among OECD countries, but seems to have been endorsed by the society to date. According to a survey in 2006, only 33% of Austrians thought that their social welfare system is too expensive, compared to 51% on average in the European Union (EC, 2007). Austria's strong trend growth may have helped by permitting to expand public revenues without directly denting household incomes. The government has also tried to reduce the tax burden over the past decade: Austria is one of the few high-tax OECD countries that reduced the share of taxes in GDP between 2000 and 2011.

The composition of taxes is characterised by a particularly high share of social security contributions and income taxes, and a low share of real estate and green taxes. As a result, the labour tax wedge is very high in international comparison, at 48%, which hinders the employment of low-skilled and old workers (see the chapter on the rationalisation of fiscal policy in the 2007 *OECD Economic Survey of Austria*).

A dense network of federally and Länder funded and managed public services operate in the areas of education, health care, kindergarten, collective housing and public transportation. They enjoy high public approval. In the latest available *European Quality of Life Survey*, Austrians reported a distinct degree of satisfaction with the quality of their public services (Eurofound, 2012a). They reported Europe's highest degree of satisfaction with health care and social housing, and were among the five most satisfied nations in four other public service areas. The only area where this was not the case was the public pension system, despite its high volume of public spending.

Social transfers include indeed particularly large pension transfers, as discussed in Gönenç et al., (2013). These benefits are topped up with a sophisticated financial support for long-term dependents. Child

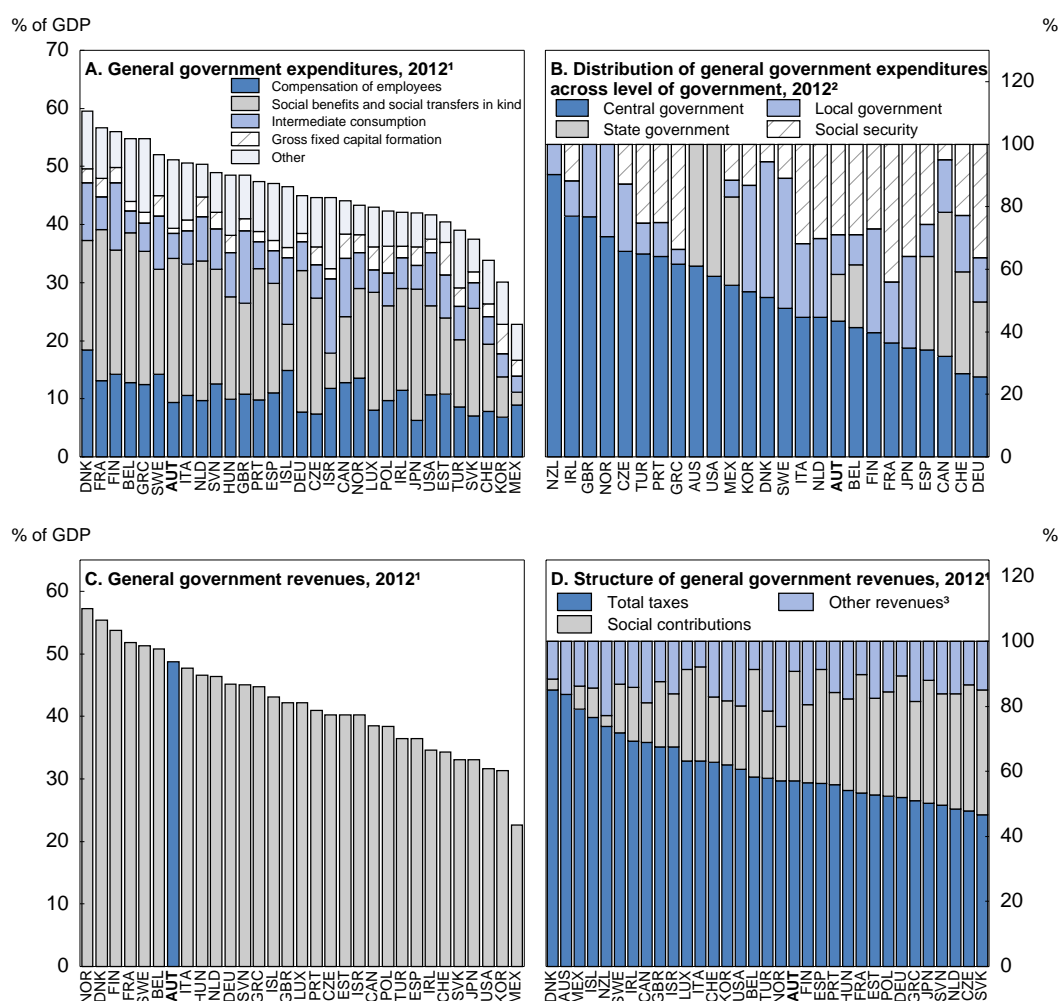
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12. Beneficiaries of public unemployment insurance are not required to change living places to find employment. A job proposed by the public employment service has to be in "reasonable distance" from the job-seeker's living place (maximum 2 hours per day for a fulltime job). A job proposal farther away is regarded as reasonable if it includes an accommodation offer. Nonetheless, moving subsidies are available from the public employment service for job-seekers accepting to move to take a job offer.

care and family benefits are granted at relatively generous rates, and are not means tested. Transfers have therefore a large “horizontal” component, *i.e.* are collected and redistributed during the life-cycle of households.

The public sector suffers a number of important inefficiencies (Fischer et al., 2011). Largest services are controlled by suppliers and are financed through a complex web of federal fiscal relations, with limited influence from users. Production costs, quality and ultimate user benefits are not always transparent. Reforms to strengthen accountability, improve cost efficiency, and enhance quality are on the policy agenda (OECD, 2011).

**Figure 21. Size and structure of the public sector in international comparison**



1. 2010 for Canada, Korea and Turkey; 2011 for Israel, Japan, Mexico, Switzerland and the United States.
2. 2010 for Canada, Korea, New Zealand and Turkey; 2011 for Australia, Japan, Switzerland, Mexico and the United States.
3. Capital taxes and other revenues

Source: OECD, National Accounts at a Glance Database; OECD, National Accounts Database.

*...backed by a unique social partnership system*

Social partnership is an institution which has emerged in small open European economies, but has reached its most elaborate form in Austria (Katzenstein, 1985). Corporatism is another term for social partnership in the Austrian context. The Routledge Encyclopedia of Political Economy describes it as a “governance mechanism which includes strong centralised industrial unions, strong centralised employer unions and a government which depends on social partners for the successful mobilisation of its institutional capacities”. A detailed study of corporatism in 24 OECD countries singled out Austria as the country where the system is the most developed (Siaroff, 1999). The present governor of Austria’s Central Bank had suggested earlier that “Austria’s transformation from a poor country before the war to one of the richest countries of the world in GDP per capita basis is closely connected with and largely caused by its’ system of social partnership” (Nowotny, 1993). The system’s influence encompasses material sources of well-being, working conditions, work-life balances, education and skill formation, and social connections.

Social partnership provides formal institutional representation for workers, employers and farmers. Their representative “chambers” (the Federal Economic Chamber, the Federal Chamber of Labour, and the Chamber of Agriculture) are non-governmental associations with compulsory membership, and all their positions are filled through elections. The Trade Union Federation, which constitutes the 4<sup>th</sup> leg of social partnership, is an association with voluntary membership. The Law requires that the government consults with social partners on all economic and financial matters before presenting legislation to Parliament.

Social partnership from the start went beyond wage co-ordination. Wage bargaining is not based on tri-partite centralisation but on “pattern bargaining”. Annual wage negotiations in the metalworking industry have traditionally served as benchmark for a cascade of negotiations in different sectors, regions and enterprises. “Delegation clauses” permit the negotiation of various issues (including base pay, working hours, variable pay, etc.) at the enterprise level. The system operates flexibly, as reflected in large wage differences between sectors, enterprises and employment states. The degree of flexibility is however more upwards than downwards, as departures from national benchmarks can only increase benefits and may not reduce them. National benchmarks nonetheless fully take into account, realistically, competition conditions in international markets (Austria Industrial Relations Profile, 2013). The system reaches nearly 100% collective bargaining coverage – the corresponding rate being 90% in Sweden, 80% in Denmark and Netherlands, 60% in Germany and 50% on average in the OECD. A large body of empirical research confirms that annual “wage norms” continue to play an effective “wage leadership” role in Austria despite the growing sectoral diversification of the economy (Knell and Stiglbauer 2012, Ramskogler 2011).

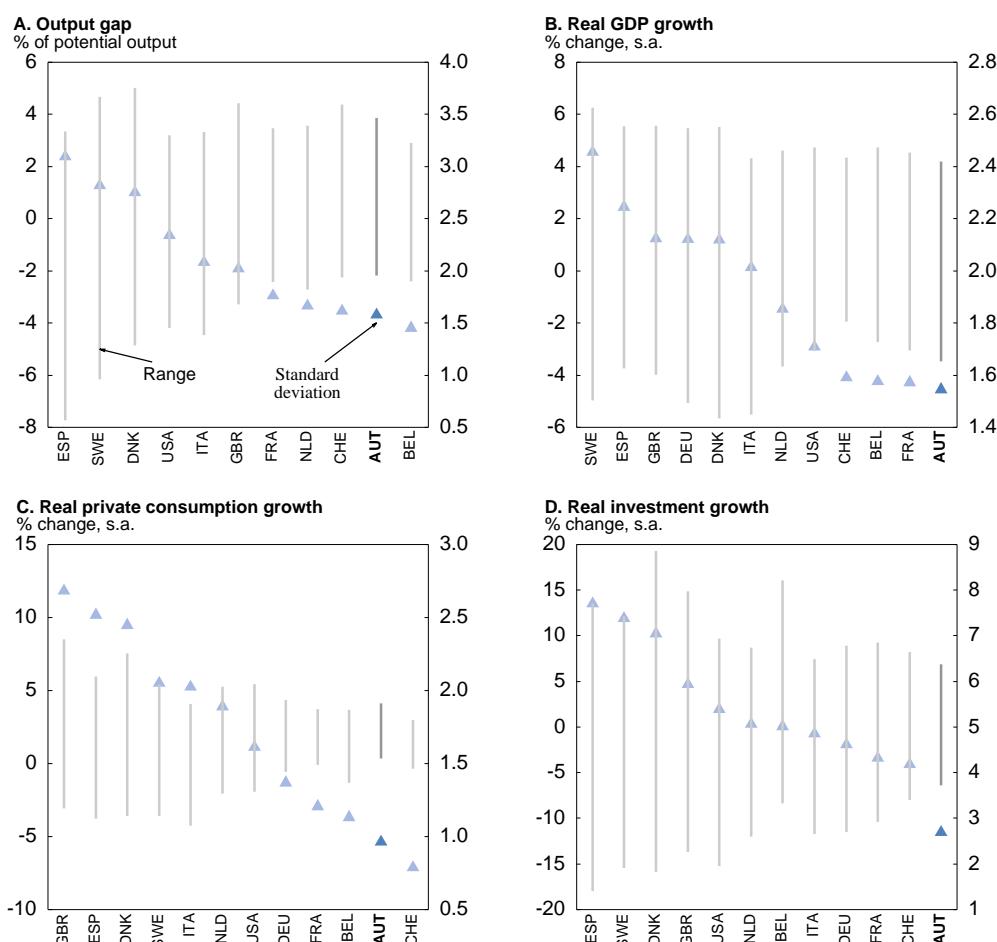
The system helps keep wage growth in line with productivity and helps maintain unit labour costs on an internationally competitive path. Value-added is distributed on a negotiated basis between employers and workers. Working time lost in strikes is minimised and employment is kept at a high level through the business cycle with limited wage volatility (this is termed as “the flattening of the Philips curve” in Austria). The management board of the central bank systematically includes a representative of the trade unions. Thanks to these co-ordination levers, Austria has operated as one of the OECD’s most stable economies in recent decades, despite its small size and openness which exposes it to international fluctuations (Figure 21). An analysis of output volatility in the OECD area between 1970-2006 has recently confirmed this distinct macroeconomic performance of Austria (Lonkeng Ngouana, 2013).

Social partnership operates also as a “productive coalition” between employers and employees (Crouch and Traxler, 1995). Employer and employee representatives co-operate to facilitate technical innovation, organisational change and workers’ human capital building. An example was an agreement on a new Working Time Law in 2007 (*Arbeitszeitgesetz*) which increased options for working-time arrangements and permitted enterprises to operate more flexibly. It is recognised that these “productive coalitions” may turn into sectoral rent-seeking devices in the absence of competition. Banking may have

been such a case (Mayer et al., 2001). Nonetheless, as obstacles to competition harm productivity and competitiveness in downstream sectors, and dent the purchasing power of households, social partners take, generally, competition-friendly positions (Council for Economic and Social Questions, 2010; Federal Chamber of Labour, 2013).

**Figure 22. A high degree of macroeconomic stabilisation**

Range (left scale) and standard deviation (right scale), 1986-2012



Source: OECD Economic Outlook Database.

The system helps manage the trade-offs between material sources of well-being and quality of life by intervening in the distribution of the benefits of growth between household income, leisure time, retirement time, improvements in working condition and public services and transfers. The area where this role has been most visible is the management of “wealth-in-time”. This concerns working time conditions for workers, and retirement terms for retirees. Working time reductions were achieved mainly in the 1980s and 1990s, in exchange for flexible working arrangements. The recent and lengthy negotiations on shop opening hours, that were eventually liberalised, were also part of this agenda.

Seeking social consensus on difficult structural and redistributive matters has been another function of social partnership. The social partners have mechanisms to address economic and social issues on basis of shared evidence, and to issue joint policy recommendations. This function was for a long time carried



out by the Council for Economic and Social Questions, which became less active more recently (Box 5). Social partners participated in the elaboration of recent reforms in the areas of pensions, old-age work and family policies. One aspect of their consultations is their informality. A high dose of confidentiality (and at times secrecy) underpins them. Negotiating parties can demonstrate a high degree of flexibility during discussions as they are vested with exclusive representative mandates.

Finally, social partners participate in certain governmental functions. In addition to steering the vocational education system, they co-manage the public employment service. They participate in the administration of the social security system. They also contribute to the enforcement of workplace safety and consumer protection rules.

Social partnership backs Austrian well-being but also comes along with certain risks and potential costs. First, as mentioned above, in areas with restricted competition, partnership between employers and employees may turn into a collusion to extract rents, at the expense of consumers and labour market outsiders. This can only be offset by full exposure to trade competition and pro-competitive domestic policies. Secondly, there is an inherent risk for social partnership to lead to fiscally costly consensus at the expense of long-term fiscal sustainability. This has been observed for example in the area of public pensions, where social partners have been less vigilant concerning the long-term financial sustainability of the system than would have been otherwise expected. Also, when not fully inclusive, partnership generates ad hoc arrangements serving vested interests. For example, after an invitation by the government, social partners have not been able to make proposals for streamlining the highly complex social benefit system (which contains hundreds of categorical benefits). Finally, as a “productive coalition”, social partners have only recently developed a stance on environmental sustainability issues.

#### **Box 5. The Council for Economic and Social Questions**

Common bodies of evidence and analysis on economic and social questions are produced by an Advisory Council for Economic and Social Questions (Beirat für Wirtschafts - und Sozialfragen). This Council has 21 members; four from each federal association of social partnership (Federal Economic Chamber, Chamber of Labour, Chamber of Agriculture, and the Trade Union Federation) and five independent experts. The Beirat prepares reports on economic and policy issues on the basis of joint requests from social partners.

This Council has had two main functions to date: *i)* producing a common factual background to topical economic and social issues, and *ii)* issuing a joint opinion on desirable policy options for Austria. In several instances Beirat reports served as blueprints for government legislation. The Council operates on a consensual approach without majority voting. Its presidency alternates between the Chamber of Labour and the Economic Chamber.

Social partnership appeared to lose some influence in the early 2000s, for both political and historical reasons. Politically, the dissolution of the “grand coalition” between the center-right and center-left parties after the 1999 election weakened the influence of this negotiation mechanism. Historically, several key policy issues shifted to the European level after Austria’s accession to the EU and to the euro area, limiting the remit of domestic consultations. However, this period of relative weakness appears to have ended with the restoration of the “grand coalition” government after the 2006 elections, and the social partners’ focus on topical policy issues such as education reform, youth unemployment, immigration policy and climate change.

One challenge to social partnership is that certain groups in society have remained outside it (Box 6). They could pursue their particular interests without the checks and balances of a consensus over the full spectrum of societal interests. Such groups included liberal professions and Federal and Länder civil servants. Today, as many policy issues affecting Austrian well-being involve public sector workers, liberal professions and social benefit recipients (most prominently in the areas of health and pensions), to have these categories involved in social partnership may help. Social partners may also actively engage those

with a migrant background as a number of key policy issues involve them as discussed in Gönenç et al., (2013).

**Box 6. When certain groups do not participate in social partnership**

The status of the groups not participating in social partnership has been analysed in the following terms:

“Groups that do not take part in the consensus-finding system of social partnership may free-ride by increasing their nominal income above average while, at the same time, profiting from the low inflation rate secured by the system. As long as these groups are small enough, the system will avoid inflationary reactions by other economic groups and such a free-rider strategy will be successful. This applies, for instance, to professionals like medical doctors and attorneys, who by law must organize in chambers but do not take part in the system of social partnership. These self-governing chambers issue binding fee schedules that have the economic effect of cartelized price lists. The incomes of these non-cooperating groups have increased much more rapidly than the incomes of the groups cooperating within the system of social partnership...Certain wage earning groups may also seek a similar position...On the part of the employees, the central authority (of social partnership) may be weakened by minority groups occupying key positions related to technological change and who, due to educational and social background, may be less willing to show solidarity on a supra-professional or supra-occupational level than are traditional trade union members”.

Source: Nowotny, 1993.

## Conclusions

Austria has achieved strong material well-being and high quality of life. Steady growth in GDP per capita has been combined with low income inequality, rising life expectancy, good social connections and high environmental standards. In achieving these outcomes, Austria has drawn on a dynamic business sector of globally active small-and-medium sized firms, families providing extensive in-house services, and a wide supply of public services backed by a well-functioning social partnership system. Still, there are inequalities across social groups in various dimensions of well-being.

Ongoing efforts in Austria to document well-being outcomes in detail are welcome. Synergies and trade-offs between different well-being dimensions should be systematically analysed. Public policies should take advantage of synergies, and enable citizens to choose according to their preferences in areas with trade-offs. The impact of public policies on these decisions should be analysed for well-informed policy dialogue and design (see also Box 2). Gönenç et al., (2013) discuss two areas, demographic change and environmental sustainability, where synergies and trade-offs between well-being dimensions are prominent.

**Box 7. Policy recommendations on strengthening the evidence basis of well-being policies**

- Continue to monitor and publish detailed well-being indicators.
- Investigate the synergies and trade-offs between well-being dimensions.
- Broaden the empirical evidence basis on the impact of public policies on citizens' well-being choices for well-informed policy dialogue and design.

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