

Second Austrian Reform Programme for Growth and Jobs

2008 - 2010

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Appendices

- Appendix 1: Table-format appendix relating to the employment policy section
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References to further information in the Lisbon context specifically concerning Austria

- www.lissabon-strategie.at
- 2007-2010 Austrian Stability Programme
- 2008 Austrian Research and Technology Report
- 2008-2010 Austrian Report on Social Protection and Social Inclusion
- National Report on the Implementation of the EU Sustainable Development Strategy

Strategic overview – Implementation and adaptation of the NRP

Successes of the Lisbon Strategy in Austria

Austrian economic and employment policy is based on the Lisbon Strategy for Growth and Jobs, which has now become the main driver of structural reforms in Europe. The main focuses of the Austrian reform programme, implementing the Lisbon Strategy at national level, are:

- Sustainability of public finances;
- Labour market and employment policy – “Good work – good jobs”;
- Research, development and innovation;
- Infrastructure;
- Fostering the business location and SMEs;
- Training and continuing education;
- Efficient resource management and climate protection;
- Sustainable and fair social system.

In response to rising inflation, primarily triggered by international developments, economic policy must contain economic and structural measures to counter upward price movements and to alleviate the effects on those sections of the population most strongly affected (those at risk of poverty). Moreover and above all, economic policy tackles the root causes of inflation. The federal government is focusing in particular on measures designed to intensify competition. With regard to budgetary policy, a freezing of public charges is also intended to help tackle inflation.

The comprehensive reforms in these areas have contributed to successful economic development. Nominal per capita gross domestic product (GDP) increased by more than €3,900 (+13.5%) during the period from 2004 to 2007, up from €28,888 in 2004 to €32,797 in 2007. Over the past three years, 145,000 new jobs have been created and the number of apprenticeship places has risen by around 10,000. The figures with regard to the corporate sector also speak for themselves: 90,000 new start-ups have been created. Spending on research and development has been stepped up significantly (from 2.22% in 2004 to 2.63% by 2008).

Partnership approach put into practice – involvement of relevant stakeholders

As in previous years, and in accordance with the partnership approach pursued, all relevant stakeholders have been involved in the process implementing the National Reform Programme. In this way, Austria is also complying with the request made by the European Council in spring 2008 that relevant players should be more closely incorporated into the Lisbon process.

A meeting with non-governmental organisations (NGOs) was held in late May 2008.

The invited participants primarily included umbrella associations operating in the area of ecological and social affairs. The purpose of the meeting was to brief civil society representatives on the implementation of the Lisbon Strategy within Austria, to discuss suggestions and to consider further steps as part of an Austrian partnership for growth and jobs. Following the submission of the draft NRP, the NGOs were given the opportunity to issue a joint statement. No such unanimous statement was submitted by the NGOs. However, contributions were received from the Anti-Poverty Network and the Austrian Committee for Social Work (ÖKSA).

Also at the end of May 2008, the social partners were invited to join a debate on the National Reform Programme (NRP). Agreement was reached, in particular, on how the social partners' paper "Labour market – 2010 future"¹ would be embraced, implemented and incorporated into the NRP. The discussion also focused on the implementation of the Services Directive, which is of central importance to the microeconomic part of the Lisbon Strategy. In presenting their medium-term strategy papers (e.g. the above-mentioned document "Labour market - 2010 future" document), the social partners are making an important contribution to policy debate on employment and labour market issues in Austria.

As in previous years, the liaison office of the *Länder* assumed the function of representing the *Länder*. Even more efforts will be required in the future to publicise and consolidate the importance of the Lisbon Strategy at the regional level.

The Austrian stakeholders, i.e. a wide range of ministries, social partners, *Länder*, cities and municipalities, as well as economic research institutes, took part in the meetings organised in the context of the European Commission's visit on 23 June 2008. On this occasion, members of the Austrian National Council were also given the opportunity to meet with representatives of the Commission. Both the representatives of the social partners and the representatives of the *Länder* welcomed the intensive involvement within the framework of the Lisbon Strategy. The discussion focused in particular on the country-specific recommendations to Austria, i.e. employment of older workers and improving the skills and employability of disadvantaged young people, as well as the "points to watch", i.e. a balanced budget, competition with regard to services, entrepreneurship education, measures to further reduce emissions and tackling gender segregation of the labour market.

Lisbon Strategy at the heart of Austrian economic and employment policy

In spring 2008 the European Council called on the Member States to "set out detailed and concrete actions addressing their specific policy response to the Integrated Guidelines, country-specific recommendations and 'points to watch' in their National Reform Programmes and the subsequent annual implementation reports". As in the previous implementation reports, once again the aim is to achieve an efficient **interlinking** of the different core areas in Austria:

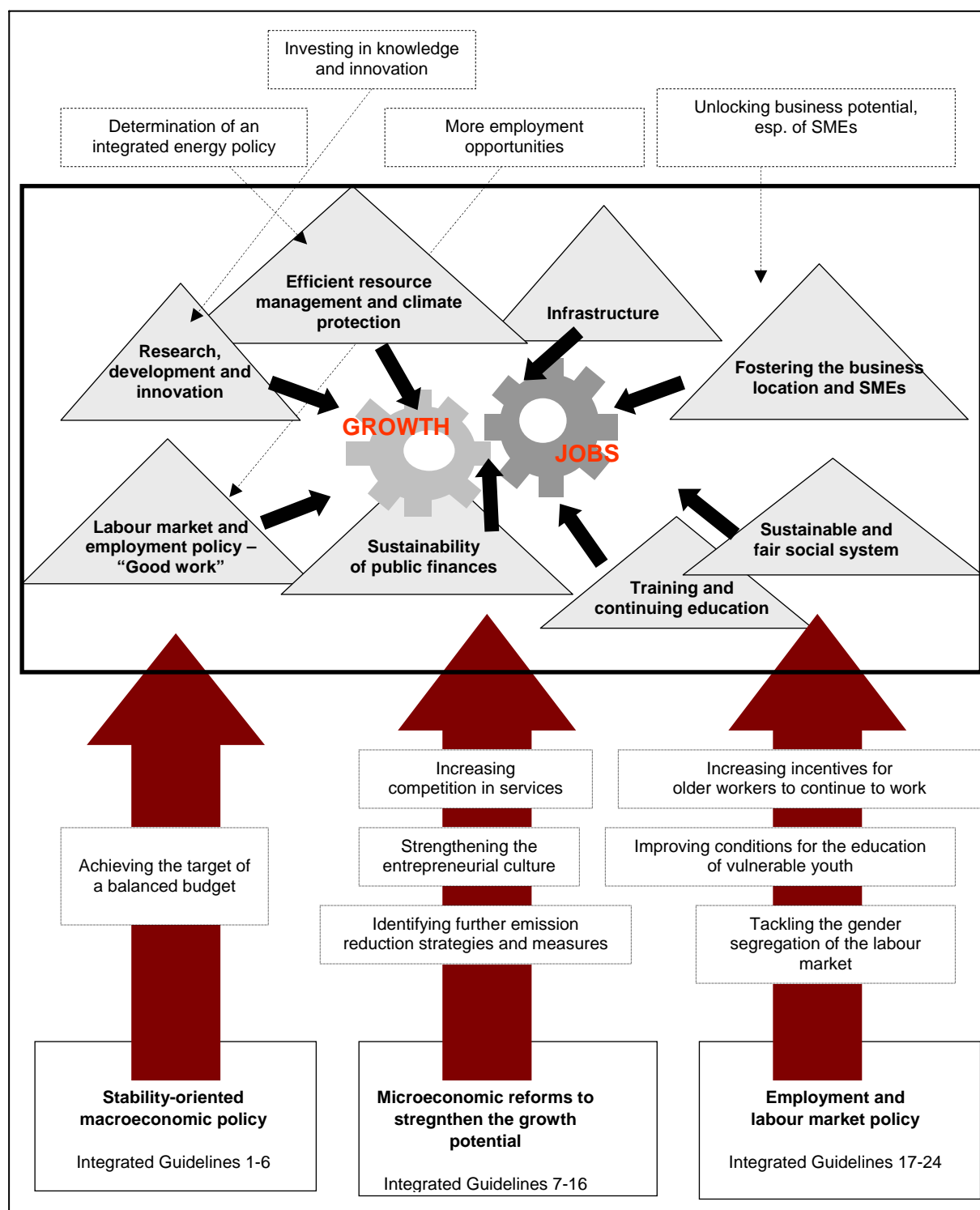
- the 24 Integrated Guidelines;
- the four priority areas as identified by the European Council in spring 2006, i.e. (1) investing in knowledge and innovation, (2) unlocking the business potential, especially for SMEs, (3) increasing employment opportunities for priority categories and (4) an energy policy for Europe;
- the country-specific recommendations for Austria and the so-called points to watch.

The call made by the European Council in spring 2008 to further integrate economic, employment and social policies has been taken up in two ways. Firstly, social factors and measures are given greater priority within the individual areas. Secondly, a section has been devoted solely to the interlinking of the National Reform Programme with the open method of coordination (OMC) for social protection and social inclusion.

Another new section within the National Reform Programme includes Austria's response to the recommendations and points to watch, providing a brief summary of the measures taken; More details on this are given in the chapters devoted to the three pillars of macro, micro and employment policy.

¹ To read the paper in full please refer to: www.sozialpartner.at

Chart 1: *Relationships and links*



The **Economic Report** of the Austrian federal government, presented on 30 June 2008, complements the existing programme. Its structure is based on the "Integrated Guidelines for Growth and Jobs". The Economic Report contains more detailed information on measures in the area of macro, micro and employment policy and is therefore attached to this report as an Appendix.

In 2008 the Lisbon Strategy entered into its next cycle. In addition to progress made in terms of implementation, reporting is also required on current planning. Due to the Austrian **general election** on 28 September 2008, it is not possible to provide binding information on measures to be taken in the future in the present NRP. However, there are some policy areas that will continue to be of importance in the future and with regard to which measures are expected to be implemented:

- Since the beginning of the year comprehensive measures to tackle inflation, primarily caused by international developments, and its effects have been introduced - a process which is ongoing (see below for more information). The newly induced debate on competition policy should also be viewed in close connection with the increase in inflation, and will certainly have a role to play in the formulation of the government programme.
- Measures to improve childcare, aimed at, among other aspects, increasing the proportion of women in employment, are currently being discussed.
- Modernisation of the education system is firmly rooted into the political agenda as are employment and labour market policy measures. Against the background of future demographic trends, measures have to be introduced with regard to older people, to increase the range of training courses available, to increase female labour market participation and to (re)integrate disadvantaged groups.
- A tax reform is planned for 2010, and the preliminary work in this regard has already been carried out by a tax reform commission.
- Employee profit-sharing schemes are deemed to be a tool that can foster sustained and balanced development of corporate profits and wage levels. Intensive discussions have been held for the last year on the need for these schemes to be stepped up.
- The budgetary situation is good overall (see below) but there is need for reform of the health care system with a view to ensuring that it can be financed and is sustainable over the long term.
- Nursing care provision is another issue at the heart of public debate, despite the fact that reforms have already been introduced.
- Investment in the knowledge triangle – research/ training/innovation – will be continued with a view to reaching the R&D target of 3% by 2010. A coherent strategy will need to be developed for the period through to 2020.
- With regard to climate protection and renewable energy sources, uniform Europe-wide parameters that also take account of the key issue of securing Austria's position as a business location are vital for Austria. In particular, it will be important to ensure that energy-intensive industries are not relocated to places with lower CO₂ conditions (carbon leakage). Clarity must be established quickly in relation to the identification and treatment of these sectors.

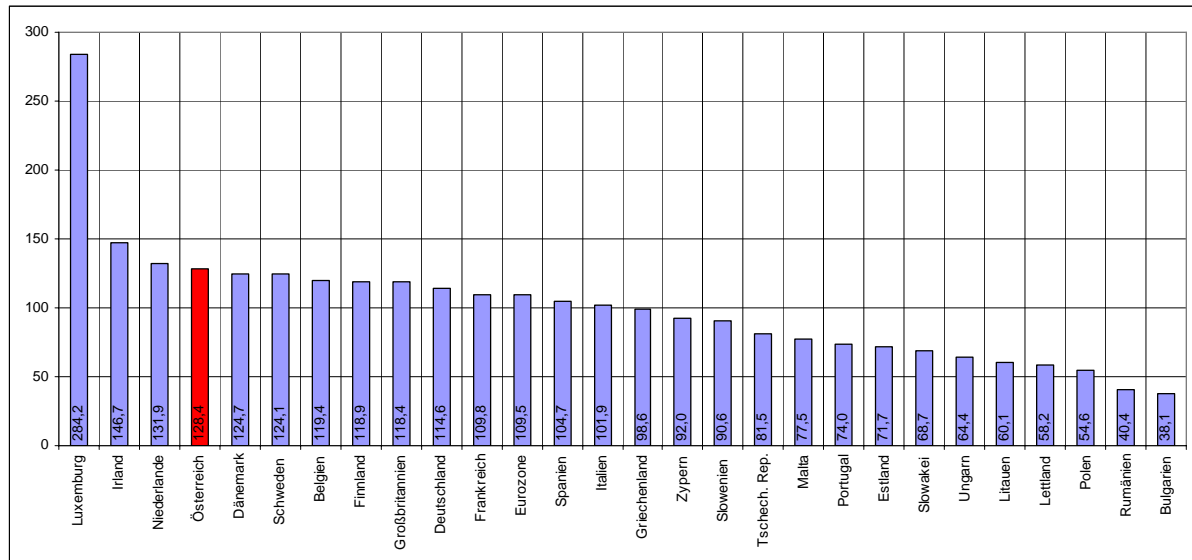
For the past two years the Institute for Advanced Studies (IHS) has been analysing the impact of the implementation of the National Reform Programme. An accompanying assessment has not been carried out for the purposes of this year's report. However, the Austrian Institute of Economic Research (WIFO) and the IHS have been asked to develop proposals for Austrian economic policy based on examples of best practice drawn from other Member States.

Following the drawing-up of the government programme, a revised National Reform Programme will be produced.

Measures in the core areas secure prosperity

Measured in terms of per capita gross domestic product, Austria is one of the richest countries in the world. As far as the EU is concerned, only Luxembourg, Ireland and the Netherlands have a higher per capita GDP, although the first two are hardly comparable with Austria due to country-specific characteristics.

Per capita GDP in PPPs (EU27 = 100) 2007 (forecast)



Source: Eurostat.

Grafiktexte:

Luxembourg, Ireland, Netherlands, Austria, Denmark, Sweden, Belgium, Finland, United Kingdom, Germany, France, Euro area, Spain, Italy, Greece, Cyprus, Slovenia, Czech Republic, Malta, Portugal, Estonia, Slovakia, Hungary, Lithuania, Latvia, Poland, Romania, Bulgaria

To maintain and build on Austria's level of prosperity, which can only be depicted in approximate terms in the form of per capita GDP, comprehensive measures were again implemented during the past reporting year in the above-mentioned core areas.

The target of a **balanced budget** was almost achieved with a budgetary deficit for 2007 of 0.4%. For the first time since 1992 borrowing fell below the Maastricht ceiling of 60% of GDP. In order to achieve a sustainable budgetary policy over the long term, the three-pillar strategy must be implemented without delay. The aims of this strategy are: (1) to have a balanced budget by 2010, (2) to step up future-oriented spending and (3) to ease the burden on taxpayers over the long term. The project to cut administrative costs, alongside other measures, should result in greater efficiency in administration. The Austrian government has set itself the goal to lower administrative costs for business by 25%. Future-oriented expenditure, such as spending on research, education and infrastructure, was increased again in the 2008 budget.

Tackling inflation is a key issue in terms of both economic and social policy. The inflation rate for 2007 was at 2.2% (following a level of 1.5% for 2006) and still relatively moderate. However, during the final quarter of 2007 as well as the first quarter of 2008, considerably higher monthly rates were recorded (as high as 3.5% in March). Even though many of the developments driving inflation are international in character, e.g. in the case of energy and

fuel prices, the national components of inflation must not be neglected either. The Austrian Cabinet has agreed on a package of measures designed to tackle the root causes of inflation and, at the same time, to alleviate the effects of inflation on particularly affected groups. For example, valorisation of public charges was suspended in 2008 and the recommended rent levels were set using the average rate of inflation for 2007 rather than the December figure. Price monitoring, particularly with regard to energy and food, is another area being stepped up, with measures to increase competition also figuring on the agenda. Finally, the pension increase for 2009 has been brought forward by two months to November 2008, whilst employees with a monthly income of up to €1,350 are to receive some relief with regard to contributions to unemployment insurance, and those on up to €1,000 per month are to be exempted completely from such contributions. At the end of May it was also agreed that substantial increases would be made with regard to mileage rates and the tax allowance for commuters.

The Austrian **labour market** conditions are still quite good: Unemployment fell to below 4% in the middle of 2008 (3.3% in August 2008), thus full employment was achieved. The employment rate increased to 71.4%. This places the Austrian labour market among the top five in the EU. In 2007, the increase in female employment exceeded that of men, albeit the starting position was lower. However, the fall in the number of unemployed women was less marked than the fall in male unemployment. Various programmes designed to promote women are aimed at reducing the differences between the genders on the labour market and containing labour market segmentation. A more flexible design of childcare benefit schemes offers an incentive for women to return to employment at an earlier stage. As part of the "good work" focus, the *Arbeitszeitgesetz* (AZG; Working Hours Act) was reformed in 2007. This opens up greater flexibility for companies and reduces administrative burdens. The reforms also encompass various aspects that are of specific interest to employees. At the same time, however, the flexicurity approach is pursued and taken even further through the "flexicurity" package. This package encompasses social security provisions for freelancers (*freie Dienstnehmer*) and the self-employed, an extension of the *Betriebliche Mitarbeiter- und Selbständigenvorsorgegesetz* (BMSVG; Company Employee and Self-Employment Provisions Act) to also cover freelancers, the self-employed and agricultural and forestry workers, measures to make training leave more attractive, and the modernisation of the reasonability regulations with regard to work placement of unemployed.

The modernisation of Austria as a business location and the strengthening of its competitive position are two elements being driven forward by means of **research policy**. With an R&D quota of 2.63% of GDP in 2008, R&D spending has more than doubled since 1998. The Austrian government is sticking firmly to its target of a research quota of 3% and aims to stretch this target further after 2010. In order to effectively position Austria as a centre for research, a comprehensive portfolio of programmes is used to support research both directly and indirectly. This is to be further optimised as part of ongoing reform efforts ("system evaluation"). Additionally, valuable suggestions for future research and innovation policy are being collected as part of a comprehensive, one-year research dialogue involving all relevant players in the field of R&D.

In order to ensure that the factors of production are efficiently utilised, it is necessary to equip the economy with a strong and well-organized **infrastructure**. In today's business world, in which human capital is gaining in importance, communication infrastructure – and use of broadband in particular – has a key role to play. Broadband penetration among Austrian households currently lies at 44%.

However, the traditional infrastructure must also be modernised as part of an ongoing process to ensure that Austria remains an attractive location for businesses. One of Austria's priorities is to improve transport links with the new Member States of the EU.

In order to strengthen the position of Austria as a **business location** and to **promote SMEs**, general economic conditions are improved continuously. Shop opening hours have been

liberalised and an amendment to the *Gewerbeordnung* (GewO; Trade Act) has been adopted. Action programmes designed for SMEs are targeted to their specific needs. Similarly, the internationalisation campaign "go international" strengthens the competitiveness of the Austrian economy. The expiry of inheritance and gift tax provisions will facilitate company successions. Meanwhile, the success of the policies to bolster Austria's position as a location for business is clear from the number of start-ups. More than 30,000 new companies were established in 2007.

A guaranteed **training** place/job is to be made available for young people up to the age of 18. This is being achieved through measures such as an increase in the number of places available in vocational schools and the reform of apprentice training at vocational training centres. Starting with the 2008/09 training year, a key change to the system of in-company apprenticeships will also be introduced. A nationwide education plan providing early language support for three- to six-year-olds in childcare facilities and specific measures for the linguistic support of children with insufficient German language knowledge is aimed particularly at disadvantaged children and young people with immigrant background. The "new middle school" pilot project aims to avoid any premature specialisation by establishing a joint school for 10 to 14-year-olds. These projects are a response to experiences gained in other European countries, demonstrating promising outcomes when compared internationally (e.g. through PISA). In terms of adult education, special efforts focus on reaching disadvantaged groups and the educationally disadvantaged.

With the implementation of the Austrian climate strategy, forward-looking measures for **efficient resource management** are being introduced. Up to €500 million has been earmarked for the new Climate and Energy Fund (KLIEN) for the period from 2007 to 2010. In addition to energy and climate policy targets, KLIEN is also pursuing economic aims, namely further developing environmental technologies for efficient energy use so that they are ready for market, supporting the market penetration of such technologies and, as a result, strengthening Austria's position as a base for research and technology.

The second amendment to the *Ökostromgesetz* (Green Electricity Act) in 2008 will see an additional €2 billion being allocated to the promotion of green electricity. Financial support for new plants is to be increased, which will make an important contribution to efforts to reduce CO₂ emissions and to increase the proportion of renewable energy. The aim of the *Wärme- und Kälteleitungsausbaugesetz* (Heating and Cooling Network Expansion Act) is to achieve a long-term reduction in CO₂ emissions of up to 3 million tonnes within a period of about 10 years. Measures related to the implementation of the EU Energy Efficiency Directive are also key to efficient resource management.

Comprehensive reforms have been introduced with regard to the **social system** over the past few years. In addition to pension reforms and pension harmonisation, reforms have also been introduced with regard to nursing care provision and the introduction of 24-hour care system. An increase in nursing care allowance and in support for 24-hour care was agreed by the Cabinet in August, together with the abolition of means testing with regard to 24-hour care. The Austrian Federal Economic Chamber and the Austrian Federation of Trade Unions have entered into a framework agreement on the implementation of a minimum wage of €1,000 in the industry-specific collective agreements by 2009.

Overview of country-specific recommendations and points to watch

Country-specific recommendations

Country-specific recommendation with regard to Austria: **"Improve incentives for older workers to continue working"**

In response to the Stockholm target, measures in relation to the labour market and employment policy with regard to older people have been further developed and expanded on an ongoing basis over recent years. A key contribution in this area is being made by the Public Employment Service (AMS).

Over recent years there has been an above-average increase in the employment of the over-50-year olds. Compared to 1998, the average number of older workers in dependent employment in 2007 (592,705 persons), was up by some 37%. The 2003 and 2004 pension reforms have contributed to this trend.

A total of €102.86 million in financial support was made available for the over-50s in 2007. This deliberate prioritisation is also reflected in the AMS statistical key figures.

The bundles of measures aimed at increasing the integration of **older workers** into the labour market are varied and interlinked. They range from a substantial reduction in non-wage labour costs to the bonus-malus system and active support for re-integration of older job seekers, including specific approaches to training. The **part-time allowance for older workers** encourages employers to reduce the working time of older employees, while at the same time upholding their employment relationship, thus fostering further employment. Employment promotion measures for older people run the gamut from integration subsidies for individual jobs to job schemes and temporary non-profit agency work. The AMS qualification programme encourages labour market integration via special training and re-integration measures.

Crucially, with regard to labour market measures introduced at company level and in association with a special programme for the promotion of employment of older workers (for the 2005-2007 period), innovative projects to ensure age-appropriate arrangements in the workplace and the training and re-integration of older workers have been trialled and subsequently implemented across Austria. Older workers have also been given priority with regard to ESP implementation during the new programme planning period.

For further details see page 33.

Country-specific recommendation with regard to Austria: **"Improve education outcomes for vulnerable youth"**

The introduction of a **compulsory year at kindergarten** for children with language problems as of September 2008 is expected to ensure the earliest possible start for linguistic support, thereby facilitating the transition to school. Numerous measures are in place for the **linguistic support of children with insufficient mastery of German**. In addition, in conjunction with training both during and after compulsory schooling, initiatives are also available to support young people. The reform of apprentice training at vocational training centres with effect from the 2008/09 training year is aimed at making this area, alongside the still crucial area of in-company apprenticeships, an equally important and regular component of the dual system of vocational training and at expanding it as an element of the training guarantee available to young people up to the age of 18. The focus in this regard is on young people with a disadvantaged background and with disabilities, young people without an apprenticeship/training place, those who dropped out and young people who are at risk of dropping out from the vocational school sector, those who have abandoned their apprenticeship and unemployed young people.

For further details see page 39.

Points to watch:

Point to watch: **"Strengthening fiscal adjustment"**

To guarantee long-term sustainability, a three-pillar strategy must be consistently implemented, as decided at EU level:

- increase in budgetary leeway, primarily by means of a rapid cut in debt ratio;
- increase in employment ratios and work productivity;
- reforms of pension, health and nursing care systems.

For further details see page 17.

Point to watch: **"Increasing competition in services, in particular in professional services"**

As the level of competition among the liberal professions in Europe being regarded as too low in Austria, **legal standards** are being **adjusted** accordingly, e.g. through abolition of fee regulations or fee recommendations on the part of auditors, architects and consulting engineers, and the creation of calculation tools. Other areas to be liberalised include access to professions (consulting engineers, pharmacists, auditors, lawyers or notaries) and codes of conduct.

Despite ongoing restrictions on advertising with regard to the liberal professions in Austria, there is a growing understanding that the "market" and the *Gesetz gegen den unlauteren Wettbewerb* (UWG; Law Against Unfair Competition) are appropriate tools with which to avoid unfair advertising.

A study by the Austrian Institute of Economic Research (WIFO) on "Trade Barriers in Services and Competitive Strengths in the Austrian Service Sector" of June 2008 paints a positive picture with regard to legal and tax consultancy and architects' and engineers' practices. All of these service activities combine good growth performance and a high level of start-ups with good and continuously improving competitiveness.

For further details see page 25.

Point to watch: **"Strengthening entrepreneurship education"**

Strengthening the entrepreneurial culture and educating people so that they think and act in an entrepreneurial way are central aspects of Austrian policy with regard to the corporate and educational sectors. Existing initiatives are being taken forward, e.g. "Children's Business Week", the consolidation of "entrepreneurship education" as a teaching principle/a subject in its own right in numerous types of school, and the state entrepreneur exam. The intensive cooperation agreed last year between the responsible ministries (i.e. Federal Ministry for Education, the Arts and Culture and Federal Ministry of Economics and Labour) has been and continues to be implemented.

For further details see page 28.

Point to watch: **"Further emission reduction policies and measures"**

The Austrian climate strategy involves numerous measures designed to cut emissions:

- With effect from 1 July 2007, for example, the **tax levied on mineral oil** was increased. The standard consumption tax was extended to include a bonus-malus system based on the vehicle's CO₂ emissions.
- With regard to **energy and industry**, the sectors are covered to a large extent by emissions trading.
- In relation to **heating**, the agreement between the federal state and the *Länder* on housing subsidies will result in a significant improvement in the quality of new buildings and with regard to the upgrading of existing heating systems, as well as with regard to the use of renewable energy forms.
- To expand the share of emission reduction units from **climate protection projects abroad** as part of the Austrian programme to use the flexible Kyoto mechanisms, 9 million EURs shall be purchased per year between 2008 and 2010. The national JI/CDM

programme, as of August 2008, had already secured 37.4 million tonnes of ERUs for Austria.

- **Environmental funding** is the central financing tool at the federal level for the implementation of environmental measures at company level and has been further expanded and developed over the past few years.
- Measures to promote the use of renewable energies and energy efficiency.

For further details see page 29.

Point to watch: "Tackling the gender segregation of the labour market, including by further improving the availability of childcare"

Strategic approaches to reduce gender-specific differences in income include measures to guarantee equal access to all jobs and to make it easier for men and women to achieve a life/work balance.

Due account is being taken of the European Pact for Gender Equality. "Gender mainstreaming" is also being implemented further. At the AMS, ongoing consideration of equal opportunities is a binding strategy. The successful programmes "Women in trade and technology" (FIT) and "Give it a go! – girls and technology" (mut!) are to be continued. Another focus in the future will be put on the "Supporting re-entry into the workplace" programme.

A fundamental overhaul in 2008 of the way in which in-company apprentice training is supported makes provisions for promoting quality, whereby equal access for young women and men to the various apprenticeships forms one of the criteria.

The 2008 amendment to the *Gleichbehandlungs-Gesetz* (GIBG; Equal Opportunities Act) also marks improvements to the existing material law and some procedural requirements. To increase the proportion of women in senior positions in public service, the *Ausschreibungsgesetz* (AusG; Civil Service Job Tender Act) was amended with a view to creating greater transparency.

The amendments to make the childcare benefit more flexible with effect from 1 January 2008 and the expansion of the range of nursery places will improve the situation for women in (full-time) employment as well as improve the opportunities for fathers to get involved in childcare.

For further details see page 34.

Chapter II

Current economic situation

Economic growth: According to the WIFO forecast of 2 October 2008, Austrian gross domestic product (GDP) will increase by only +0.2% in 2008 due to the worldwide economic downturn. The projected figure is still 0.6 percentage points above the average for the European Union (according to the European Commission's interim forecast). Economic growth in Austria is even more clearly above the level for the euro area (+1.3% according to the European Commission's interim forecast). The factors behind the economic slowdown include the rise in commodity and food prices and its impact on inflation. The latter has risen to 3.4% this year. Nevertheless, GDP growth appears to be stable, which may be attributed to positive developments during the first quarter of 2008 – a time when the upbeat nature of the economy of the past two years was maintained, buoyed by production of physical goods, the construction sector and tourism. However, in the second quarter of 2008 economic activity started to decline. As regards the production of physical goods, a growth rate of 3.2% is predicted for 2008, while for the construction industry, year-on-year growth of 2.0% is forecast. Even though the economic downturn and the consequential reduction in capacity utilisation caused individual industrial companies to revise their investment plans downwards, investment in plant and equipment is nevertheless expected to rise by +2.5% in real terms this year.

Foreign trade: The current account balance for 2007 was 3.2% of GDP (corresponding to €8.76 billion). For the year 2008, a surplus of 2.8% of GDP is forecast. Exports of goods exceeded the €100 billion threshold for the first time in 2006 and have increased continuously ever since. Following an expansion in exports of goods of +6.8% and +8.7% in real terms in 2006 and 2007 respectively, a real increase of +4.1% is expected for 2008. Austria continues to position its export industry (particularly its supplier industry) well internationally, despite the worldwide weakening in economic activity and the strength of the euro. A strong fall was recorded with regard to imports of goods. Rather than the 8%-rise in 2007, an increase of only +3.8% will be reached this year. As regards direct investments, Eastern and Central Europe established itself as the most important target region for Austrian capital.

Prices and consumption: According to forecasts, inflation will reach 3.4% this year, which is the highest (annual) figure since 1993. More than half of it can be attributed to the rising cost of energy and food. Forecasts for future price developments in Austria are made upon the assumption that energy prices will fall. Therefore, the inflation rate is projected at around 2.2% for 2009. Households' disposable incomes should rise by +1% in real terms this year, particularly due to the increase in employment. Consumer spending is expanding by +1.0% in real terms in 2008 compared to the previous year and is also expected to rise slightly in the future. As far as real net wages are concerned, a fall of -0.8% is predicted due to the unexpectedly high level of inflation, despite relatively high nominal wages agreements. The development of economic growth will also depend on household consumption demand. Therefore it is necessary to strengthen purchasing power, while taking into account national and, more importantly, international competitiveness.

Labour market: A reduction of about 13,500 in the number of registered unemployed compared to the previous year can be expected for 2008. Up until September 2008, the jobless figures had fallen for 31 months in succession. As a yearly average, the number of registered unemployed people is expected to be 208,700. With an unemployment rate of 3.3% in August 2008 according to Eurostat figures, Austria had one of the lowest levels of unemployment in the EU. The trend of rising employment rates recorded over the past few years continued in 2008, with employment increasing to 72.8%. However, the global

economic downturn is also gradually impacting on the Austrian labour market. As a result, a stagnation of employment levels must be anticipated for the year 2009.

Current status of Austria with regard to 14 structural indicators on the short list

General economic background			
1. GDP per capita in PPS (EU-27=100)	125,6	100,0	2008
2. Labour productivity (EU-27=100)	118,4	100,0	2008
Employment			
3. Total employment rate* (in %)	71,4	65,4	2007
4. Employment rate of older workers* (in %)	38,6	44,7	2007
Innovation and research			
5. Youth education attainment level (aged 20-24)* (in %)	84,1	78,1	2007
6. Austrian gross expenditure on R&D (as a % of GDP)	2,49	1,84	2006
Economic reform			
7. Comparative price levels (EU-27=100)	100,0	100,0	2007
8. Business investment (in % of GDP)	21,2	18,8	2007
Social cohesion			
9. At-risk-of-poverty rate after social transfers* (in %)	13,0	16,0 (EU-25)	2006
10. Long-term unemployment rate* (in %)	1,2	3,1	2007
11. Dispersion of regional employment rates*	3,4	11,4	2006
Environment			
12. Greenhouse gas emissions (base year=100)	115,2	92,3	2006
13. Energy intensity of the economy	145,01	202,45	2006
14. Volume of freight transport relative to GDP (2000=100)	101,9	107,5	2006

* Indicators are broken down acc. to gender.

Figures given in italics are forecasts or estimated figures.

Source: Eurostat; download of 6 October 2008 (latest available figures in each case).

Stability and sustainability of public finance

Budget policy and performance

The primary aim of Austrian budgetary and financial policy is to guarantee the sustainability of the country's public finances by maintaining a balanced budget throughout the business cycle which requires discipline both on the expenditure and on the revenue side. In this context, all regional and local authorities bear joint budgetary responsibility within the framework of the Austrian stability pact. In addition, a sustainable budgetary and financial policy should also provide some leeway to be able to react appropriately to any economic downturns.

In accordance with the Austrian Stability Programme for the period 2007 to 2010, Austrian budgetary policy follows a three-pillar strategy:

- Achievement of a balanced budget.
- Promotion of investments in the field of R&D, infrastructure, education and universities, as well as social protection for more growth and employment.
- Implementation of structural reforms in the fields of public administration, competition policy and labour market.

This three-pillar strategy helps to secure the state's financial capability in a sustainable manner, to create budgetary leeway for future-proof investments, to increase the economy's growth potential, to render Austria more attractive as a business location, to enhance international competitiveness and to steadily reduce the debt and interest burden.

More growth and jobs require budgetary stability:

The following figures are a clear indication of how successful Austrian budgetary policy has been over the last few years:

- The 2007 Maastricht deficit for Austria fell by 0.3 percentage points to 0.4% of GDP, and was thus lower than assumed in the last Implementation Report for the Austrian Reform Programme for Growth and Jobs. Consequently, the second lowest Maastricht deficit since the mid-1970s could be achieved in 2007 (after 2001) both at a general government and federal government level.
- In accordance with the Austrian Stability Programme, the Austrian government is aiming to achieve a balanced budget in 2010.
- For the first time since 1992, and one year earlier than assumed in the last Stability Programme, Austria's debt level, at 59.5%, fell below the Maastricht benchmark of 60% of GDP in 2007.
- With regard to the reduction of the tax ratio (according to national accounting), Austria has made good progress and was able to record a reduction from 45.6% in 2001 to 42.2% in 2007.
- In addition, the burden on government budgets caused by demographic developments is also well below the EU average, which is due to the reform measures of the last few years. This secures the sustainability of Austria's public finances, and led the European Commission to rate the related risk as low.
- In terms of the quality of its public finances, the Austrian government promotes a more efficient allocation of resources oriented towards growth and jobs. Specifically, the Austrian Stability Programme states that public spending should be shifted to benefit growth-promoting areas such as R&D, infrastructure, education and universities.

Table: Budgetary development 2000-2008

Budgetary development									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Maastricht deficit									
Austria as a whole	-1,7	0,0	-0,7	-1,4	-4,4	-1,5	-1,5	-0,4	-0,7
Federal state	-1,7	-0,7	-1,2	-1,6	-4,6	-1,8	-1,6	-0,6	-1,1
<i>Länder</i> (excl. Vienna)	0,1	0,5	0,3	0,1	0,1	0,1	-0,2	0,1	0,2
Municipalities (incl. Vienna)	0,0	0,3	0,3	0,2	0,2	0,2	0,2	0,2	0,3
Social security institutions	-0,1	0,0	0,0	-0,1	-0,1	0,0	0,0	-0,1	0,0
Total revenues	50,3	51,4	50,1	49,9	49,5	48,2	47,7	47,9	47,5
Total expenditures (ESA)	52,1	51,6	51,0	51,5	54,0	49,8	49,4	48,4	48,3
Total expenditures (harmonised)	52,0	51,5	50,8	51,4	53,9	49,7	49,2	48,3	48,2
Primary balance	1,8	3,4	2,5	1,5	-1,5	1,4	1,2	2,3	2,1
Tax burden acc. to national accounts	43,5	45,6	44,2	43,9	43,5	42,4	41,9	42,2	42,0
Tax burden acc. to EC	45,4	46,9	45,8	45,5	44,9	43,8	43,3	43,6	43,4
Debt ratio	66,5	67,1	66,5	65,5	64,8	63,7	62,0	59,5	58,0
Absolute GDP, in € billions	207,5	212,5	218,8	223,3	232,8	244,5	257,3	270,8	284,2

Source: Statistics Austria (until 2007), after that Federal Ministry of Finance.

Sustainability of public finances

Due to demographic developments, the share of older people in the total population is set to rise significantly in most of the industrialised countries in future. This fact poses large economic and budgetary challenges for Austria as well, primarily in the age-related areas of government spending, particularly public pensions, health and nursing care.

In order to ensure that future burdens can be dealt with, the future financial challenges caused by the changing population structure must be considered today. For this purpose, the "Commission for long-term pension security" monitors developments in Austria and decides whether pension reforms are required due to demographic changes to secure the sustainability of the country's public finances. The Commission drew up a report in February 2008 on the long-term development of statutory pension insurance for the period from 2007 to 2050, based on new population estimates provided by Statistics Austria. The report assumes an increase in the total population from 8.28 million people today to approximately 9.52 million people by 2050, with the share of over 65-year-olds nearly doubling and life expectancy also clearly rising. Based on these demographic and certain macroeconomic assumptions, Austrian projections show an increase in overall spending of about 10.3% of GDP today to an all-time high of 12.5% of GDP in 2031, after which date the trend is expected to be downward again, dropping back to 11.6% of GDP in 2050. This development is mainly due to the rising number of pensions, which again is the result of the growing proportion of over 65-year-olds in the population as a whole. However, growing employment rates among the 55 to 64-year-olds are curbing this development, as a result of the effective retirement age being raised by about 1.5 years in the course of the pension reforms. In addition, the implemented pension reforms of the past few years are mitigating the impact on expenditure, and this will be particularly true after 2033 when the so-called pension harmonisation between civil servants and the rest of the workforce will take full effect. The

long-term projections foresee an increase in total revenues from a current 8.6% of GDP to 9.1% of GDP by 2050. However, the projections only consider the development of statutory pension insurance. If the pension expenditure for civil servants were to be included, the difference between initial value and peak value of pension expenditure as a % of GDP would be lower since civil servant pensions will expire in the long term due to the adopted pension harmonisation.

According to the current long-term projections at EU level, the overall public pension expenditure will increase from 14.1% of GDP in 2005 to an all-time high of 15.0% of GDP in 2032 and will then drop to 13.1% of GDP in 2050. Accordingly, in total there will only be a marginal increase in age-related public expenditure over the long term (incl. health, care for the elderly, unemployment benefits, education). Therefore, Austria was once again classed by the European Commission in 2008 as one of the countries with a low sustainability risk regarding its public finances due to the pension reforms of the last few years and the lowering of its budget deficit.

Point to watch: "Strengthening fiscal adjustment"

To guarantee long-term sustainability, a three-pillar strategy must be consistently implemented, as decided at EU level:

- increase in budgetary leeway, primarily by means of a rapid cut in debt ratio;
- increase in employment ratios and work productivity;
- reform of pension, health and nursing care systems.

Quality of public finances

Public administration reform: From a Europe-wide perspective, Austria's public administration is in the top league. However, a modern, efficient and citizen-friendly administration must continuously improve in order to meet the economic, social and political challenges of the 21st century. The core areas in this context are, among others, efficient and effective provision of services, responsible allocation of resources, avoidance of redundancies and of parallel structures, optimisation of workflows and reduction of administrative costs for companies incurred through the mandatory provision of information.

Public administration is increasingly developing into service provision for customers, the citizens of Austria. This is why public administration management is increasingly geared towards the principles of new public management, by promoting the expansion of controlling and modern reporting and management systems and by employing cost and performance accounting tools.

The aim of the state and administration reform is to optimise the current distribution of responsibilities between the regional and local authorities. To this end, an expert group has prepared proposals for concrete measures which are based on the work of the Austrian Convention and of the parliamentary committee concerned with this issue.

Budget law reform: The first of the two stages of budget law reform will enter into force on 1 January 2009. The primary goal of the reform is to set out a binding plan covering several years for the federal state's budget. This provides for spending limits from the 2009 budget onwards, which will be determined in advance every four years. The aim is to bolster spending discipline and support a predictable, sustainable budgetary policy, as well as to increase planning security. In addition, funds that are still unused at the end of the year should not be forfeited but spent according to the respective ministry's priorities. This should serve as an incentive to the ministries concerned to use their funds more efficiently.

The second stage, which will take effect from 2013, will feature the introduction of budgeting based on impact and performance, results-based controlling of departments, a new budget structure with global budgets and double entry bookkeeping as a basic principle.

Fiscal equalisation 2008 to 2013

The new fiscal equalisation scheme entered into force on 1 January 2008, one year earlier than planned, and will end on 31 December 2013. It was concluded for a period of six years, with some issues to be dealt with in stages of three years each, and its aim is to boost stability and to improve planning horizons for all regional and local authorities.

Cornerstones of the agreement:

- All significant transfers from the federal state to the *Länder* and municipalities will be transformed into generalised revenue shares without earmarking.
- The 24-hour home care and minimum income schemes will be co-financed by *Länder* and municipalities.
- The *Länder* will spend at least €20 million on top of the federal contributions on childcare provision and language training.
- To cover the additional expenses resulting from structural problems, the federal government will provide additional funds to teachers in the *Länder*.
- The *Finanzausgleichsgesetz* (FAG; Fiscal Equalisation Law) abolishes the revenue items of the *Länder* and municipalities, attributed to the federal government to date, on a step-by-step basis. This will increase the revenues of the *Länder* and municipalities.
- The smallest municipalities will receive additional revenue.
- Voluntary cooperation at regional levels is encouraged by financial incentives.
- The federal government will reserve additional funds for the financing of hospitals.
- It has been agreed to earmark housing subsidies in such a way as to take greater account of climate goals.
- The disaster fund will be allocated an additional €10 million every year.
- The population statistics according to the Central Register of Residents (ZMR) will form the basis for the fiscal revenue shares from 2009 onwards.
- A political agreement on the administration reform should contain further staff reductions, a financially equivalent implementation of the pension reform on the part of the federal government and the governments of the *Länder* and municipalities, cost-neutral abolition of the separate financing obligations and the creation of a uniform tax procedural code for Austria.

This reform significantly simplifies the FAG and reconciles responsibility for specific tasks and for financing more effectively.

Competitiveness

The general conditions in Austria in its capacity as a base for business have clearly improved over the past few years. The development of wages, in particular, is a pillar of Austria's competitiveness. Foreign direct investments (FDI) increased from €67.55 billion to €72.48 billion between 2006 and 2007 (this figure amounted to just €32 billion in 2000), which can be taken as an indicator of the attractiveness of Austria as a business location.

Ranking ninth, the **unit labour costs** in Austria have been below the EU average over the last few years. According to the latest survey by the Austrian Institute of Economic Research (WIFO) in 2006, the hourly production costs stood at €29.2 (the figure is the same in Finland and, at €29.4, nearly the same in the Netherlands, compared with €30.2 in Luxembourg). According to Eurostat, costs rose only moderately during 2007, up by 1.2%, and this trend is expected to continue with increases of 1.9% and 1.4% in 2008 and 2009 respectively. In a comparison of **labour productivity per employee**, Austria managed to defend its top fifth place among the EU-27 – following close on the heels of Luxembourg, Ireland, France and Belgium. Productivity growth with regard to the production of physical goods continues to be

dynamic at rates of about 3.5%, while the rate for the economy as a whole is somewhat subdued at just below 1%.

Exports / current account surplus: Thanks to its improved competitiveness, Austria managed to turn its trade deficit of many years around in 2007 and to generate a surplus of €425 million. This figure was then actually surpassed during the first half of 2008, with a surplus of some €500 million so early on in the year.

In € billions	Jan.-Dec. 05	Jan.-Dec.06	Jan.-Dec. 07	Jan.-June 08
Imports	96.5	104.2	114.3	59.6
Exports	94.7	103.7	114.7	60.1
Balance	-1.8	-0.5	+0.4	+0.5

The current account surplus also practically doubled during this period from +€4.92 billion to +€8.76 billion (or 3.2% of GDP), a rise that can be mainly attributed to tourism and other business services. Between 2006 and 2007 alone the current account balance improved by €1.47 billion.

Inflation

The inflation rate, as indicated by the consumer price index, has been above the 3% mark since November 2007, and at 3.9% reached its highest mark for the past 15 years in June 2008. In July it was only marginally lower, at 3.8%. The HICP inflation rate of 3.8% is slightly below the rate for the euro area. About one third of the rise in the consumer price index can be attributed to the rise in fuel prices. Heating oil prices account for another 0.4 percentage points of inflation. With regard to food, and even when assuming that the peak will flatten out over the coming few months, prices must be expected to rise by approximately 7%. The way in which energy and food prices are developing is mainly the result of the international situation. A further increase in inflation expected as a consequence of the 2008 UEFA European Football Championship (Euro 2008) did not happen.

A certain easing in the upward price movement at consumer level is in evidence for the coming months, with food and crude oil prices showing a tendency to fall again. Nevertheless, year-on-year, energy prices will be some 13% higher in 2008. Furthermore, even if food prices in the global markets tend back down again over the coming months, they will not be returning to their original lower level. In contrast, prices for services grew only moderately; they will only pick up slightly when wage increases react to the price developments. Considering all of these developments, an inflation rate in the region of 3.4% is expected for 2008. If commodity market prices stabilise, inflation might drop to 2.2% in 2009 according to WIFO.

Austrian economic policy aims to tackle the root causes of inflation and to alleviate the effects that it has on particularly hard-hit groups. For instance, the federal government decided to suspend the intended valorisation of public charges in 2008 and to raise the recommended rent levels using the average rate of inflation for 2007 rather than the December figure. Price monitoring, particularly with regard to energy and food, is another area being stepped up, with measures to increase competition also figuring on the agenda. Lastly, the 2009 pension increase will be brought forward by two months to November 2008. Furthermore, to combat inflation and alleviate its consequences, unemployment insurance contributions for low income groups have been reduced with effect from 1 July 2008 (employees with a monthly income of up to €1,100 are exempt from paying any unemployment insurance contributions; they pay 1% when earning up to €1,200; 2% up to €1,350; and 3% as before when earning more than €1,350). This means a net relief for about 1 million employees. The introduction of a tax on speculative gains from oil and food positions is due to be discussed at EU level.

Structural policy reforms to strengthen the growth potential

The measures in this area aim at strengthening and fostering knowledge and innovation and at bolstering the business location and making it more attractive for both investors and the labour force.

Research, development and innovation, infrastructure, fostering the business location and SMEs as well as environmental technologies and efficient resource management are the cornerstones of the reform policy.

Research, development, innovation

The objective of raising investment in research and development **to 3% of GDP by 2010** is undisputed in Austrian R&D policy. In economic philosophy R&D policy is of central significance to safeguard the business location and jobs in the long term through elevated growth. The innovations brought about by heightened research activity generate and secure considerable competitiveness and thus also growth. The business enterprise sector in particular is an important partner of the public sector in the field of research and development (R&D). Favourable framework conditions for R&D as well as good collaboration between the various players in the fields of science, industry and administration are key factors in improving the innovation system. Ensuring that this structure is kept in balance and working on its constant improvement are challenging necessities when devising R&D policies.

The **R&D ratio** is an important indicator in the innovation system. According to the most recent global estimate by Statistics Austria, Austria's R&D ratio will amount to **2.63% of GDP**, which represents an 8.1% increase in overall R&D spending compared with 2007. Thus a total of €7.512 billion is likely to be spent on R&D in Austria in 2008.

Table: Austrian gross expenditure on R&D

Financing sectors	2000	2005	2006	2007	2008
1. Austrian gross expenditure on R&D (in €millions)	4,028.67	5,972.11	6,423.21	6,946.19	7,512.1
Of which financed by:					
Public sector	1,473.93	2,095.03	2,244.33	2,400.92	2,593.43
Federal state	1,225.42	1,764.86	1,881.95	2,039.22	2,221.70
Länder	248.50	330.17	362.38	361.70	371.73
Business enterprise sector	1,684.42	2,727.83	2,981.52	3,312.15	3,649.69
International investors	800.10	1,058.36	1,101.82	1,132.07	1,163.20
Other	70.23	90.89	95.54	101.05	105.89
2. Nominal GDP (in €billions)	210.39	245.33	257.90	272.77	285.84
3. Austrian gross expenditure on R&D as a % of GDP	1.91	2.43	2.49	2.55	2.63

Source: Statistics Austria.

Spending on R&D has nearly doubled since 2000. The (three most important) sources of funding – the business enterprise sector, the public sector and international investors – all recorded significant increases in R&D funding during this period.

Compared with the previous year, financing by the federal state will be 8.9% and R&D funding by the business enterprise sector 10.2% higher in 2008. Considered from an Europe-wide perspective, Austrian research expenditure has clearly exceeded the EU average over the last few years. The latest comparative data available relate to 2006,

according to which the ratio is on average 1.91% of GDP for the EU-15, on average 1.84% for the EU-27 and 2.49% for Austria.

The Summary Innovation Index (SII), the innovation indicator of the European Innovation Scoreboard (EIS), ranks Austria eighth within the EU for 2007 (which is an improvement on the ninth place held in 2006). Austria was praised in particular for its high efficiency between innovation input and output; in terms of the share of SMEs innovating in-house Austria ranks third, in terms of R&D spending by the private sector it ranks fifth, and in terms of SMEs with organisational innovation it lies in sixth place.

The system of combining tax relief measures with direct funding is currently being scrutinised as part of the evaluation of the system for promoting and financing research. The extent to which the existing portfolio of tax relief and direct research promotion opportunities has proven its worth, and in what way and composition it will be implemented in future, will depend to a large extent on the results of this system evaluation, which will be presented in spring 2009.

The advantages of **indirect, i.e. tax-related research promotion**, over direct research promotion include, for instance, its widespread effect and the low administrative effort involved for companies and administration. Furthermore, very large and complex R&D projects spanning several years often cannot be squeezed into direct support programmes or would have to be divided up to fit into them. Since the threshold is much lower for many companies in the case of tax-related rather than direct research promotion, a bigger number of companies can be reached. The available tax relief instruments (e.g. research allowance) have therefore been progressively expanded to offer an innovation-friendly environment and inviting business location.

Direct funding may be unspecific when stipulating the requirements for research projects (bottom-up) or be aimed at achieving structural improvements in the innovation system (top-down). In this context, Austria is pursuing a number of successful programmes, some of which are concerned with improving knowledge transfer between research institutions and companies, others with solving defined social problems and promoting certain technologies. The existing programmes are constantly being evaluated and modified according to the changing parameters.² By way of example, a couple of new programmes are singled out here: The new competence centre programme COMET aims to create centres of European excellence by heavily funding industrial research and technology development. Following the completion of the first invitation to tender and the launch of the first COMET centres, the second invitation to tender is currently under way. The **COIN** (cooperation and innovation) project focuses on increasingly using knowledge for innovation. The project is targeted at intermediaries and companies, with the aim of stimulating corporate innovation. The **“Sparkling Science”** programme encourages cooperation between research and education institutions as a key factor for future innovation. It comprises research projects which are carried out jointly by universities, *Fachhochschulen* (Austrian Universities of Applied Sciences), museums and schools. The new support programme **“evolve”** is dedicated to promoting one specific area, i.e. innovation potential within the creative sector. Creative services play a central role in the innovation system: they serve as a bridge between technological innovations, the market and demand. To do justice to the creative sector's importance as a decisive driver of innovation, “evolve” is offering a comprehensive pool of individual measures and funding for creative professionals across all industries and at all stages of entrepreneurial development.

Even if something works well and is successful, there is usually still room for improvement. This is why an **evaluation of the Austrian system for research promotion and financing** was launched at the end of 2007. The evaluation is to look into direct and indirect promotion

² For more detailed information, please refer to the 2008 Economic Report Austria, p. 64 et seq.

as well as into the financing of institutions. The goal of such a portfolio evaluation is to assess the relevance, effectiveness and efficiency of these instruments and whether objectives can be achieved with them. Based on an analysis of the interaction of various public sector interventions in research and innovation processes, a list of measures, ranked according to impact, which improve the performance of the Austrian innovation system will be drawn up. Initial intermediate results give a first overview of the individual modules of the investigation. The various surveys on the funding instruments show how diverse and wide-ranging the Austrian research promotion portfolio is, both with regard to tax-related and direct R&D promotion. Analyses and comparisons, as part of stage two, will investigate to which extent measures need to be bundled and which steps need to be taken in order to ensure that they are as user-friendly as possible. The research promotion instruments are embedded in highly complex structures. There are a great many relevant stakeholders, and meticulous analysis is required to illuminate the connections so as to derive ways of improving the system. The evaluation of the system is multifaceted and the different elements must be linked in a careful process in order to be able to build on reliable end results in spring 2009. Only on the basis of the final results sensible conclusions for economic, technological and innovation policies can be drawn.

Since it is not only the sum of financial means that is crucial for a successful research and development policy, Austria is also focusing on improving the general parameters to make the country more conducive to innovation. For example, the adoption of the **2007 Mittelstandsfinanzierungsgesellschaften-Gesetz** (MiFiG-Gesetz; Small and Medium Enterprise Finance Act) was an important step towards improving the basic conditions for venture capital and private equity investments. Together with the *Kapitalmarktstärkungs- und Innovationsgesetz* (KMStIG; Capital Market Strengthening and Innovation Act), which is currently under review, these two acts are to strengthen VC financing for SMEs in particular and consequently also the structures of the Austrian capital market.

As part of the “**Austrian Research Dialogue**” numerous events dedicated to topics of strategic importance for the future of Austrian R&D policy through until 2020 took place between August 2007 and August 2008. In concrete terms, discussions focused on the central role of basic research for the future of the innovation system, universities as competitive places of research and knowledge, and the mobility and career paths of researchers, as well as on entrepreneurial thinking and the availability of venture capital. The ideas gathered from these discussions were presented at the Alpbach Technology Forum in August 2008. At the same time, an expert group comprising members from five EU Member States made recommendations for advancing Austria’s research policy as part of the Policy Mix Peer Review Process instigated by CREST, the European Union’s Scientific and Technical Research Committee. Both documents, the results of the Austrian Research Dialogue and the CREST recommendations, together with the results of the system evaluation will form the basis for the next stage of developing strategic visions.

Austria’s contribution to the European Research Area (ERA) – most important reform objectives 2008-2010: The Austrian federal government plans to develop a comprehensive research strategy for 2020 by summer 2009, with the Austrian Council for Research and Technology Development (RFT) playing a crucial role. Internationally, Austria is to be positioned as an active partner and attractive business location within the European Higher Education and Research Area. This includes the preparation of a **national action plan** to enlarge the career opportunities and mobility of researchers by the end of 2009 (“**Excellence Initiative**”). The mobility and exchange of students and researchers is planned to be increased both within Europe and beyond. Another goal is to remove the barriers for excellent students and researchers from third countries.

Cross-border strategic cooperation among research players is to be supported in the long run, for instance through joint programming and by enabling **transnational programmes among Member States**. Participation in **European research infrastructures (ERI)** is to be

promoted in accordance with the benefits they bring for the relevant Austrian research groups.

Positioning Austria within the global science community is not restricted to the European Union. An efficient and effective cooperation with third countries can often be effected by means of international EU network projects (ERA and INCO-Nets). However, **international priority regions** must also be defined, in which Austria's scientific agencies can be strategically enlarged. Existing partnerships with transatlantic front runners (USA, Canada) are to be expanded. In order to strengthen Austria's position in international competition through brain gain, the labour market was fully opened up for scientists and researchers from all around the globe with effect from 1 January 2008. And to make it easier for them to decide in favour of working in Austria, their spouses and children are also entitled to free or easier access to the labour market.

The **Länder** are also introducing comprehensive measures in the field of research, development and innovation and are preparing extensive strategies. By way of example: Vienna's RTI Strategy, Styria's economic strategy entitled "Standardised Innovation" and Carinthia's development agency as a centre for innovation and technology.

Infrastructure

Investments to improve the infrastructure are of considerable significance to the economy as a whole. They have a positive effect on a country's economic growth, on its attractiveness as a base for business and on employment. An appropriate infrastructure is a necessary framework condition both for business success and private prosperity. It is therefore highly important for an economy's stable performance. **Improving the transport links following EU enlargement** is being prioritised in Austria. The increasing economic exchange with Central and Eastern European countries, which are rapidly catching up, is resulting in very favourable effects for the economy as a whole.

Job effects of infrastructure investments: The job effects of investments in expanding existing and building new infrastructure vary depending on the type of investment and the survey. According to estimates by WIFO, transport infrastructure projects create between 10,000 and 15,000 additional jobs for every billion euros effectively invested (total effects).

Between 2007 and 2010 some €12 billion are to be invested in expanding and building new **federal transport infrastructure**. In addition, the government sets aside more than €500 million every year for public services which enable transport services that the state cannot offer commercially itself. Furthermore, additional financial means are made available for the construction of rail terminals or the promotion of feeder lines, for example, in order to increase the attractiveness of intermodal transport and rail freight services.

For a successful knowledge-based economy, the use of **information and communication technologies (ICT)** is paramount. Broadband coverage provides the basis for a modern **communication infrastructure**. The broadband market has increased considerably over recent years. The total number of broadband connections in the third quarter of 2007 amounted to 1,554,000, which represented an increase by more than 14% in the space of a year. The average growth rate between Q3/2004 and Q3/2007 was about 6.1% per quarter. However, due to the fact that mobile broadband offers are in high demand, Austria has assumed a special role. The increasing penetration of mobile broadband connections in particular is resulting in a slowing-down of sales of other forms of internet access. Broadband penetration of Austrian households rose to almost 44% in Q3/2007. In terms of per capita broadband access, penetration amounted to about 19.1% in Austria in Q3/2007, while the EU-25 average for the same period was 19.9%. If mobile broadband connections, which are already widely used in Austria, were included, penetration would stand at about 24.9%. The

number of mobile broadband connections has soared, totalling 482,000 in the third quarter of 2007. The goal is to achieve complete broadband coverage for the population by 2009.

Fostering the business location and SMEs

The government has always taken targeted measures to ensure that Austria remains a valued base for business, but also to improve it, and to foster SMEs.

The goal of extending the internal market is currently primarily being pursued by pushing the area of **services**. At the moment, intensive work is being carried out to implement the Services Directive in Austria; after all it will create a clear increase in value added for the economy. The **reduction in bureaucracy** associated with the Services Directive will make a crucial improvement to the ability of companies, including Austrian companies, to access the markets of other Member States. Innovative elements such as the introduction of a point of single contact for Austrian and international service providers for all their enquiries in connection with the provision of services, as well as the possibility of carrying out procedures and requesting information by electronic means, will significantly contribute to the European economy's competitiveness. With regard to the cross-border movement of goods the obligation, which already ensued from the EC Treaty, was laid down at EU level by way of a regulation to mutually recognise products that were legally brought into circulation in another Member State and not harmonised across the EU. Applying it directly will considerably push the internal market with regard to the movement of goods.

Point to watch: "Increasing competition in services, in particular in professional services"

The increasing integration of markets, both at European and global levels, has placed some pressure on the regulating systems and professional codes of conduct for the liberal professions in Austria, which originated within the confines of national borders. The standardisations concern access to professions (training and qualifications) and regulations governing these professions – price regulations, restrictions on advertising or the establishment of interdisciplinary companies. They exist for historical reasons and functioned like market regulations. Even though freelance services are generally recognised as services that are based on a fundamental public interest, a higher degree of **differentiation** among the liberal professions does seem necessary due to the varying types of work involved.

With the level of competition among the liberal professions in Europe being regarded as too low, **legal standards** are also being **adjusted** accordingly in Austria. Fee regulations (or even fee recommendations) have been abolished not least due to activities of the Federal Competition Authority (BWB) (most recently, the professions concerned were auditors, architects and consulting engineers). Together with professional chambers and associations, calculation tools have been prepared that have satisfied both the interests of entrepreneurs as well as the BWB's understanding of free pricing.

Despite ongoing restrictions on advertising with regard to the liberal professions in Austria (there are no longer any advertising bans!), there is a growing understanding that the "market" and the *Gesetz gegen den unlauteren Wettbewerb* (UWG; Law Against Unfair Competition) are appropriate tools with which to avoid unfair advertising. In this case too a distinction must be drawn between the different professions, since the specific features and differences of certain groups mean that they do not necessarily need to advertise.

Other areas to be liberalised include access to professions (consulting engineers, pharmacists, auditors, lawyers or notaries) and codes of conduct.

A WIFO study on "Trade Barriers in Services and Competitive Strengths in the Austrian Service Sector" of June 2008 paints a positive picture with regard to legal and tax consultancy and architects' and engineers' practices. All of these service activities combine good growth performance and a high level of start-ups with good and continuously improving competitiveness. In any case the questions of regulation intensity and **proportionality** of state intervention (can the same objective perhaps even be achieved by taking measures

that are less restrictive on competition?) will have to be examined even more closely in future than in the past.

The recently introduced initiatives to modernise **competition law** are proving to be effective, such as the provisions relating to key witnesses. In the light of current **inflation developments**, a fundamental reform of competition law and an extension of the Federal Competition Authority's powers are currently being discussed. Furthermore, to increase **market transparency** in Austria and to promote competition in the mineral oil sector at the same time, a **fuel price monitor** has been set up on the website of the Federal Ministry of Economics and Labour. This has helped considerably to boost market transparency. The fuel price monitor compares averagely weighted gross and net prices for fuel in Austria with those paid in other EU countries and the EU average. A similar service is offered through the electricity and gas tariff monitors, and there is also an electricity/gas tariff calculator on the site.

Improving the legal framework remains an important instrument to strengthen competitiveness and to promote sustainable growth and employment. In this context, Austria particularly appreciates the European Council's decision on **reducing administrative burdens originating in European legislation** by 25%, to be achieved by 2012, as well as its recommendation to the 27 Member States to fix similarly ambitious national targets by 2008. Likewise, Austria supports the prioritisation of relaxing requirements for SMEs within the scope of the Small Business Act adopted by the Commission in June 2008. In line with these European endeavours, Austria launched the initiative "Lowering administrative costs for companies by cutting red tape" to pursue the ambitious goal of lowering the costs for companies resulting from compliance with information requirements under federal law by 25% (compared with September 2007) by 2010 and those under Community law by 2012. This relieves the burden on Austrian companies, with lasting effect, and ensures higher productivity while increasing the attractiveness of Austria as a base for business overall. The first comprehensive list of measures including 133 projects to implement the initiative was presented back in March 2008. The individual projects will be put into practical effect by 2010 or 2012, and the list updated and extended to incorporate new measures including the implementation plan. With regard to the European Commission's initiative to **simplify the regulatory environment**, Austria considers it especially important that the political objectives of legislation, particularly the social policy objectives as well as environmental protection, are not called into question by a lowering of the level of protection on the pretext of simplification. Furthermore, it supports the adoption of "fast track" proposals at EU level, as these help reduce the burdens on companies relatively quickly. In general, endeavours to reduce administrative costs must not undermine the high level of protection in the social and environmental fields.

Numerous **legislative programmes to improve the economic environment, particularly for SMEs**, entered into force in 2008:³ these include, among others, the *Unternehmensrechts-Änderungsgesetz* (URÄG; Company Law Amendment Act), the 2007 *Mittelstandsfinanzierungsgesellschaften-Gesetz* (MiFiG-Gesetz; Small and Medium Enterprise Finance Act), tax benefits also for the provision for the self-employed, the amendments to the *Bilanzbuchhaltungsgesetz* (BiBuG; Law on Accountant Bookkeepers), *Wirtschaftstreuhandberufsgesetz* (WTBG; Law on Professional Accountants) and *Ziviltechnikergesetz* (ZTG; Act on Chartered Engineering Consultants), the amendment to the *Öffnungszeitengesetz* (Opening Hours Act) as well as the amendment to the *Gewerbeordnung* (GewO; Trade Act). In addition, inheritance and gift tax expired on 1 August 2008, accounting for €140 million. This measure is expected to facilitate company successions. The introduction of a voluntary unemployment insurance scheme for the self-employed, effective from 1 January 2009, improves social security for entrepreneurs.

³ For more detailed information, please refer to the 2008 Economic Report, p. 116 et seq.

To secure competitiveness of Austrian **SMEs**, numerous action programmes are being offered. The statistics for the number of annual **business start-ups** show a positive trend and are also positive proof of the effectiveness of Austria's policy of actively encouraging the creation of new businesses. Over the past 15 years, there has been a consistent upwards trend. The record number in 2005 (31,001 sustainable business start-ups) was maintained in 2007: 30,304 companies were newly established in 2007, which is 4.1% more than in 2006. In the first half of 2008 the highest half-year figure since 1993 was reached, with 16,300 new start-ups.

With its business start-up programme (UGP) the Public Employment Service Austria (AMS) is supporting unemployed persons who wish to become self-employed and start up their own business. The UGP includes management consulting services, training seminars and financial provision during participation in the programme. In total, 7,868 people took advantage of this support programme in 2007 (7,114 in 2006). The consultancy fees totalled €4.63 million in 2007, 42% of which were accounted for by women. In addition, €9.01 million (€8.07 million in 2006) was paid out as start-up allowance to the participants in the programme (€3.28 million of which to women). In all, 4,558 company founders received this start-up allowance (4,048 in 2006), 1,841 of which were female.

Austria Wirtschaftsservice Gesellschaft m.b.H. launched the programme "Micro loans for small companies" on 1 July 2006, with which it supports companies that have been newly set up or taken over, or existing companies (with fewer than 50 employees), and makes it easier for them to take up small loans (up to €25,000). The validity of the programme's documents for funding pursuant to the *KMU-Förderungsgesetz* (KMU-FG; SME Promotion Act), which expired on 30 June 2008, was extended to 31 December 2010 with effect from 1 July 2008.

According to an international OECD study, after Slovakia, Austria showed the highest increase in the number of self-employed, 20.4% to be exact, between 2000 and 2005. The most recent initiative taken in the field of business start-ups is the implementation of the objectives of the Spring European Council in June 2006. Other transposition measures are also currently fully underway. The amendments to the GewO and UGB contribute to liberalise and simplify the process of starting up businesses. The authorities in charge have been linked electronically, which enables them to immediately transfer trade registrations and official information electronically. One-stop shops facilitate and accelerate the process of setting up a company. There have also been improvements owing to the *Neugründungsförderungsgesetz* (NeuFÖG; Business Start-up Promotion Act), which abolishes administrative levies for business founders and successors. Reducing start-up costs as well as easing formal requirements in combination with providing sufficient protection for creditors are the key issues for the planned reform of the legal form of GmbH. Ultimately, however, Austrian law should also be kept competitive for business start-ups.

Point to watch: "Strengthening entrepreneurship education"

Strengthening the entrepreneurial culture and educating people so that they think and act in an entrepreneurial way are central aspects of Austrian policy on the corporate sector and, above all, education. Initiatives that have been successfully established in this area in Austria continue to be taken forward such as the "Children's Business Week", the consolidation of "entrepreneurship education" as a teaching principle/a subject in its own right in numerous types of school, the EESI⁴ (entrepreneurship education and innovation in schools) competence/impulse centre, the Institutes for Entrepreneurship and Innovation at the universities in Vienna, Klagenfurt and Linz, the UNIUN programme (university graduates founding companies), the Initiative for Teaching Entrepreneurship (IFTE), programmes to promote entrepreneurial initiative in schools as well as the state entrepreneur exam and the entrepreneur's skills certificate. The intensive cooperation agreed last year between the leading ministries responsible (i.e. Federal Ministry for Education, the Arts and Culture and Federal Ministry of Economics and Labour) has been and continues to be implemented. Furthermore, the Federal Ministry for Education, the Arts and Culture and the Austrian Federal Economic Chamber jointly run so-called education clusters.

⁴ For more details, please go to www.eesi-impulszentrum.at (in German).

Against the background of progressing globalisation, the dynamic development of the economies in Eastern Europe as well as South-East Asia and the resulting opportunities, the **Austrian economy continues to expand its international scope**. Measures to strengthen international links are a decisive pillar of economic policy, considering the significance of foreign trade for the national economy (every other job, for example, is linked to international trade). The successful initiative “go international” will be continued. The government-operated Austrian Business Agency (ABA) will continue to encourage foreign investors to locate in Austria and to pursue a targeted inward investment policy (focusing on technology transfer, R&D and the reinforcing of existing and new clusters, including in the cross-border area).

Efficient resource management and climate protection

Strengthening the synergies between environmental protection and growth is an essential approach to encourage the sustainable use of resources. Efficient resource management is crucial when considering the trends to be observed around the globe. Numerous valuable initiatives were recently launched in this context.

Up to €500 million has been earmarked for the new **Climate and Energy Fund** for the period from 2007 to 2010. The 2007 budget amounted to €50 million, the budget for the coming three years shows €150 million for each year. These additional funds are to support the existing endeavours to meet the national targets to reduce greenhouse gas emissions, optimise energy efficiency and increase the share in renewable energy sources. Environmental technologies for efficient energy use are to be further developed so that they are ready for market, the market penetration of such technologies supported and the security of supply augmented. At the same time, Austria as a business location and its trailblazing role in energy and environmental technology should be broadened.

The **second amendment to the *Ökostromgesetz*** (Green Electricity Act) in 2008 considerably improves Austrian legislation. Total additional funds of €2 billion are being made available for promoting green electricity. The share of green electricity will be doubled to 15% by 2015, which is expected to mean that CO₂ emissions can be cut by an extra 1.5 million tonnes by 2015. The tariffs for all green electricity technologies will be re-assessed in order to provide the necessary incentives for investments. The additional funds for green electricity will be raised by about 25% to €21 million annually, which means that an additional €500 million will have been invested in green electricity generation and promotion by 2015.⁵ The aim of the *Wärme- und Kälteleitungsausbaugesetz* (Heating and Cooling Network Expansion Act) is to achieve a long-term reduction in CO₂ emissions of up to 3 million tonnes in the space of around 10 years.

Point to watch: "Further emission reduction policies and measures"

Austrian climate strategy involves numerous measures designed to cut emissions:

- With effect from 1 July 2007, for example, the **tax levied on mineral oil** was increased. The standard consumption tax was extended to include a bonus-malus system based on the vehicle's CO₂ emissions. The implementation of the targets for biofuels and alternative fuels by 2008 (5.75%) and 2010 (10%) is being pushed ahead. All these measures taken together can bring about reductions in CO₂ emissions to the tune of 2 to 3 million tonnes.
- With regard to **energy and industry**, the sectors are covered to a large extent by emissions trading.

⁵ For further improvements compared with former legislation, please refer to the 2008 Economic Report Austria, p. 84 et seq.

- In relation to **heating**, the agreement between the federal state and the *Länder* on housing subsidies will result in a significant improvement in quality in the case of new-builds and with regard to the upgrading of existing heating systems, as well as with regard to the use of renewable energy forms. Implementing the 2007 climate strategy and the fiscal equalisation arrangement, the federal government is currently working on an advancement of its agreement with the *Länder* pursuant to Article 15a of the *Bundes-Verfassungsgesetz* (B-VG; Federal Constitution Act), which is planned to enter into force in 2009.
- To expand the share of emission reduction units from **climate protection projects abroad** as part of the Austrian programme to use the flexible Kyoto mechanisms (Joint Implementation/JI, Clean Development Mechanism/CDM), the target was set to purchase 9 million ERUs per year (from 2008 to 2010). The national JI/CDM programme, as of August 2008, had already secured a total of 43.7 million tonnes of ERUs for Austria, which means that 97% of the purchasing target for 2012 has been fulfilled. In order to ensure the continued success of the JI/CDM programme, the amendments to the *Umweltförderungsgesetz* (UFG; Environmental Support Act), which entered into force on 1 January 2008 and 4 June 2008, offers a solution to the issue of financing and increases the funds for the programme.

Further climate policy measures of note:

- **Environmental funding** in Austria is the central financing tool at federal level for the implementation of environmental measures at operational level while considering a wide variety of technological options. Over the past few years the focus on climate protection measures has been further expanded and advanced. For instance, the financial funds promised per year have been continuously raised from an original €47.238 million to €90.238 million in 2007, with the additional funds being exclusively earmarked for climate protection measures. The amount of funds promised for 2008 also stands at €90,238 million. In ecological terms the climate policy effect attained with environmental funding is particularly noteworthy. With the funding, a total annual CO₂ reduction of 2,138,000 tonnes has been/is being achieved over the period of time mentioned.
- Measures to step up use of renewable energies and energy efficiency.

Environmental protection is a global growth market and is increasingly helping to secure existing jobs and create new ones. The opportunities arising from innovation in the field of **environmental and energy technologies** and the expansion of energy and resource efficiency are vast. Due to its stringent laws, Austria specialised early on and thus succeeded in securing a very good position among international competitors. With revenues generated in the fast-growing field of **environmental technology** of some 4%, measured in terms of gross domestic product, Austria ranks second in the EU. Half of the people employed in the Austrian environmental technology industry work in the field of "clean technologies". The Austrian environmental technology industry and its 22,200 employees (17,200 in 2003) generated sales of approximately €6 billion in 2007 (€3.8 billion in 2003). Austria is aiming to double the share of environmental technology in GDP as well as the number of jobs in this field. This positive development is further enhanced by the Master Plan Environmental Technology (MET), which was prepared with the help of political players and administrative departments, businesses and the scientific community. The objective of MET is to advance and strengthen Austria as a competitive location for environmental and energy technologies. The Master Plan includes 30 priority measures for the areas of air, energy, water, waste, exports, research, qualification and financing. These include measures to boost the export and qualification initiative "environmental technology" and the establishment of the competence centre for environmental and energy technologies ACT (Austrian Clean Technology) in June 2008. The competence centre's key tasks are to link up all relevant players in the areas of environmental technologies, qualification and information measures regarding environmental and energy technologies, as well as the development, application, diffusion and marketing of environmental and energy technologies and services.

As far as the use of regenerative forms of energy is concerned, Austria has always held a pioneering role. To boost the **use of renewable energies**, a package of measures has been successfully employed for a number of years now, implemented both at federal state and *Länder* level. In 2006, 24.1% of Austria's **gross domestic energy consumption** was covered by renewable energy sources. Of this, 10.4% stemmed from hydropower and 13.7% from other renewable sources, particularly biomass.⁶ The makeup of gross domestic consumption in 2006 has shifted in favour of renewable energies (+2.1 percentage points) and to the detriment of gas, while the share of coal and oil remained practically unchanged. Renewable energies even accounted for nearly 75% of domestic energy production. The great significance of renewable energies is also reflected when compared on an international scale: within the EU, Austria has the fourth-highest figure for renewable energies as a proportion of gross domestic consumption. Measured against the economically relevant variables of population and gross domestic product, Austria actually comes top of all the EU Member States.

As a consequence of the early **orientation of Austrian energy policy** towards lowering the demand for energy by means of promoting the sensible use of energy sources and improving the efficiency of their use, Austria has succeeded over the past few decades in significantly improving energy efficiency so that it is now among those countries that use energy particularly economically, measured according to their economic performance. In 2006 Austrian total energy consumption amounted to 0.1590 toe (tonnes of oil equivalent) per US-\$1,000 GDP (at 2000 prices and exchange rates). This value is clearly below the OECD average (0.1898) and also below the figures for most of the EU Member States. During the period between 1973 and 2006, Austria's overall energy intensity dropped by some 27%. Another common indicator for international comparisons is the total energy consumption per capita. With a figure of 4.13 toe per capita, Austria is significantly below the OECD average (4.70) but above that of the EU-27 (3.69); however, the latter value refers to 2005 (as 2006 figures are not yet available).

The aims of **energy efficiency measures** are to achieve a form of energy production and consumption that is efficient while conserving resources, to secure energy supply, to ensure the environmental viability of energy supply, to create an economically efficient energy supply, and to achieve social acceptance of the energy supply system. In addition, they result in positive economic effects in terms of foreign trade (lower energy imports) and the labour market (labour intensity of energy efficiency measures). Austria uses a number of instruments and measures to conserve energy and improve energy efficiency at both federal state and *Länder* levels. Apart from regulation, these measures also cover the areas of research, technological development and demonstration, as well as promotion of market penetration, dissemination of information and financial incentives for implementing suitable measures.

⁶ Cf. Statistics Austria, 1970-2006 energy balance sheet.

Successful labour market and employment policy

Following the record employment levels recorded over the past few years, 2007 featured another unprecedented increase in the number of those in employment and a clear fall in the jobless figures due to the high level of economic growth, greater competitiveness, structural reforms and successful labour market policy (see Appendix, Chart 1). The number of people in paid employment averaged 3,344,039 in 2007 and was thus 63,161 (or 1.9%) higher than the average for the previous year. At the end of July 2008, 3,516,653⁷ people were in paid employment. Thus there was a renewed acceleration in the rise in employment levels. At the same time, the fall in the number of persons registered with the Public Employment Service (AMS) in evidence since March 2006 shows a clear **consolidation of the turnaround**. The number of quasi-freelance contracts (*freie Dienstverträge*) including marginal part-time contracts of this type fell during 2007 (-4.7% and -0.3% respectively). A 4.4% rise in the so-called “**neue Selbständige**” (the self-employed working in fields that do not require a trade licence) was recorded in 2007.

An average of 222,248 people were registered unemployed during 2007, which was 16,925 fewer than in 2006 (-7.1%). Chart 2 in the Appendix shows that Austria's unemployment rate of 3.3% in August 2008 was one of the lowest in Europe (EU average: 6.9%). This means that full employment was achieved in 2008.

In terms of the average level for 2007, the number of **women in active employment**⁸ rose to 1,443,839 (+32,280 or 2.3%). Overall, women account for 44.7% of those in active employment. Female unemployment fell by 5.3%. Part-time paid employment⁹ (up to 35 hours per week) continued to rise in the case of women (+2.0%). A 1.3% increase in full-time employment was recorded over the same period. The proportion of women in part-time work is 43.4%, compared with 6.4% for men.

Compared with 2006, the average number of older workers in dependent employment in 2007, at 592,705, was up by 31,538 (+5.6%). In recent years, the employment rate of older workers (55 to 64-year-olds) has continued to rise (2004: 28.8%; 2005: 31.8%; 2006: 35.5%), and this trend was maintained in 2007 with a rise of 3.1 percentage points (38.6%). An average of 42,882 older people (50 to 64-year-olds) were registered unemployed during 2007, which was 2,017 or 4.5% fewer than in 2006. The progressive raising of the pension age together with demographic developments have in recent years resulted in an above-average increase in the numbers of people aged 50 and over who are employed. Compared with 1998, the average number of older workers in dependent employment in 2007, at 592,705, was up by 159,761 (+36.9%).

Compared with other EU countries, Austria had the fourth-lowest figure of **youth unemployment** in 2007, at 8.7%¹⁰ (6.3% in August 2008¹¹), after the Netherlands (5.9%), Denmark (7.9%) and Lithuania (8.2%); the average for the EU-27 was 15.3%. By the end of July 2008, with a total of 29,538, there were 7.1% (730) fewer young persons registered with the AMS as job seekers than in July of the previous year.

The average number of foreign nationals in employment in Austria in 2007 was 412,578 (= 12.3% of total employment). This was 21,883 or 5.6% higher than during the previous year. There was an above-average fall in long-term unemployment, at -26.4% (-2,205) to 6,144.

The active support budget of the AMS reached €846 million in 2007, with active and activating labour market policy measures totalling €1,836 million (including funding from the

⁷ Preliminary employment data from the Main Association of Austrian Social Security Institutions; excluding so-called “geringfügige Beschäftigungsverhältnisse” (part-time jobs exempt from social security contributions).

⁸ WIFO database. Those in paid employment with full insurance obligations, excluding those drawing childcare (parental leave) benefit and excluding unemployed persons in training and in receipt of subsistence allowance.

⁹ Statistics Austria, employment survey. Labour Force concept. Excluding employed persons currently on parental level, excluding those in military and alternative service and excluding those employed persons resident in institutions.

¹⁰ According to Eurostat.

¹¹ Most recent monthly figure currently available (Eurostat survey of 1 October 2008).

Federal Ministry of Economics and Labour). Active and activating expenditure as a share of the total expenditure on labour market policies has therefore risen by 14 percentage points since 2002 to a current level of 36% (see Appendix, Table 1).

Target group-specific measures

Older employees

Country-specific recommendation with regard to Austria: **"Improving incentives for older workers to continue working"**

In order to get closer to the Stockholm target (50% increase in employment rate of 55 to 64-year-olds by 2010), the emphasis on labour and employment policy for **older people** has been refined and extended in recent years against the background of pension system reforms. The AMS is making a significant contribution by pushing forward the implementation of an **Early Intervention Strategy** in conjunction with a varied bundle of measures (reorientation, further training, employment promotion including training of employees) especially for older people.

A total of €102.86 million in financial support was made available for the over-50s in 2007 (with the focus on training), of which €39.62 million or 38.52% was allocated to older women. This deliberate prioritisation is also reflected in the AMS statistical key figures: in 2007 the number of newly supported older people was 43,359. As a proportion of the total number of supported persons, this represented a year-on-year rise from 14.77% to 14.83%.

The bundles of measures aimed at increasing the integration of **older workers** into the labour market vary and are interlinked. They range from the substantial reduction in non-wage labour costs¹² to the bonus-malus system and active support for the re-integration of older job seekers, including specific approaches to training.

The **part-time allowance for older workers** encourages employers to reduce the working time of older employees, while at the same time upholding their employment relationship, thus fostering further employment. Employment promotion measures for older people run the gamut from integration subsidies for individual jobs to job schemes and temporary non-profit agency work. The AMS qualification programme encourages labour market integration via special training and re-integration measures.

Crucially, with regard to labour market measures introduced at company level and in association with a special programme for the promotion of employment of older workers (for the 2005-2007 period), innovative projects to ensure age-appropriate arrangements in the workplace and the training and re-integration of older workers have been trialled and subsequently implemented across Austria as a whole. The massive expansion of the labour market policy focus on older workers in association with the ESF implementation during the new programme planning period of 2007-2013 is also set to help increase the proportion of older people in employment. A key policy area is the development and demonstration of opportunities showing how the potential of older workers can best be utilised, for instance through the age-appropriate organisation of work and targeted measures in workplace health care according to the spirit of "productive aging".

The "Nestor" competition is being held to raise awareness in businesses of the special value and importance of older workers and of the need for timely reaction to the demographic changes expected in the coming decades. The competition aims to award a prize to companies which are especially committed to their older workers and which structure the working environment in an age-appropriate manner. The aim of this awareness-raising measure is to make a further contribution to the employment opportunities of older workers.

¹² Financial incentives for the employment of older workers have been introduced. These include the abolition of unemployment insurance contributions for anyone over the age of 57 (applies to employer and employee contribution; since 1 July 2008), and the abolition of the supplement pursuant to the *Insolvenzentschuldungsgesetz* (IESG; Bankruptcy Contingency Fund), and of contributions to accident insurance and to the *Familienlastenausgleichsfonds* (FLAF; Funds for the Compensation of Family Expenses) for employees who are aged 60 or over.

The results of the "Invalidity in transition" project, devoted to the development - with the involvement of the social partners - of new ways of structuring invalidity pension, may also help to keep people in employment for longer. However, the practical implementation stage has yet to begin.

The Austrian labour inspectorate is carrying out a campaign over several years devoted to making work suitable for older employees in small and medium-sized enterprises. The aim is to motivate companies to carry out an age structure analysis, to identify age-specific work processes and effects, and to create appropriate working conditions. Information material to support companies in these measures is available from the labour inspectorate's website at www.arbeitsinspektion.at.

Measures relating to women and equal opportunities

Point to watch: **"Tackling the gender segregation of the labour market, including by further improving the availability of childcare"**

One of the key priorities of the National Reform Programme lies in reducing gender-specific wage differences. The average gross annual incomes of women employed on a full-time basis for the entire year in 2006 were 20.2% lower than those earned by men. Strategic approaches to reducing gender-specific differences in income include measures to guarantee equal access to all jobs and to make it easier for men and women to achieve a life/work balance. The aim is therefore to reduce the segmentation of the labour market. A fundamental component of the strategy to reduce the wage gap between men and women lies in the setting up of ongoing monitoring of gender-specific wage differences. A set of relevant indicators is currently being developed in this regard.

Due account is being taken of the European Pact for Gender Equality. The Lisbon target for female employment levels has already been attained, and the national target is to achieve an increase of 3 percentage points during the period from 2007 to 2010.

"Gender mainstreaming" is also being implemented further. A particularly important step forwards is the implementation of "gender budgeting" in 2008 through its enshrinement in the Federal Constitution and in the *Bundeshaushaltsgesetz* (BHG; Federal Budget Act - Federal Law Gazette I 1/2008).

At the AMS, ongoing consideration of equal opportunities is a binding strategy. Again in 2007, more than 50% of the support budget that can be traced on a gender-specific basis was allocated to active measures to support women (approx. €417 million). Women accounted for approximately 52% of all support measures (approximately 151,940 women were supported for the first time in 2007). The budget of the Federal Minister for Women to support women's projects and the expansion of facilities to advise women was increased in 2008 from some €4,505,000 to €4,655,000.

The successful programme "Women in trade and technology" (FIT) is being continued. In addition to vocational orientation, participants are also able to access vocational training in trades and technical professions [e.g. apprenticeship but also *Fachhochschulen* (Austrian Universities of Applied Sciences) and HTL (Upper Secondary Schools for Technology)]. In 2007 approximately 2,600 women took part in preparatory courses designed to improve their prospects, with some 1,100 attending basic training in trades/technical subjects. Some 450 women are also already completing a non-traditional course that will lead to a completed apprenticeship.

A further focus of the AMS in future will be the "Supporting re-entry into the workplace" programme, encompassing information, advisory and specific training measures. The target remains to improve access for women to training and jobs. In 2007 some 23,900 women, after taking a career break to have children, were integrated into professional life within six months of registering for work, whilst some 20,400 had joined a training programme.

Projects within the framework of the "fFORTE" initiative organised across several ministries (Federal Ministry for Education, the Arts and Culture, Federal Ministry of Science and Research, Federal Ministry of Economics and Labour, Federal Ministry for Transport, Innovation and Technology) to strengthen women's position in research and technology and

to support women in science and technology were further expanded and extended (2007-2009: more than €2,500,000); the projects "Give it a go! – girls and technology" (mut!) and "FIT – Women in technology" set up to promote the interests of girls/women in training in the natural sciences were continued.

The fundamental overhaul of the way in which in-company apprentice training is supported in 2008 also makes provision for promoting quality, with equal access for young women and for young men to the various apprenticeships forming one of the criteria. Annual funding of €5 million has been earmarked for this purpose. If a case is brought before the equal opportunities commission or the court with jurisdiction for labour and social affairs relating to (sexual) harassment of apprentices, new funding will be temporarily suspended.

The 2008 amendment to the *Gleichbehandlungs-Gesetz* (Equal Opportunities Act) / *GBK/GAW-Gesetz*¹³ (Implementation of Council Directive 2004/113/EC) marks improvements to the existing material law and some procedural requirements. The minimum compensation to be paid in the event of discrimination upon the termination of an employment contract is raised from one month's salary to two months' salary. To increase the proportion of women in senior positions in public service, the *Ausschreibungsgesetz* (AusG; Civil Service Job Tender Act) was amended with a view to creating greater transparency.

Measures to make the childcare benefit more flexible¹⁴ with effect from 1 January 2008 are based on conducive basic parameters enabling women to work thanks to improved options for designing career breaks in an individual way and better options for fathers to get involved in childcare and to take a career break. The expansion of the range of available institutional kindergarten places by means of an agreement between the federal state and all of the *Länder* (so-called "15a agreement") is aimed in the same direction, with the federal state providing initial funding of €45 million to get the measure started. With regard to the Barcelona objectives of providing childcare places for 33% of all under-threes by 2010, the agreements have the particular target of raising the proportion of children in this age group who attend childcare. On the basis of quality criteria, childcare places that can be reconciled with full-time employment on the part of the parents receive the highest amount of funding.

Childcare quotas have increased steadily in recent years, although there are clear regional differences. The childcare quotas (excluding non-institutional care such as childminders and playgroups and excluding boarding schools, full-day schools and similar establishments) increased to 11.8% (10.8% in 2006) for 0 to 2-year-olds, to 84.9% (83.5% in 2006) for 3 to 5-year-olds, and to 13.8% (12.9% in 2006) for 6 to 9-year-olds (see Appendix, Table 3). There are 7,457 institutional childcare facilities in Austria (not including seasonal childcare), of which 4,555 take the form of kindergartens, 956 are nurseries, 1,168 are after-school centres and 778 are mixed-age childcare establishments¹⁵. As of 15 October 2007, there were 287,795 children registered in childcare day centres¹⁶ nationally. There were 28,020 0 to 2-year-olds, 205,636 3 to 5-year-olds and 45,670 6 to 9-year-olds in registered childcare facilities¹⁷. In terms of childcare outside formal institutions, 14,216 children in the 0-9 age group were looked after by 3,581 childminders/in playgroups¹⁸ in 2007.

Young people

¹³ *Bundesgesetz über die Gleichbehandlungskommission* (GBK; Federal law on the equal opportunities commission) and *Gleichbehandlungsanwaltschaft* (GAW; council for equal opportunities).

¹⁴ Childcare benefit is now available in three different forms: €14.53 per day for a maximum duration of 30 months from the birth of the child or (if being claimed by both parents) for a maximum duration of 36 months from the birth of the child (existing model); €20.80 per day for a maximum duration of 20 or 24 months from the birth of the child or €26.60 per day for a maximum duration of 15/18 months from the birth of the child.

To coincide with this new regulation, the limit on earnings when drawing childcare benefit has been increased and a new provision introduced, according to which the only amount to be repaid is that by which the earning limit is exceeded.

¹⁵ These have places for kindergarten-age and preschool-age children as well as providing after-school care for school-age children.

¹⁶ These are institutional childcare facilities.

¹⁷ Children in registered day care based on their age on 1 September 2007.

¹⁸ Playgroups held for less than the minimum time of 15 hours per week stipulated in the day care statistics.

Redesign of support for in-company apprentice training and apprentice training at vocational training centres as of the 2008/09 academic year – training guarantee

The successful path of apprentice training is being continued with the appropriate further development of support systems and framework conditions in relation to the dual vocational training system. By means of an amendment to the law based on a proposal from the social partners, the prerequisites for the implementation of a comprehensive youth employment package were created by the federal government with effect from the 2008/09 academic year.

Company-based funding for apprentice training will be handled in future via the apprentice departments of the Federal Economic Chamber with the involvement of the employee representatives and will primarily be composed as follows:

Basic funding: The flat-rate apprentice training grant previously awarded for every apprenticeship has been replaced by a new more sophisticated and needs-based system of basic funding. This funding model based on the apprentice pay actually paid in accordance with the collective agreement involves different levels of support according to the year of training (1st training year: 3 times the apprentice wage; 2nd training year: 2 times the apprentice wage; 3rd and 4th training year: the apprentice wage or, in the case of a 3.5-year course, half the apprentice wage).

Supplementary funding based on quality and the labour market: In addition to basic funding, the option of additional company funding has been created, encouraging companies to create additional apprenticeship places and, at the same time, based on quality criteria. Funding of this type includes:

- Funding for new apprentices in companies providing apprentice training for the first time or for the first time after a long break, or in newly established companies;
- Quality bonus for companies whose apprentices successfully sit a quality examination half-way through their apprenticeship;
- Funding for the continuing education of trainers;
- Funding in recognition of excellent or good passes in the final apprenticeship examinations;
- Additional training for apprentices over and above the statutory requirements for the particular profession;
- Support for training alliances;
- Support for company measures to ensure equal access to the different apprenticeships for young men and young women alike;
- Support for measures aimed at apprentices with learning difficulties.

Further development of apprentice training at vocational training centres: The reform of apprentice training at vocational training centres with effect from the 2008/09 academic year is aimed at making this area, alongside the still crucial area of in-company apprenticeships, an equally important and regular component of the dual system of vocational training and at expanding it as an element of the training guarantee available to young people up to the age of 18. Within the framework of the *Berufsausbildungsgesetz* (BAG; Act on Vocational Training of Apprentices), a new uniform type of training measures has been introduced in institutions geared towards the entire training period through to completion of the apprenticeship, with the priority remaining the early arrangement of an in-company apprenticeship place.

Persons with health issues restricting their placement options

The **employment initiative for people with disabilities** is being continued and supported with additional funding. Some €161 million of funding has been earmarked for 2008.

The role of **integrative companies**, providing a springboard into the general labour market for those with a disability, is to be further strengthened. With effect from 2008, this springboard function has not just been fulfilled by means of the career preparation module, but also through the employment module. Specific measures were prepared in 2008 to make the transfer from the employment module into the free market more attractive to those concerned. For the period from 2008 to 2010, the target is to achieve a ratio for placement in the primary labour market in the employment model of between 5 and 7% per year, followed by a level of 10% per year from 2011 onwards.

Health and safety at work

To tie in with the European "Community strategy on health and safety at work (2007-2012)", a national occupational safety strategy has been developed spanning several years. The aim is to agree the activities on the part of the various different parties working in health and safety and to work together to help ensure that the **health of employees is looked after**, thereby ensuring that they can **remain in their profession for as long as possible**. The following areas have been identified as key to the prevention of industrial accidents and the prevention of work-related illnesses and occupational diseases: improvement of risk assessment, particularly in small enterprises; training and continuing education as well as information in relation to health and safety; and the improvement of the activities undertaken by prevention experts. All of those working in the field of health and safety will be focusing on these issues accordingly at the level of individual companies between now and 2012.

Employment of foreign nationals

An amendment to the **Ausländerbeschäftigungsgesetz (AuslBG; Alien Employment Law)** and to the **Arbeitsvertragsrechts-Anpassungsgesetz (AVRAG; Employment Contract Law Adaptation Act)**, which entered into force at the beginning of 2008, causes some improvements with regard to the admission of certain foreign workers and the easing of the bureaucratic burden on companies. For example, the labour market was **completely opened for the employment of scientists and researchers, with free access to the labour market** for their spouses and children. The European Court of Justice judgment of 21 September 2006 (case C-168/2004), in which the Austrian regulations regarding the **posting** of workers from third countries were judged to contravene Community law, has now been implemented in full.

2008 Fachkräfteverordnung (Skilled Workers Regulation): The social partners, in their "Future – Labour Market 2010" package of measures, have agreed to admit workers from the new EU Member States on the basis of less stringent conditions with regard to those professions found by the AMS to be suffering from shortages of workers. The figure showing how many unemployed people are available for a vacant position is used to measure whether there is a shortage of workers or not. A shortage is judged to exist if the number of registered unemployed people per vacant post is no more than 1.5. The Regulation, which entered into force at the beginning of 2008, replaces the 2007 Skilled Workers Regulation and now encompasses 65 different professions.

Lifelong learning - Better training and further education

Training and further education are key prerequisites for the future of Austria, as well as for the strengthening of productivity, growth and prosperity. Further improvements to the quality of training at all levels are one of the federal government's top priorities. Additional funding of €575 million has been made available for the training initiative for the period 2007-2010. Austrian public spending on education, at 5.5% of GDP (or €12.6 billion), is already above the EU average.

Developing a lifelong learning (LLL) strategy

With the involvement of several federal ministries, the social partners and academics, a draft strategy for the implementation of lifelong learning in Austria has been drawn up. This will subsequently be established on the basis of comprehensive consultations as a common reference document for all of the relevant players.

The following five strategic guidelines of Austrian LLL strategy set out key criteria, against which institutions and structures must allow themselves to be measured to a greater extent in future. These criteria are as follows:

- Life stage-based aspect (making education processes independent of age and suitable for different ages);
- Focusing on the learners themselves (combining of learning venues, development of new learning architectures and new forms of teaching and learning, more flexible learning, further development of the role of teachers);
- Lifelong guidance (comprehensive support for learners, improvement and expansion of advice, more professional system of advisors);
- Skill-based (transparency and comparability of skills, further development of skill portfolio tools, recognition of informal knowledge and skills);
- Promotion of participation in LLL (greater motivation to take part in learning and joy in learning, incentives and promotional measures, basic education programmes).

Training and continuing education measures

Further improvements to the quality of training at all levels are one of the federal government's top priorities. The main focus of the education initiative is to reduce class sizes to a recommended 25. Other priorities include the expansion of childcare facilities, the improved integration of children with particular integration needs, the further development of teacher-training universities, modern school management and improved quality assurance in the school sector.

Additionally, in late autumn 2007, the introduction of §7a of the *Schulorganisationsgesetz* (SchOG; School Organisation Law) established the legal basis for the trialling of the "new middle school" concept. This was launched in five Austrian *Länder* in autumn 2008. Some 3,500 school children are benefiting from the joint school for 10 to 14-year-olds in 167 classes at 67 schools. The new middle school guarantees a new and fair performance-based form of teaching for ALL children. Children are no longer split into different schools at the age of ten. Rather, targeted support is given to ensure that the children are prepared as well as possible to make a decision on their future education path at the age of 14. Preparations are being made to launch the new middle school concept across the remaining *Länder*, the aim being to have the concept available throughout the WHOLE of Austria in time for the 2009/2010 school year.

Further important initiatives include the expansion of day care with a guaranteed level of quality, 800 additional teachers in the 2008/2009 school year and small-group teaching to improve the standard of lessons and avoid pupils dropping out.

The introduction of the "vocational A level exam", or "Berufsmatura" (apprenticeship and exam for the admission to higher education institutions), across Austria as of autumn 2008

will make the dual training system even more attractive and provide apprentices with an opportunity to proceed to a higher level of education after completing their apprenticeship. Having completed this examination, apprentices can then go on to study at institutions of higher education, *Fachhochschulen* (Austrian Universities of Applied Sciences), colleges and universities. A coaching model for young people who have difficulty entering a profession has also been created.

The AMS is making a considerable contribution to LLL and to vocational skills development. Training is a key part of the labour market promotion work, accounting for approximately 67% of the AMS support budget and some 84% of the approved support cases and supported individuals. In 2007, approximately 245,067 persons received employment-related support for the first time from the AMS in the form of training measures (see Appendix, Table 2). Given the AMS's greater focus on high-quality and thus more costly measures, there was a slight year-on-year fall in the number of those receiving funding for the first time in 2007. More than half of these people were women. The successful programmes "Women in trade and technology" and "Supporting re-entry into the workplace" as mentioned above also contributed to this trend. Initiatives organised by the *Länder* also make an important contribution to LLL.

For the first time, three-year **performance agreements** were concluded with 22 universities covering the period from 2007 to 2009. These stipulate what tasks the universities are expected to fulfil over the next three years and what funding they will receive in exchange from the federal state. In 2007 the universities received a total amount of €2.2 billion from the federal state. The performance agreements set out the direction and focuses of the development of the universities over the coming years.

Country-specific recommendation with regard to Austria: **"Improve education outcomes for vulnerable youth"**

The introduction of a **compulsory year at kindergarten** for children with language problems as of September 2008 is expected to ensure the earliest possible start for linguistic support, thereby facilitating the transition to school. Integrated provision at kindergarten level will provide suitable services for this target group. The measure begins 15 months prior to a child starting school in order to ascertain whether there are still problems with the pupil's knowledge of German. This will mean that children from socially weak population groups and children with an immigrant background will also have the best possible opportunities to get their schooling off to a good start. The federal state has increased its spending in this area ten-fold, to €5 million per year for the next three years.

Linguistic support of children with insufficient mastery of German: The aim is to support school children whose first language is not German by means of statutory and organisational measures. Those school children whose first language is not German are integrated into mainstream classes. Pupils whose German is not of a sufficiently high standard to enable them to follow the lesson are accepted as extraordinary pupils for a maximum of two years and are to be assessed with due consideration of their linguistic difficulties. Special German classes can be offered at all general education schools on the basis of the existing curriculum regulations. At the upper grade of secondary academic schools, it has been possible since the 2006/2007 school year to offer extra support in German on the basis of the curriculum in the form of an optional class "German as a second language". With regard to business schools, the optional class "Supportive language training in German" is primarily aimed at those pupils whose first language is not German.

With effect from the 2008/09 school year, a targeted initiative to improve the German skills of pupils in year 9 (= year 1 at business administration schools and 1st year at business administration colleges) was launched with ESF funding for those establishments at which more than 30% of the pupils come from an immigrant background. The project encompasses a strengths and weaknesses analysis of linguistic ability, as well as targeted and individual support measures. It is also externally evaluated, on the basis of the Austrian German Diploma (ÖSD) examination system.

The "language support courses", which have been enshrined in the law since the 2006/07 school year, are viewed as an additional measure for extraordinary primary school pupils.

The necessary personnel resources for the courses are not provided by the individual *Länder* but on a central basis. These courses may be set up for eight pupils or more, last for no more than one school year and may also be run across different school years or different schools. The plan is for the measure to be extended for the coming two school years and for it to be extended to include pupils at lower secondary schools and during their pre-vocational year. During the 2007/08 school year, approximately 330 teachers were employed across Austria to provide lessons in twenty different foreign languages.

Youth job assistance and clearing support young people whilst they are still at school, providing advice and counselling and helping in the arrangement of places in companies and at training establishments. Integrative occupational training provides an increased level of assistance in the workplace or at the training establishment. For the purposes of implementing the "Guarantee of education up to the age of 18" the aim, in addition to dual training projects, is to achieve a further increase in the number of places at vocational schools and thereby expand the opportunities available to attend a secondary school.

Integrative occupational training¹⁹ enables young people with special educational needs, learning difficulties, etc. anywhere in Austria to find a vocational training place on completion of compulsory education.

Joint flexicurity principles

Austria sets an example in its approach to "flexicurity" and was basing its employment and social policy around the principle of "flexibility through security" long before the European flexicurity approach was taken further. An essential tool in this focus on the principle of flexicurity was the involvement of the social partners in economic policy as a whole.

In the more recent past, one key step was the introduction of the ***Betriebliche Mitarbeitervorsorgegesetz (BMVG; Employee Income Provision Act)*** as of 1 January 2003 and the **stipulation of reasonability regulations with regard to offered vacancies** as of 1 January 2005.

The manner in which the Austrian presidency tackled the subject during 2006 can be viewed as an active contribution on Austria's part to ensuring this approach was taken up and replicated elsewhere.

A white paper encouraged by the federal government and presented by the Austrian Institute of Economic Research (WIFO) in October 2006 entitled "More employment through growth on the basis of innovation and training" set out the cornerstones of future flexicurity measures. These were then incorporated into the government programme for the XXIIIrd legislative period (section on employment) and encompassed all aspects of the flexicurity principles adopted at the 2008 European Spring Council. Many of these measures have already been implemented.

Challenges and the resulting measures

To reinforce the flexicurity approach, a flexicurity package was agreed in 2007 to complement the existing measures. The aim is to make employment more dynamic and to make it easier to switch between different ways of earning a living, combined with optimising the allocation of potential workers. The package covers:

- Social security for freelancers (*freie Dienstnehmer*) (in force since 1 January 2008) and the self-employed (as of January 2009);
- The *Betriebliche Mitarbeiter- und Selbständigenvorsorgegesetz* (BMSVG; Company Employee and Self-Employment Provisions Act) also encompassing freelancers, the self-employed and agricultural and forestry workers (in force since 1 January 2008);
- Making training leave a more attractive option (in force since 1 January 2008); and
- Modernising the reasonability regulations with regard to the placement of the unemployed (in force since 1 January 2008).

¹⁹ Statutory introduction of integrative occupational training with § 8b BAG.

The measures are described in detail in the 2008 Economic Report.

Measures based on the four components of flexicurity

The following breakdown describes the existing framework of the activities of relevance to flexicurity on the basis of the four components.

Flexible and reliable contractual agreements:

- **Flexible right of termination:** As a general rule, any employment relationship may be terminated by either the employer or the employee without the need for any reason to be stated. There are no formal requirements or approval procedures to be followed. Account must merely be taken of the statutory, collectively agreed or individually agreed periods of notice and deadlines.
- **Working time:** Austrian law on working time and the corresponding provisions in the collective agreements basically grant companies and employees a high degree of flexibility. On the basis of an agreement between the social partners, an amendment to the *Arbeitszeitgesetz* (AZG; Working Hours Act) was passed in 2007. The new provisions contain three groups of measures: greater flexibility in response to fluctuating work burdens; measures in the interests of employees; and a simplification of the law on working time.
- **Occupational employee provision (new severance payment scheme):** The law, which entered into force on 1 July 2002, makes the law on terminating contracts more flexible. Replacing the previous performance-based severance pay system is a contribution-based system in which the severance pay is financed by **ongoing contributions of the employer** as part of a capital cover funding system. This has removed one of the barriers to employees' mobility, a measure that also attracted international attention. The 2007 amendment meant that 500,000 freelancers, self-employed persons and agricultural and forestry workers were also covered by this arrangement.
- **Occupational pensions:** Any entitlement to an occupational pension is now transferred to the pension fund of the new employer at the employee's request when changing job, irrespective of whether the change of job takes place in Austria or abroad.
- **Youth employment package:** Companies may now terminate an apprenticeship contract whilst young people are guaranteed a training place.

Comprehensive lifelong learning strategies:

- **Developing a lifelong learning strategy:** With the involvement of several federal ministries, the social partners and academics, a draft strategy for the implementation of lifelong learning in Austria has been drawn up. This will subsequently be established as a common reference document for all of the relevant players.
- **AMS training and continuing education measures:** Every year the AMS spends around two-thirds of its active budget on training measures.
- **Modularisation of apprentice training:** The modularisation of apprenticeships means that new, tailored forms of training are being developed, characterised by a high degree of flexibility and transparency.
- **Drop-out strategy:** The development and implementation of a strategy to prevent individuals from dropping out of schooling and training courses (early), and to reintegrate those who have dropped out of school is aimed at linking up existing measures to a greater extent and improving disadvantaged young people's access to further education and to the labour market.
- **Training guarantee up to the age of 18:** The focus in this regard is on young people from a disadvantaged background and with disabilities, young people without an apprenticeship/training place, those who have dropped out and young people who are at risk of dropping out from the vocational school sector, those who have abandoned their

apprenticeship and unemployed young people. See also page 35 (ESF project at business schools to reduce the drop-out rate in year 9).

- **"Education plan" measure:** The aim is to devise a nationwide education plan providing early language support for three to six-year-olds in institutional childcare facilities, particularly with a view to improving the transition to primary school. Responsibility for kindergarten lies with the *Länder* in Austria.
- **Making training leave an attractive option:** To meet the needs of the labour market more effectively, training leave has been made more attractive as an important tool in further training and the promotion of employability. The aim is to double the number of people on training leave.
- **Catching up on educational qualifications:** Efforts are made to support those who wish to gain their lower secondary school leaving certificate at a later stage in life so as to open up access to further general and vocational training.
- **Vocational A level exam:** The introduction of a national **"vocational A level exam"** (*Berufsmatura*) in autumn 2008 increases the attractiveness of the apprentice training, improves the prospects of a higher qualification after completion of the apprenticeship and is a key contributory factor in terms of increasing the social permeability of the education system.
- The **National Qualification Framework (NQF)** deals in particular with the creation of a national qualification framework in Austria that encompasses all areas and levels of education. The aim is to develop a framework over the next four to five years which makes qualifications acquired in Austria comparable to those acquired elsewhere in Europe. At the heart of the framework is the description of the qualifications in the form of learning outcomes.
- **Educational standards in (school) vocational education:** This project was initiated to determine whether common core skills could be achieved at particular education levels. The sample lessons were trialled for the first time in autumn 2007 at selected pilot schools to guarantee that the examples used were of a high quality and easily comprehensible. After the successful completion of pilot phase I in April/June 2008, pilot phase II is now due to be launched in October 2008.

Effective active labour market measures:

- **Labour market targets:** The Federal Minister of Economics and Labour, in agreement with the social partners, implemented the current **labour market targets** applicable to the AMS for the purposes of implementing labour market policy. These entered into force in April 2006 and take account of the changed basic parameters such as the greater dynamism of the labour market and its structural changes, and also the reform of the Lisbon strategy. The main focuses of labour market policy were also highlighted more strongly. These targets are put into practical effect in the form of annual labour market goals.
- **Target group-specific measures:** Particular priorities were set with regard to Austria's active labour market policy in the area of young people, such as the various different programmes to promote apprentice training, older unemployed people and women (see above).
- **Labour foundations:** Labour foundations represent one measure to solve regional structural and labour market problems, and are used, for example, where there is a threat of job losses (outplacement foundations) or in the event of specific personnel bottlenecks (inplacement foundations).

Modern social security systems:

- **Unemployment insurance for freelancers (*freie Dienstnehmer*):** Incorporation of **freelancers (*freie Dienstnehmer*)** into unemployment insurance and into the bankruptcy contingency fund, and the introduction of a voluntary **unemployment insurance scheme for the self-employed**.

- **Modernisation of the reasonability regulations:** The reasonability regulations governing unemployment insurance have been modernised to strengthen the incentives for people to work, and primarily comprise provisions on commuting times, the acceptance of externally arranged jobs, and minimum availability in terms of time.
- **Minimum wage of €1,000:** The social partners (Austrian Federal Economic Chamber and the Austrian Federation of Trade Unions) have entered into a framework agreement on the implementation of a minimum wage of €1,000 in the industry-specific collective agreements by 2009.
- **Minimum social income:** The aim here is to make a clear contribution to combating poverty. The measures should include an increase in the equalisation supplement reference rate, the harmonising of financial subsistence payments and setting of a flat rate, the increase of minimum security elements of the unemployment assurance, improvements to health insurance cover and incentives to take up paid employment. Further information is available in the Austrian report on strategies for social protection and social inclusion.

Involvement of the social partners

The social partners are involved in both the devising of concepts and the process of implementing flexicurity measures.

The WIFO published a white paper entitled "More employment through growth on the basis of innovation and training" in October 2006, setting out the cornerstones of future flexicurity measures. On the basis of this white paper, the social partners presented their agreed proposals on "Growth and full employment" in December 2006. Additionally, as a result of the Lisbon strategy, the social partners have been involved in the flexicurity process generally.

By means of reviews, the social partners are involved in all law-making processes. In the case of specific measures, such as the minimum wage of €1,000, the social partners achieved an agreement at the initiative of the federal government. The statutory provisions on working time are based on a proposal submitted by the social partners. The social partners are also represented in the bodies of the AMS. They are responsible for various different activities such as the negotiation of collective agreements. Through their own education institutions, they also make an active contribution in the area of adult education to the concept of lifelong learning.

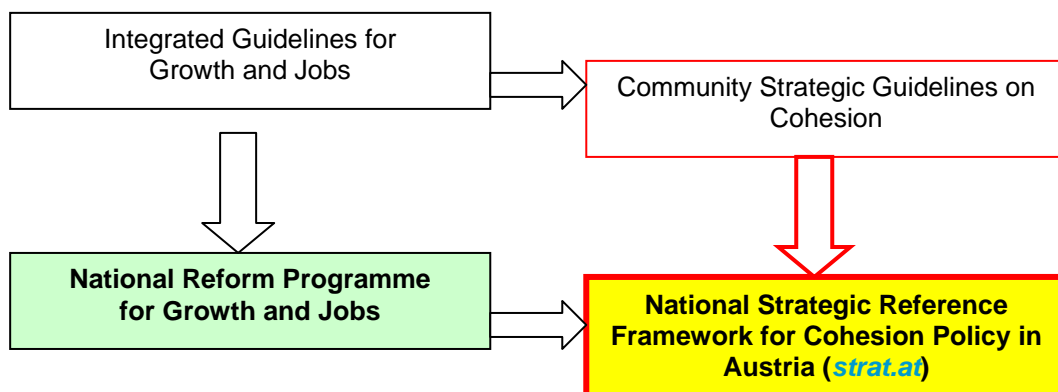
**Contribution of EU structural policy towards the
2nd National Reform Programme**

National Strategic Reference Framework for European Cohesion Policy 2007-2013 in Austria (STRAT.AT)

The "Integrated Guidelines for Growth and Jobs" are designed to strengthen the strategic objectives of the EU's and Member States' policies. This particularly applies to the EU Cohesion Policy, which accounts for nearly 35% of the EU budget. Consequently, new legislation for the EU Cohesion Policy in the 2007-2013 financial period provides for two new instruments, which are to guarantee implementation of these strengthened strategic objectives:

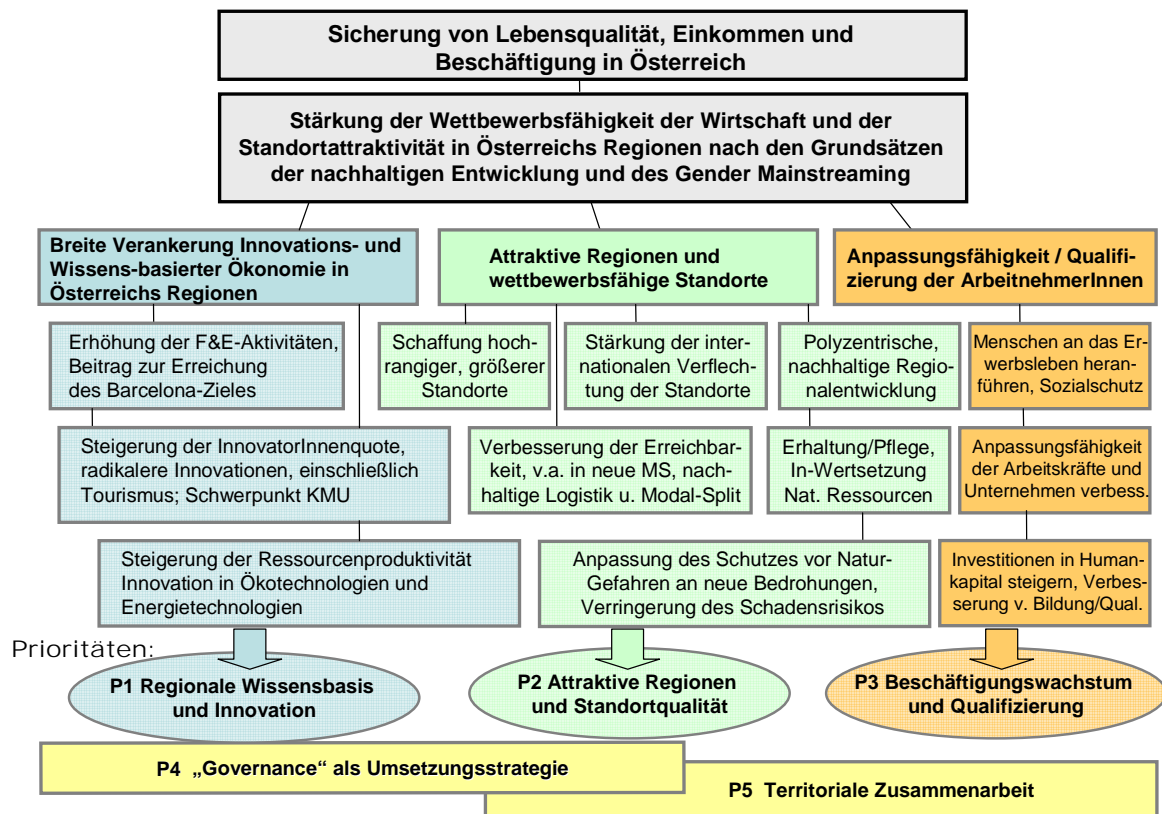
- The "Community Strategic Guidelines on Cohesion" are intended to translate at EU level the objectives of the "Integrated Guidelines for Growth and Jobs" into the specific legal and instrumental context of cohesion policy. However, this applies more in terms of basic orientation than in the sense of strictly methodical coherence, as the respective reference periods do not coincide with each other (2005-2008 in the first case, 2007-2013 in the latter).
- The National Strategic Reference Frameworks (NSRF) at Member State level are designed to constitute the joint framework for the individual operational programmes, and to link them with the joint strategic framework at EU level. The Austrian NSRF (STRAT.AT) was adopted at political level by the Austrian partners during the Austrian Conference on Spatial Planning (ÖROK – members: federal state, *Länder*, representatives of the municipalities and social partners) in October 2006 and presented to the European Commission.

Although the framework conditions under Community law for the implementation of the Lisbon Strategy and the EU Cohesion Policy are not harmonised, either in terms of content or duration, Austria is striving to ensure the highest degree of consistency between the two strategy areas.



Accordingly, the STRAT.AT objectives clearly focus on the areas of innovation and competitiveness, and employment:

Übergeordnetes Zielsystem STRAT.AT 2007|2013



Grafiktexte:

General objectives of STRAT.AT for 2007/2013

Ensuring quality of life, income and employment in Austria

Strengthening the economy's competitiveness and the attractiveness of Austria's regions and locations, based on the principles of sustainable development and gender mainstreaming

Broad consolidation of the innovation and knowledge-based economy in Austria's regions

Attractive regions and competitive business locations

Adaptability / Qualification of the workforce

Increase in R&D activities, contribution to achievement of the Barcelona Objective

Increase in innovators, more radical innovations, including tourism; focus on SMEs

Increase in resource productivity, innovation in ecological and energy technologies

Creation of high-quality business locations (critical size)

Strengthening of international links among locations

Polycentric, sustainable regional development

Improvement of accessibility, primarily to new MS, sustainable logistics and modal split

Preservation/maintenance, sustainable use of nat. resources

Adaptation of protection against natural hazards to new threats, risk reduction

Support access to the labour market, social protection

Increase adaptability of workforce and enterprises

Increase investment in human capital, improve education/qualification

Priorities:

P1 Regional knowledge base and innovation

P2 Attractive regions and quality of location

P3 Employment growth and qualification

P4 Governance as implementation strategy

P5 Territorial cooperation

Source: Austrian NSRF 2007-2013 (STRAT.AT)

Structural Funds Programmes 2007-2013

The STRAT.AT priorities are reflected in the financial priority areas of the Austrian Structural Funds Programmes for 2007-2013 (status: financial plans according to approval).

Programmes on the EU Objectives "Convergence" and "Regional Competitiveness and Employment" (target data according to Operational Programmes as at August 2007)						
EU Areas of Assistance (combined)		Austria total	ESF	ERDF	Convergence	RC&E
01-09	R&D, innovation in companies	43,5%	0,0%	77,1%	54,3%	41,7%
10-15	Information society	1,6%	0,0%	2,8%	1,8%	1,5%
16-32	Transport	0,6%	0,0%	1,0%	1,7%	0,4%
33-54	Energy, climate, risk prevention	3,3%	0,0%	5,8%	2,0%	3,5%
55-60	Tourism, cultural heritage	1,9%	0,0%	3,4%	7,0%	1,1%
61	Revitalisation of urban and rural areas	2,0%	0,0%	3,5%	0,0%	2,3%
62-79	Employment, human capital, social infrastructure	42,6%	95,3%	2,0%	28,2%	45,1%
80-81	Partnerships, networks, policy improvement	1,8%	1,3%	2,3%	1,0%	2,0%
82-84	Compensation for additional costs due to peripheral position	0,0%	0,0%	0,0%	0,0%	0,0%
85-86	Technical assistance	2,6%	3,4%	2,0%	4,0%	2,4%
TOTAL		100,0%	100,0%	100,0%	100,0%	100,0%
TOTAL IN € MILLIONS		1.204,5	524,4	680,1	177,2	1.027,3
"Lisbon Priorities" (acc. to Annex IV of Reg. No. 1083/2006)						
In general		90,2%	95,3%	86,2%	86,1%	90,9%
Additionally for Convergence Objective		0,2%	0,0%	0,4%	1,7%	0,0%

According to the Fourth Cohesion Report (p. 129), Austria ranks first among the 27 Member States with a "Lisbon earmarking" of the funding derived from the structural funds amounting to approximately 88% for the "Convergence" objective and is in second place overall, with a level of 91%, with regard to the "Regional competitiveness and employment" objective.

European Social Fund (ESF)²⁰

Two new structural funds programmes were coordinated with the European Commission and approved by it in 2007.

The old Objective 1 programme is being continued in the form of "**Operational Programme Phasing Out Burgenland 2007-2013 ERDF**", as already approved by the European Commission, by Regionalmanagement Burgenland GmbH. For this purpose, Burgenland was awarded some €52.1 million in ESF funds.

The operational programme "**Employment Austria**" (without Burgenland) was approved by the European Commission in December 2007. The programme was allocated €472 million in ESF funds.

Stimulating the "**active aging**" approach (particularly among those aged 45 and over) is a key element of programme implementation. Companies are being expressly called upon in this context to rethink their approach to recruiting and employing older workers. This must be accompanied by a lasting restructuring of the organisation of work (workflow and assignments) and a change in attitude towards older workers. The tool of qualification counselling should aid this process; in future it will also be directed towards the challenges of active ageing. A particular focus is being placed on small companies with fewer than 10 employees. In addition, training measures for the employed and unemployed are geared towards older and lower qualified employees.

²⁰ For a detailed description of the strategy and the measures implemented within the scope of the ESF during the new structural funds period, please refer to the current programme "Phasing Out Burgenland" (available under www.phasing-out.at) and "Employment Austria" (available under www.esf.at).

As in the previous structural funds period, the new ESF Programmes also include measures to **integrate people with disabilities** into sustainable employment. The 2007-2013 programme planning period focuses ESF funds on young people between the ages of 15 to 25 (initial integration), on older people who are 45 or over, on people with severe disabilities, as well as on women who are deaf, blind or severely visually impaired.

The aim of supporting **lifelong learning** is to improve access to education for disadvantaged adults and to enable people to gain higher-level skills. To this end, measures are taken at school level (e.g. fighting early school drop-outs), in adult education (e.g. education counselling) and science (e.g. university graduation grants).

The **Territorial Employment Pacts** are being continued and the operational structures of the pacts, the TEP coordination units, supported. Additionally, studies, evaluations and public relation activities may also be financed. The focus of the TEP activities in 2007 was placed on coordinating the various support programmes between the pact partners with the aim of improving the employment situation in the regions. The basis for all TEP efforts is the general consensus among all partners to work together on employment policy issues.

In the current structural funds period the TEPs may additionally apply for funding for implementing activities to **integrate people at the margins of the labour market**. As part of these measures, supporting projects for the long-term unemployed at the interface between unemployment assistance and financial subsistence payments is a core issue. The ESF provides €46.9 million for this area. In a first call, the Territorial Employment Pacts were asked to submit relevant project applications to the Federal Ministry of Economics and Labour. The Ministry has so far granted funding totalling €11.3 million for applications submitted.

European Regional Development Fund (ERDF)

The ERDF is co-financing a total of nine regional programmes for the period from 2007 to 2013. One of these programmes covers the “Convergence” objective (Phasing Out Burgenland, ERDF funds: €125 million), with the remaining eight relating to the “Regional competitiveness and employment” objective (ERDF funds: €555 million). These ERDF regional programmes were drawn up under the auspices of the *Länder* and coordinated in a partnership-based environment. They will be implemented by various federal and provincial funding agencies, with the *Länder* acting in a coordinating capacity as programme administration authorities.

Most of the 2007-2013 regional programmes co-financed by the ERDF will – just as in the past – focus specifically on the field of business support (esp. for SMEs). As compared to previous periods, however, much greater emphasis is to be placed on innovation. The ERDF programme for Vienna is the only programme that will also finance urban development measures to a greater extent.

In addition, there are ERDF programmes related to the “European Territorial Cooperation” objective (formerly INTERREG), with regard to which Austria is contributing a total of €257 million; these include seven cross-border programmes (cooperation among border regions) and three transnational programmes (for large cooperation areas with the participation of several Member States). These cooperation programmes only adhere to the logics of the Lisbon strategy to a limited degree however, and their allocation to the respective national reform programmes is also restricted due to the fact that several Member States are involved.

Chapter VII

Interlinking with social policy - The National Reform Programme and the open coordination methods for social protection and social inclusion

The policies for growth and employment must be closely coordinated with the policies for social protection and social inclusion, and they must support each other. A higher level of economic growth contributes to the sustainability of social protection systems, and an intensified integration into the labour market enhances social inclusion, particularly when groups of people at the margins of the labour market can be integrated in the long term. In this context, the successful implementation of the flexicurity approach in Austria is also of significance. Conversely, adequate, generally available and high-quality social protection systems, as well as comprehensive and activating integration policies, aid growth and employment in many ways too.

The National Report on Strategies for Social Protection and Social Inclusion complements the National Reform Programme in the areas of social inclusion, pensions, health and long-term nursing care.

These two documents together reflect the emphasis of the European Council of March 2008 on how important, as a component of the Lisbon Strategy, the social dimension of the EU is and that economic, employment and social policy must be interlinked more strongly.

One of the challenges is to tackle the poverty that exists in Austria. In a rich country like Austria, reducing poverty mainly by increasing labour supply and raising the purchasing power of lower income groups contributes to stimulating consumption and thus results in more growth and jobs. One of the key objectives is therefore continuing to work towards **greater poverty alleviation**, thereby reducing the number of people at risk of poverty. According to EU-SILC 2006, approximately 12.6% of the Austrian population are at risk of poverty (approximately 1 million people).

The planned introduction of a minimum social income (including already adopted accompanying measures such as lifting the equalisation supplement reference rate and a minimum wage of €1,000) is part of a comprehensive approach which directly links poverty alleviation with active integration in the labour market and society.

The positive interactions between the social system and economic and employment policy are particularly striking in the area of medium to long-term investments directed at improving the **development opportunities for children and young people**. It is a central socio-political objective to offer all children and young people - irrespective of their parents' income situation, their nationality or health - the same opportunities for development. This requires general and targeted measures. Apart from monetary transfers to adequately cover the additional expenses of households with children, sufficient availability of high-quality childcare facilities with flexible opening hours is also required. A broad and diverse range of opportunities for young people who find themselves between school, training and employment, as well as rehabilitation programmes for teenagers who have been involved in crime are further accompanying measures.

An **adequate, affordable and modern pension system** is of vital importance to securing the purchasing power of broad sections of the population as they grow older. It is therefore a key objective to maintain and secure in the long term a fair and affordable state pension system on a pay-as-you-go basis, supplemented by well and efficiently functioning second and third pillars of provision. In this context, both the social dimension (minimum pension,

index-linked pensions) and the reform dimension (sustainability, reform of invalidity pension) are considered. Special mention is made of the efforts being made to restructure the invalidity pension system.

The **expansion of health care and prevention** is obviously of major importance for health policies, but it can also be seen as medium and long-term investment not only in the health care system but also in growth and employment. Health plays a major role in maintaining employees' capacity to work and in their productivity. Social inequality with regard to levels of health should be eliminated.

Promoting nursing care at home is a declared social policy objective. At the same time, the reconciliation of work and care duties is an important prerequisite in terms of increasing the employment rate, which in turn is an important basis for securing an independent income for women and avoiding poverty in old age. Tackling illegal work is another challenge in the nursing care sector. The Austrian government is aiming to achieve these goals by promoting 24-hour care and numerous accompanying measures (e.g. advice and support for carers, promotion of short-term and respite care).