



**GROWING INEQUALITIES AND THEIR IMPACTS IN AUSTRIA**

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**Country Report for Austria**



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## Executive summary

Income inequality among households is much less pronounced in Austria than in most other OECD countries. Its development over time is intriguing. While it is true that since the middle of the 1980s, income inequality has steadily increased, this increase has been much less steep than in many other Western countries, e.g. neighbouring Germany or Sweden. The development of household and wage inequality in Austria has to be seen in the context of growing unemployment between 1980 and 1998 which nonetheless remained at comparatively low levels, a flexibilization of the labour market since the late 1980s, and a Bismarckian welfare state which has been scaled back but continues to have a highly redistributive effect. The major findings of the present report on Austria are outlined below.

### **Household inequality, poverty, wage inequality**

The available data show a slight but continuous rise in income inequality among Austrian households between 1983 and 2010. Whereas the increase in household inequality was minor in the 1980s and 2000s, the country's Gini coefficient rose markedly between 1993 and 1999. A detailed look shows that between 1983 and 1999 shifts occurred in all segments of the distribution. The lower end of the income spectrum lost ground compared to both the middle and the top. A different story is evident for the period after 1999. The bottom of the income distribution caught up to a degree, while the middle lost ground relative to the top. At-risk-of-poverty rates are corresponding with these findings, rising from 1983 to 1999 and remaining stable in the 2000s. Moreover, available sources indicate considerable wage inequality in Austria, tending upward over the decades. For example, income tax data show a nearly continuous rise in the inequality of the wage distribution since the mid-1990s. The Gini coefficient for all employees rose from 41.0 in 1995 to 44.8 in 2008.

### **Wealth distribution**

Also critically important for an analysis of inequality is the distribution of wealth. The Gini coefficient for the distribution of gross financial assets in Austria in 2004 was 0.66 – and thus high by international standards. The top 10 per cent owned slightly more than half of all financial assets and 61 per cent of all housing assets. The least wealth was found, as expected, among low earners, young

adults, workers and the low-skilled. For example, the bottom 40 per cent of households owns no housing whatsoever. Inheritance plays an important role in wealth accumulation.

### **Social mobility**

Whereas intergenerational educational mobility has increased somewhat in Austria in recent years, it remains much lower than in most other European countries. The result of this relatively low level of intergenerational mobility is stable class structures. The most important institutional mechanism in this context is the structure of the educational system. In the Austrian educational system, early tracking is the rule and by international standards only a very small share of youth earn a school-leaving certificate that qualifies for university studies (Abitur) and a university degree. For both men and women, returns to education declined during the 1980s and 1990s and have remained mostly stable since. This development has been related to the devaluation of educational degrees in the course of educational expansion.

### **Family formation, fertility, marriage**

The total fertility rate in Austria is quite low by European standards (1.43 in 2011) and the mean age at first birth is quite high (28.5 years in 2011). Low fertility and higher age at first birth can be seen in relation to increases in labour-market participation among women. The shortage of day care facilities has played a role as well. Furthermore, young adults are increasingly exposed to labour-market risks and insecurity stemming from processes of flexibilization, which delays family formation. Correspondingly, the marriage rate reached its lowest point ever (4.3 marriages per 1,000 population) and the total divorce rate increased from 26.5 per cent in the early 1980's to almost 45 per cent in 2011.

### **Life expectancy, health, subjective well-being**

Life expectancy has risen steadily in Austria in recent decades, and is one of the highest in the European Union. In 2011, men had a life expectancy of 78.1 and women of 83.4. Moreover, self-reported health status improved steadily over the last 20 years, with the majority of Austrians reporting (very) good health and a decreasing and small proportion reporting (very) poor health. In general, men report better health than women. Correspondingly, Austria performs very well in overall well-being. It ranks among the top ten countries in several areas of the OECD Better Life Index. However, well-being and general life satisfaction have been declining over the last 15 years.

**Political participation, civic organizations**

Voter turnout in national elections has fallen off considerably since the early 1970s. Particularly striking is that voter turnout has declined in a period of growing inequality in Austria. Nevertheless, Austrian voter participation remains higher than the EU average. Alongside voter turnout, the degree to which workers are organized in unions is considered an important feature of political participation. As in the majority of EU states, in Austria as well, union density has steadily declined in recent decades. It dropped from roughly 60 per cent in the 1970s to about 30 per cent in 2010. While Austria's decline in union density has been fairly dramatic compared to other OECD countries, its union density remains above average (with the exception of Scandinavian countries) and its collective bargaining coverage is one of the highest worldwide.

**Trust, values about social policy and the welfare state**

In Austrian society as a whole there is no clear long-term trend of a decline in trust. That said, in the course of the financial crisis and its aftermath there have been multiple periods of largely parallel declines in trust in parliament and government, as well as fluctuations in more general trust levels. Still, Austrians trust their government and parliament at least as much as they trust their fellow human beings.

The vast majority of Austrians perceive inequality in their country to be excessive – more than citizens in other European countries do. The country's historically rooted social partnership that balances the interests of employers and employees as well as its positively perceived welfare system continue to shape attitudes toward the legitimacy of social inequality. Austrian citizens also favour the redistribution of wealth and income by the government. Here, too, approval of state intervention lies well above the international norm.

**Social expenditures**

Social expenditures as a whole have risen markedly over the past 30 years (both as a percentage of GDP and per capita). They are among of the highest in the Western world. The pension system is the largest realm of social protection in Austria. Nearly half of all social spending is devoted to pensions.

The health care system is the second largest area of social protection. Health care benefits constitute roughly one quarter of total expenditure. In terms of educational expenditure, Austria spends slightly more than the average among OECD countries (6 per cent of GDP in 2009).

## Introduction

As comparative social research has shown repeatedly in recent years, the unequal distribution of life chances and living conditions is shaped by a nexus of the labour market, the welfare state and family and demographic structures (Esping-Andersen 1990). All three areas have undergone significant change in Austria over the past three decades. In this section, changes in these institutional framework conditions will be discussed. The introduction thus provides an important foundation for the discussion in subsequent chapters of the development of inequality structures in Austria.

### *The Austrian model: Economic development in the context of labour market reforms and welfare state restructuring*

In comparative welfare state research, Austria numbers among the conservative-corporatist states (Esping-Andersen 1990). It has “a highly developed, albeit mainly employment related, social security system strongly based on the idea of status preservation of wage-earners” (Obinger/Tálos 2009: 101). Comparable welfare state structures and labour market regulation are found, for example, in Germany or France.

From an international perspective, Austria appears to be a model of success which guarantees the population as a whole a very high standard of living. Despite the restructuring of the Austrian welfare state since the mid-1980s, macro indicators paint a generally positive picture: Austrian per-capita income is one of the highest among EU-27 countries. In 2010, its GDP in Purchasing Power Parities (PPP) amounted to over €34,000 per inhabitant (see Table 1.1), 40 per cent above the European average (EU-27, €24,500 Euro PPP). A comparable standard of living can be found in countries like the Netherlands, Sweden or the United States, which in 2010 had a per-capita income of about €35,000 in PPP. The data in Table 1.1 indicate a steady rise in per-capita income in Austria since the early 1980s.

Austria is typically characterized by a comparatively low unemployment rate. In 2010 it was 4.2 per cent, compared to an average of about 10 per cent in the EU-27 as a whole. This puts Austria near full employment; among European Union countries such a high level of employment has been typical only of the Netherlands in recent years. Austria’s level of social expenditures is one of the highest in the EU. In 2010 it exceeded 30 per cent of Gross Domestic Product – well above its level of the 1980s

and 90s. On a per-capita basis as well, social expenditures have risen in recent decades. In 2009, Austria spent €10,100 (in PPP) per capita in this area, a marked increase compared e.g. to €4,400 (in PPP) in 1990. The level of Austria's per-capita social expenditures corresponds roughly to that of the Netherlands (€10,900 in PPP) and Sweden (€6,900 in PPP in 2010). As research has repeatedly shown in recent years (i.a. Aiginger 2011) and as we highlight in several places in this report, this increase in social spending is due primarily to the rapid aging of Austrian society, i.e. to increased expenditure on statutory pension and health care benefits.

When one traces the development of the Austrian social model over the past three decades, a series of specific characteristics become evident. During the post-war decades, Austria was characterized by a large state sector, far-reaching regulation of the market, and a strong role for the social partners within a coordinated market economy (Hermann/Flecker 2009: 42). During the past 20 to 25 years, this model has been revamped multiple times. As in many other Western societies, the starting point was a transformation in the economy at the end of the 1970s and the beginning of the 1980s, wrought primarily by two oil shocks and the liberalization of trade and capital markets. While Austria was not hit as hard by these developments as other conservative-corporatist countries which were more exposed to international trade, such as Belgium and the Netherlands, it suffered the negative effects more so than did larger countries like Germany, France and Italy (Unger/Heitzmann 2003: 384).

In particular the second oil crisis (1978-79) and the high interest rates which accompanied it had negative consequences. Until the mid-1980s, the problems which arose in the course of internationalization of the labour market were met with social and industrial policy measures

(Unger/Heitzmann 2003: 376). Through labour hoarding in highly subsidized nationalized industries, labour market participation could be maintained at a high level. The unemployment rate was stabilized through a generous early-retirement policy. This notwithstanding, between 1980 and 1995 the share of unemployed increased according to national statistics (see Table 1.1, Row 4).<sup>1</sup> Increasing pressure on labour markets and political countermeasures – together with the aforementioned factors – led to an increase in public expenditures and a corresponding increase in public debt. As Row 6 in Table 1.1 clearly shows, the success of the Austrian model came at the cost of growing public indebtedness. Between 1980 and 2010 the national debt more than doubled as a per cent of Gross National Product. Today it amounts to 72 per cent of annual GDP.

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<sup>1</sup> Viewed in an international context, it should be noted that compared to other OECD countries even during this period unemployment remained at a rather low level in Austria.



During the mid-1980s, the Austrian model, in the opinion of many social-scientific observers, entered a period of crisis (Hermann/Flecker 2009: 26). In the wake of this, a paradigm shift occurred in Austrian social and employment policies. In light of a growing budget deficit, the goal shifted from full employment to budget consolidation. The period between 1987 and 1999 is characterized as a period of retrenchment (Obinger/Tálos 2009: 121). A significant event during this period was Austria's joining the EU in 1995. The Maastricht criteria required a strict policy of budget consolidation. Facing growing fiscal pressures Austria privatized state enterprises, reduced public-sector employment and turned away from its course of social policy expansion. In particular, benefits in the realms of unemployment insurance and early retirement were cut (Unger/Heitzmann 2003: 367-377).

During the same period, the first more substantial labour market reforms were implemented. In the two decades following the Second World War, the Austrian labour market was highly regulated and offered a high degree of social protection to (above all male) full-time employees (Unger/Heitzmann 2003: 381). Since the end of the 1980s, flexibilization of the labour market came to Austria as well. The share of atypical employment and part-time work increased.<sup>2</sup> The rise e.g. of part-time work since the 1980s is closely related to the increased labour market participation of women (Table 1.1) and the spread of dual-earner households (Blossfeld/Drobnič 2001). In this context, the male breadwinner model that had predominated in the post-war decades was supplanted, as in other conservative-corporatist welfare states, by a dual-earner family type, with part-time and full-time employment or dual full-time employment of the respective life partners (Hermann/Flecker 2009: 41).

The restructuring of the Austrian welfare state reached its zenith in the years 2000 to 2006.

The statutory pension and unemployment insurance schemes in particular were reformed. The principle of status preservation no longer applies to workers with atypical occupational careers. Unemployment benefits were cut and activation incentives for the unemployed were increased. Austria's traditionally strongly anchored corporatism, with the correspondingly strong influence of the social partners, was thereby greatly weakened overall (Obinger/Tálos 2009: 113). With regard to the reforms of recent decades, Obinger and Tálos describe Austria as a "partially defrosted"

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<sup>2</sup> As in other European societies, the structural transformation of the labour market stemmed from a series of fundamental dynamics. Alongside the politically initiated deregulation of the labour market, these included processes of tertiarization, the increase in labour market participation by women, and changes in the skill levels of workers in part due to the educational expansion (Hermann/Flecker 2009: 25).

Bismarckian welfare state (Obinger/Tálos 2009: 102). Whereas some traits of the Bismarckian welfare state were reinforced, in the last three decades new principles were introduced as well, e.g. in the areas of pension and unemployment policies. Despite having been restructured multiple times, it should be noted here that the Austrian welfare state continues – compared to international standards and trends – to exhibit considerable redistributive potential.

**Table 1.1: Economic background statistics for Austria, 1980-2010**

	1980	1985	1990	1995	2000	2005	2010
GDP per capita, PPPs in Euro	7,700	12,000	16,900	23,000	26,000	29,800	34,100
Unemployment rate (ILO)	-	-	-	4.5	4.3	3.8	4.2
Unemployment rate (national definition) <sup>3</sup>	1.9	4.8	5.4	6.6	5.8	7.3	6.9
Social expenditure as % of GDP	25.9	26.6	26.1	28.8	28.2	28.7	30.4
Social expenditure per capita, PPPs in Euro	2,363*	3,461*	4,406	6,615	7,362	8,560	10,105+
Public debt as % of GDP	35.3	47.9	56.2	68.2	66.2	64.2	72.0
Labour force participation rate**	45.2	-	46.9	-	48.3	49.7	51.9
Labour force participation men	57.0	-	56.7	-	56.2	55.9	57.2
Labour force participation women	34.6	-	37.7	-	40.9	43.9	46.8
Share of population with tertiary education (men)	5.7	-	6.9	-	8.8	-	12.1
Share of population with tertiary education (women)	2.2	-	3.7	-	6.2	-	10.7

Source: Eurostat (2012), OECD SOCX (2012c), Statistics Austria (2012); \*constant prices and constant PPPs in US\$ (2000), \*\*as a percentage of whole population; +2009.

### Demographic change, migration, family structures

In relation to family forms and the composition of the population, changes have occurred over the past three decades. The Austrian population grew considerably between 1980 and 2010 (see Table 1.2). The increase in population during this period can be seen not least in relation to increased net immigration. High net immigration can be observed above all in the periods from 1989 to 1993 and 2000 to 2005. If large-scale political events like the collapse of state-socialist systems in Central and

<sup>3</sup> The national definition is based on the share of unemployed persons as a share of the employed workforce and based on administrative data (age group: 15-64 years). According to the international definition employed *and* self-employed people aged 15-74 build up the workforce. Here, national statistics are used, as they cover a longer time span.

Eastern Europe as well as the Yugoslavian conflict can be seen as decisive for the first wave of immigration, the second, more recent wave can be attributed in part to the large number of family reunions of recently naturalized Austrians (Prskawetz et al. 2008: 295). The share of foreign citizens increased considerably during the entire period under study here (Table 1.2, Row 3). In 2012, nearly 10 per cent of Austria's population is foreign born, more than twice the level of 1980. The composition of the immigrant population has changed as well. While in the 1970s immigration of low-skilled migrants still predominated, today it is increasingly persons with mid- or high-level skills who migrate to Austria (Wiesböck 2011: 214).

A change in Austria's demographic structures is evident not only with regard to the extent and social composition of immigration. Family structures have undergone considerable change in Austria in recent decades as well. For example, the marriage rate has declined markedly since 1980, while the divorce rate has increased significantly. The number of births out of wedlock has increased considerably as well. In 2010 these made up 40 per cent of all births (Table 1.2, Row 6), more than twice the level of the early 1980s. A further trend (not depicted in Table 1.2) is the growing number of lone parent households (Hermann/Flecker 2009: 41). Because the Austrian welfare state is oriented to the so-called "normal family," households with a single parent are only insufficiently protected against social risks (Troger/Anibas 2011).

**Table 1.2: Demographic background statistics for Austria, 1980-2010**

	1980	1985	1990	1995	2000	2005	2010
Population in Mil.	7.5	7.6	7.6	7.9	8.0	8.2	8.4
Share of foreign citizens as % of total population	3.9	-	6.6	-	8.9	9.7*	10.7
Crude marriage rate	6.2	5.9	5.9	5.4	4.9	4.8	4.5
Crude divorce rate	1.8	2.0	2.1	2.3	2.4	2.4	2.1
Birth outside of marriage	17.8	22.4	23.6	27.4	31.3	36.5	40.1
Fertility rate	1.65	1.47	1.46	1.42	1.36	1.41	1.44
Share of population above the age of 65 in %	-	14.1	14.9	15.1	15.4	15.9	17.7#
Life expectancy men	69.2	70.3	71.9	72.8	74.6	76.0	77.2
Life expectancy women	76.1	77.1	78.6	79.5	80.6	81.6	82.8

Source: Eurostat (2012), Statistics Austria (2012); \*2007, #2011.

As in other conservative-corporatist countries, the fertility rate in Austria is very low: 1.44 in 2010. Fertility below replacement levels, decreasing mortality and moderate migration will further intensify the aging of Austrian society in the coming decades (Prskawetz et al. 2008: 350). This aging of Austrian society will call into question the sustainability of its social systems, for a shrinking working-

age population will have to support a growing number of dependants (cf. *ibid.*). Currently the share of the total population over age 65 lies at nearly 18 per cent, vs. 14 per cent in 1985. This development can be attributed above all to an increase in the life expectancy of women and men. As a result, in 2010 over 440,000 more people over age 65 live in Austria than in 1985.<sup>4</sup> This is a dramatic increase, and corresponds roughly to the combined populations of Graz and Linz (together 456,000 inhabitants in 2012), the second and third largest cities in Austria. The dynamics in the field of family and population structures together with the change of the labour market and the restructuring of the welfare state will play an important role in the next chapter when analysing patterns of inequality in Austria.

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<sup>4</sup> Statistics Austria (2012), Statcube, own calculation.

## 2. The nature of inequality and its development over time

### 2.1 Has inequality grown?

Income inequality among households is much less pronounced in Austria than in most other OECD countries (cf. OECD 2012b: 27-29). Its development over time is intriguing. While it is true that since the middle of the 1980s, income inequality has steadily increased, this increase has been much less steep than in many other Western countries, e.g. neighbouring Germany or Sweden.<sup>5</sup> Wage inequality, however, has increased more sharply than income inequality across households. Thus, growing disparities in the labour market have only partially impacted the distribution of household income. In the following sections, inequalities in household income and consumption, financial and housing wealth, wage earnings and education will be examined in turn.

#### 2.1.1. Household income inequality

##### Data

For a long-term analysis of household incomes in Austria, two data sets are most useful: the Microcensus and the European Union Statistics on Income and Living Conditions (EU-SILC)<sup>6</sup> (siehe u.a. Biffi 2003, 2008; Guger/Marterbauer 2005b). The Microcensus is the only survey that covers the time period from the beginning of the 1980s to the end of the 1990s.<sup>7</sup> It was incorporated into many secondary datasets, such as the Luxemburg Income Study (cf. Pollan/Leoni 2003 902-903). In contrast to the EU-SILC, the Microcensus contains no income data for self-employed persons.<sup>8</sup> The calculations based on the EU-SILC data thus refer to two groups: first, the population as whole, and

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<sup>5</sup> Whereas in 1980 household incomes in Sweden were much more equally distributed than in Austria, 30 years later, there is no noticeable difference between the two countries in this regard.

<sup>6</sup> SILC was carried out for the first time in 2003, but does not offer a comparable data basis until 2004, for between the first and second wave the survey concept was changed.

<sup>7</sup> A third source is the European Community Household Panel (ECHP), but it covers only the time period from 1995 to 2001. In order to limit data discontinuity, this analysis utilizes the Microcensus, an approach taken in comparable studies (siehe u.a. Biffi 2003, 2008; Guger/Marterbauer 2005b; OECD 2011a).

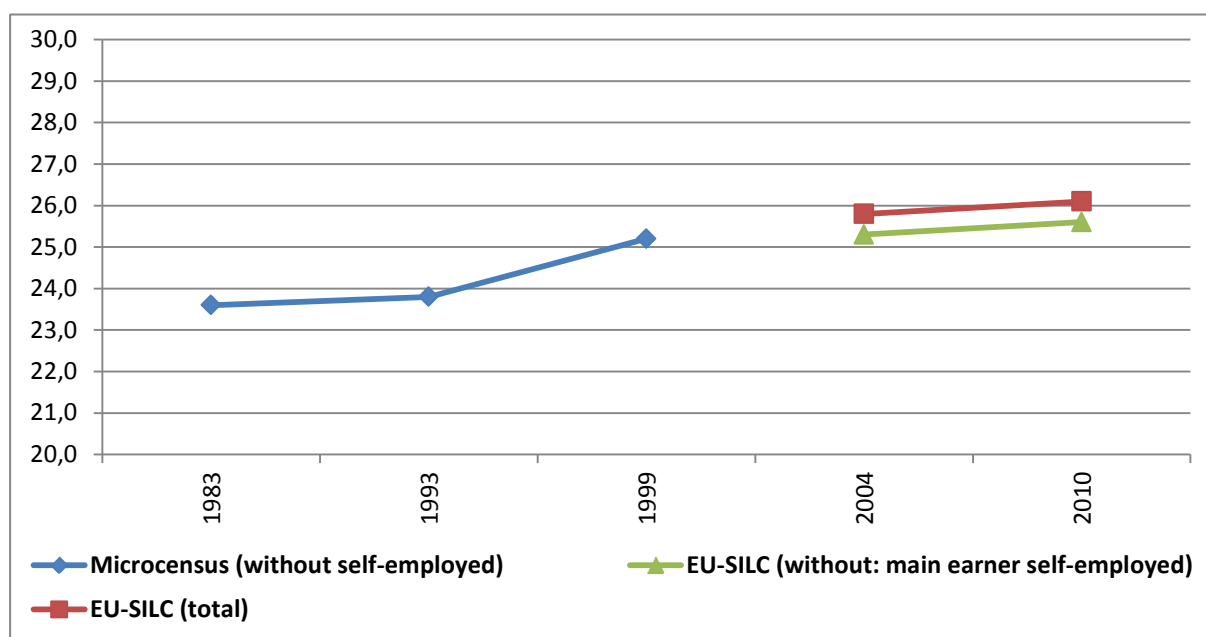
<sup>8</sup> The income of self-employed persons and persons living exclusively from maintenance payments was not surveyed. Furthermore, investment income as an income source was largely ignored (für eine genauere Beschreibung siehe Biffi 2007: 1). Further limitations result from the fact that the survey concept was changed repeatedly over time, and the boundaries of the income distribution were only insufficiently represented (cf. Guger/Marterbauer 2005b: 622).

second, households whose primary breadwinner is not self-employed. A comparison between the Microcensus and the EU-SILC is possible only to a limited extent, however, due to divergent survey concepts.

### General measures: Gini coefficient and P-ratios

The available data show for Austria between 1983 and 2010 a slight but continuous rise in income inequality<sup>9</sup> among households. According to the Microcensus, between 1983 and 1993 inequality increased only slightly (see Figure 2.1).<sup>10</sup> In the ensuing time period, however, the Gini coefficient evinces a marked rise: from 23.8 to 25.2 percentage points in 1999. Income inequality thus rose by 5.9 per cent between 1993 and 1999. Between 2004 and 2010, the EU-SILC data reveal a slight rise from 25.3 to 25.6. When self-employed households were included in the analysis, inequality was somewhat higher: the Gini coefficient for the population as a whole in 2010 was 26.1.

Figure 2.1: Income inequality in Austria, 1983-2010 (Gini)



Source: 1983-1999: Biffi (2008) based on Microcensus and OECD (2011a), 2004-2010: Statistics Austria, EU-SILC, own calculations.

<sup>9</sup> Income concept 1983-1999: disposable household income (monthly average), equivalized using the square-root of the number of persons in the household. 2004-2010: disposable household income (per year), equivalized using the modified OECD scale.

<sup>10</sup> Data from the Microcensus are taken from Biffi (Biffi 2003, 2007, 2008).

Table 2.1 shows additionally various percentile ratios which are sensitive to different parts of the income distribution. It renders clear that from 1983 to 1999 shifts occurred in all parts of the distribution. The lower end of the income spectrum lost ground compared both to the middle (P10/P50) and the top (P90/P10). A different story is evident for the period after 1999. The bottom of the income distribution caught up to a degree, while the middle lost ground relative to the top (P90/P50).<sup>11</sup> As will become clear further below, new dynamics were underway among the middle strata of society.

**Table 2.1: Income inequality in Austria, 1983-2010 (P-ratios)**

	1983	1993	1999	2004	2010
<b>P90/P10</b>	2.94	3.04	3.35	3.06	3.12
<b>P90/P50</b>	1.70	1.66	1.71	1.72	1.75
<b>P10/P50</b>	0.58	0.55	0.51	0.56	0.56

Source: 1983-1999: Biffi (2008) based on Microcensus and OECD (2011a), 2004-2010: Statistics Austria, EU-SILC, own calculations; excluding self-employed households.

### **Income shares: Bottom, middle and top deciles**

Further insight into the unequal distribution of life chances is provided by an examination of various income groups' share of total population income. The following section first investigates marginal groups in the income distribution, and then combines the ten income deciles into three groups. In accord with the above findings, this reveals that the situation of the bottom 10 per cent and bottom 20 per cent of the income distribution got much worse until 1999, and then improved somewhat (see Table 2.2). The highest income decile, on the other hand, increased its share of total income steadily from 19.2 per cent in 1983 to 21.5 per cent in 2010. The situation of higher-earning households has thus improved steadily over the past three decades.

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<sup>11</sup> In the following figures, the EU-SILC data utilized – if not otherwise indicated – refer only to wage and salary earning households. Data on the population as a whole are provided in the Appendix.

**Table 2.2: Income inequality in Austria, 1983-2010 (Income shares)**

	1983	1993	1999	2005	2010
<b>bottom 10%</b>	4.0	4.0	3.4	3.9	4.0
<b>bottom 20%</b>	9.8	9.7	8.8	9.6	9.7
<b>top 10%</b>	19.2	19.5	19.7	21.2	21.5
<b>decile 1-3 (lower)</b>	16.4	16.4	15.5	16.5	16.5
<b>decile 4-7 (middle)</b>	37.6	37.3	37.6	36.4	36.1
<b>decile 8-10 (upper)</b>	46.0	46.3	46.9	47.1	47.4

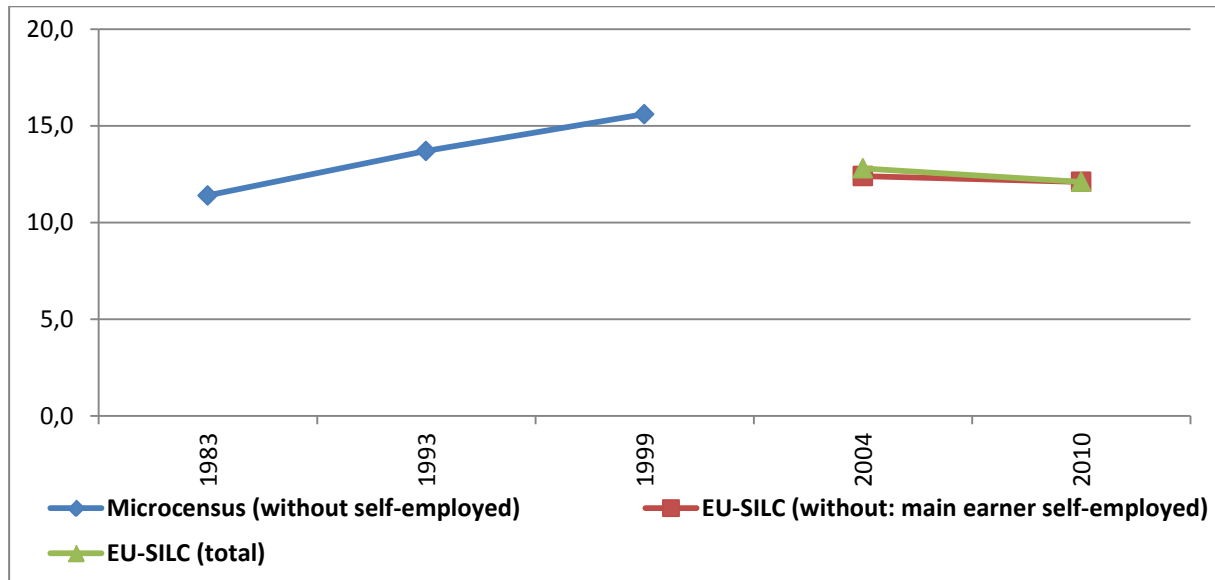
Source: 1983-1999: Biffi (2007) based on Microcensus, 2005-2010: Statistics Austria, EU-SILC, own calculations; excluding self-employed households.

Also when one consolidates the income deciles into three groups (1-3, 4-7, 8-10), it is clear that upper-income households were able to continually increase their shares between 1983 and 2010. This development redounded to the disadvantage of households in the middle income range foremost, while the situation of households with low income – similar to the findings above – first worsened and then improved. A glance below the surface thus reveals that the slight increase in inequality since the turn of the century hit the middle classes above all.

### **Poverty**

The development of income inequality and income poverty does not always go hand in hand. An examination of the at-risk-of-poverty rate, i.e. the share of those living below the poverty threshold defined as 60 per cent of median disposable income, reveals a marked rise during the 1980s and 1990s. Between 1983 and 1993, it increased from 11.4 to 13.7 per cent, and between 1993 and 1999 it climbed further to 15.6 per cent. This corresponds to an increase of 17 per cent within less than two decades. In contrast to the case of income inequality as measured by the Gini coefficient, the at-risk-of-poverty indicator thus reported an increase in inequality already in the 1980s. According to EU-SILC data, by 2004 it had fallen back to 12.4 per cent (not counting self-employed households). Thereafter, the number of persons at risk of poverty remained relatively constant. In 2010 12.1 per cent of all Austrians were at risk of poverty.



**Figure 2.2: At-risk-of-poverty rate in Austria, 1983-2010**

Source: 1983-1999: Biffi (2007) based on Microcensus, 2004-2010: Statistics Austria, EU-SILC, own calculations; excluding self-employed households, at risk of poverty = less than 60% of national median equivalized income.

### Consumption inequality

Another method of measuring inequality is to observe household spending. In Austria, this can be done using the Household Budget Survey. When one takes into account the extremes of the income distribution (P90/P10), a comparison of the waves from 1999/2000, 2004/2005 and 2009/2010 reveals a slight increase in inequality during the first half of the decade, from 2.9 to 3.2 per cent. By 2010, it had fallen back to nearly the previous level.

**Table 2.3: Consumption inequality 1999/2000, 2004/2005, 2009/2010 (P-ratios)**

	1999/2000	2004/2005	2009/2010
<b>P90/P10</b>	2.93	3.20	3.02
<b>P90/P50</b>	1.70	1.71	1.70
<b>P10/P50</b>	0.58	0.54	0.56

Source: Statistics Austria (2001, 2006, 2011), Household Budget Survey, own calculations based on secondary data.

### From market to disposable income

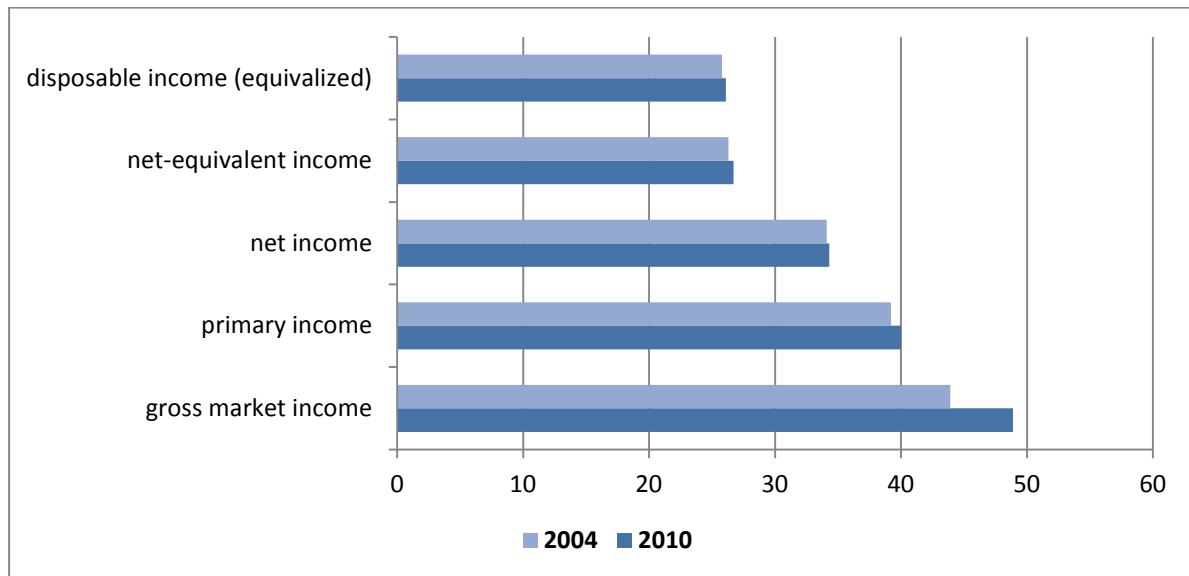
Market income in Austria is distributed much more unequally than disposable household income (see Figure 2.3). With a Gini coefficient of 48.9 in 2010, Austria was above the OECD average and – contrary to its position in disposable household income – did not number among the countries with

low income inequality. Moreover, inequality in household market income increased from 2004 to 2010.

After taking into account pensions, inequality is much less (see Primary Incomes); Austria has one of Europe’s most generous systems of old-age provision (cf. Biffi 2008: 788). Inequality is further reduced by the country’s tax and transfer systems (see Net Incomes). An in-depth analysis found that this was due mainly to the latter, whereas the former (taxes and social insurance contributions) together have only a modestly progressive effect in Austria (Guger 2009).

In a next step, termed equalization, we took into account household structure and hence the respective needs of various households. Not until this step is household income comparable across various household types (e.g. those with or without children). Equalization of net incomes caused the Gini coefficient to sink even further. A comparison of the years 2004 and 2010 shows that while inequality in households’ market incomes became much more unequal, a significant increase polarization was forestalled by the welfare state – in particular the pension system.

**Figure 2.3: Inequality in primary, net and net-equivalent household income, 2004 and 2010 (Gini)**



Source: Statistik Austria (2006, 2011a); income from the previous year.

### 2.1.2. Wealth inequality

Income inequality constitutes only one dimension of the unequal distribution of life chances. Also critically important is the distribution of wealth (cf. Davies/Shorrocks 1999). In this section, we

examine the distribution of financial and housing wealth. We analyse data from the 2004 Survey on Financial Household Wealth (SFHW) and 2008 Survey on Housing Wealth (HSWW).<sup>12</sup>

**Table 2.4: Inequality of financial (2004) and housing wealth (2008)**

<b>Bruttogeldvermögensverteilung</b>	
Gini	0,66
P90/P10	32
P95/P5	132
P99/P1	1663
top 10%	0,54
top 1%	0,27
top 0,1%	0,08
<b>Immobilienvermögensverteilung</b>	
Gini	0,76
Gini (nur Immobilienbesitzer)	0,56
bottom 40%	0,00
top 10%	0,61

Source: Financial assets: Mooslechner/Schürz (2009), Housing assets: Andreasch/Mooslechner/Schürz (2010).

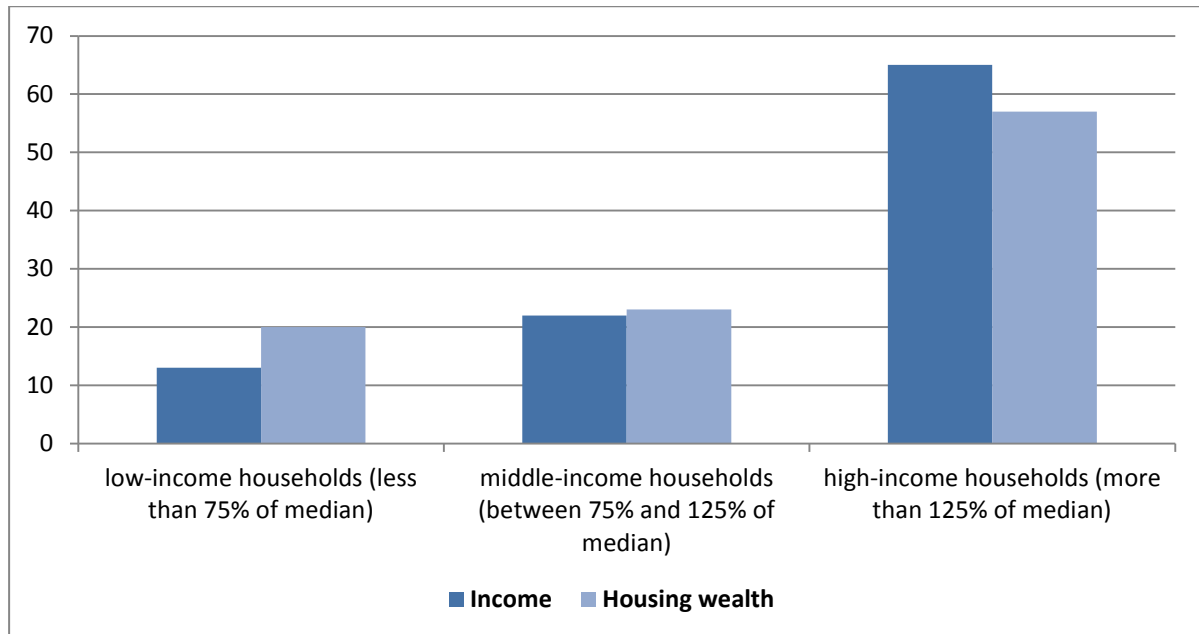
An examination of financial wealth data for Austria reveals considerable distributional inequality – much more than with regard to incomes (Andreasch/Mooslechner/Schürz 2010; Mooslechner/Schürz 2009). The Gini coefficient for the distribution of gross financial assets in Austria in 2004 was 0.66 – quite high by international standards. The top 10 per cent owned slightly more than half of all financial assets. The top 1 per cent owned just over a quarter. The top 1 per cent also owned as large a share (8 per cent) of the country's financial wealth as the entire bottom half of the income distribution (Mooslechner/Schürz 2009: 278-279). The least wealth was found, as expected, among low earners, young adults, workers and the low-skilled (cf. *ibid.*). Inheritance plays an important role in wealth accumulation (Mooslechner/Schürz 2009: 283-284; Schürz 2007). This is true not only for financial, but also and especially housing wealth.

Housing wealth is also highly concentrated in Austria (cf. Andreasch/Mooslechner/Schürz 2010: 248). The top 10 per cent own 61 per cent of all housing assets. The bottom 40 per cent of households owns no housing whatsoever. The Gini coefficient for the distribution of housing wealth in 2008 was 0.76 – much higher (and hence more unequal) than that for the country's income distribution. Even if one restricts the analysis to home owning households, the Gini value is still 0.56. Of course there is a

<sup>12</sup> Both were conducted by Austria's central bank, the Österreichischen Nationalbank. Not until the end of 2012 will a comprehensive scientific analysis of the financial situation of private households become available that meets international standards: the Household Finance and Consumption Survey (HFCS).

relationship between household income and homeownership: Households with higher income tend to own a larger share of housing assets. Nevertheless, homeownership among households with low income should not be overlooked (cf. *ibid.*: 249).

**Figure 2.4: Housing wealth by income group**



Source: Housing wealth: Andreasch/Mooslechner/Schürz (2010).

### 2.1.3. Labour market inequality

#### Wage inequality

For the analysis of income distribution among wage earners in Austria, two good data sources are available: The contribution records of the Austrian Federation of Austrian Social Insurance Institutions, and the income tax records. The social insurance data have the advantage of longer-term comparability, for they have only two small data discontinuities.<sup>13</sup> The income tax records, however, are not comparable before and after 1994.<sup>14</sup> In contrast to the social insurance data, they also encompass the lowest and highest incomes (cf. Guger/Marterbauer 2007: 5).<sup>15</sup> Hence both sources are used complementarily.

#### Table 2.5: Wage shares by quintile

<sup>13</sup> In 1987 and 2000 the survey method was slightly changed.

<sup>14</sup> In 1994 the employee tax assessment was introduced.

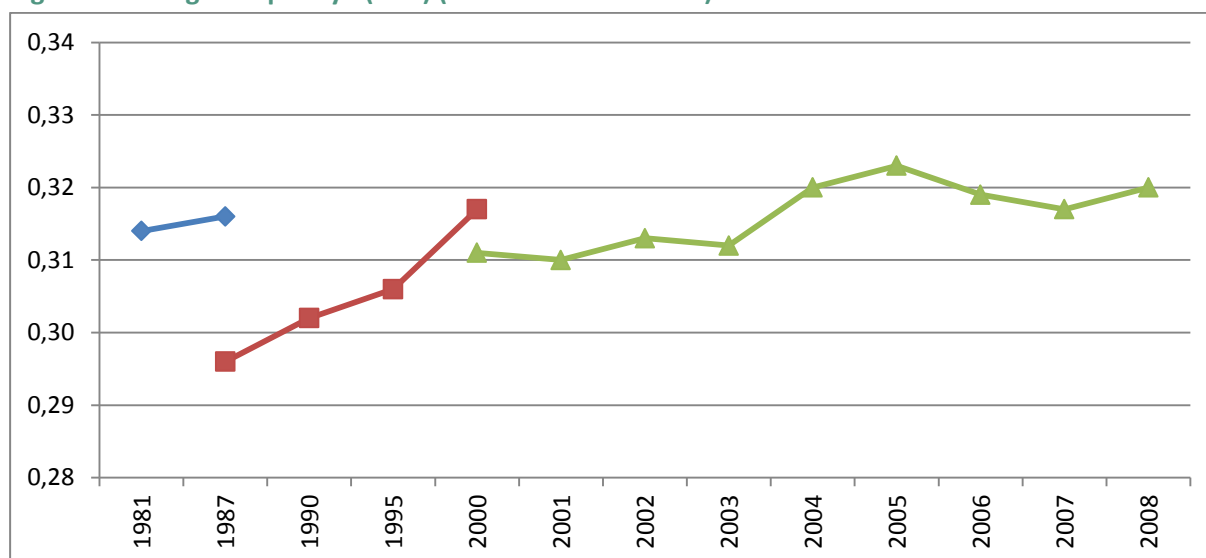
<sup>15</sup> In the social insurance data, income below the marginal earnings threshold (2008: €349) and over the maximum contribution basis (2008: €3,930) is not considered.

	1995	2000	2005	2008
1st Quintile	2,9	2,5	2,2	2,1
2nd Quintile	10,9	10,2	9,5	9,4
3rd Quintile	17,7	17,4	17,2	17,0
4th Quintile	24,1	24,2	24,5	24,4
5th Quintile	44,4	45,7	46,5	47,1

Source: Mayrhuber/Leoni/Marterbauer (2010) based on income tax records.

Both sources indicate considerable wage inequality in Austria, and that it has tended upward during the last three decades (Guger/Knittler 2009; Guger/Marterbauer 2005a, 2007; Mayrhuber/Leoni/Marterbauer 2010). Income tax records show that in 2006 the highest quintile of employees earned 47.1 per cent – nearly half – of the country’s total wage income, while the bottom quintile earned only 2.1 per cent. Since the middle of the 1990s, the bottom three quintiles have lost ground above all vis-à-vis the top quintile (cf. Guger/Knittler 2009: 264-265).

Figure 2.5: Wage inequality I (Gini) (Social insurance data)

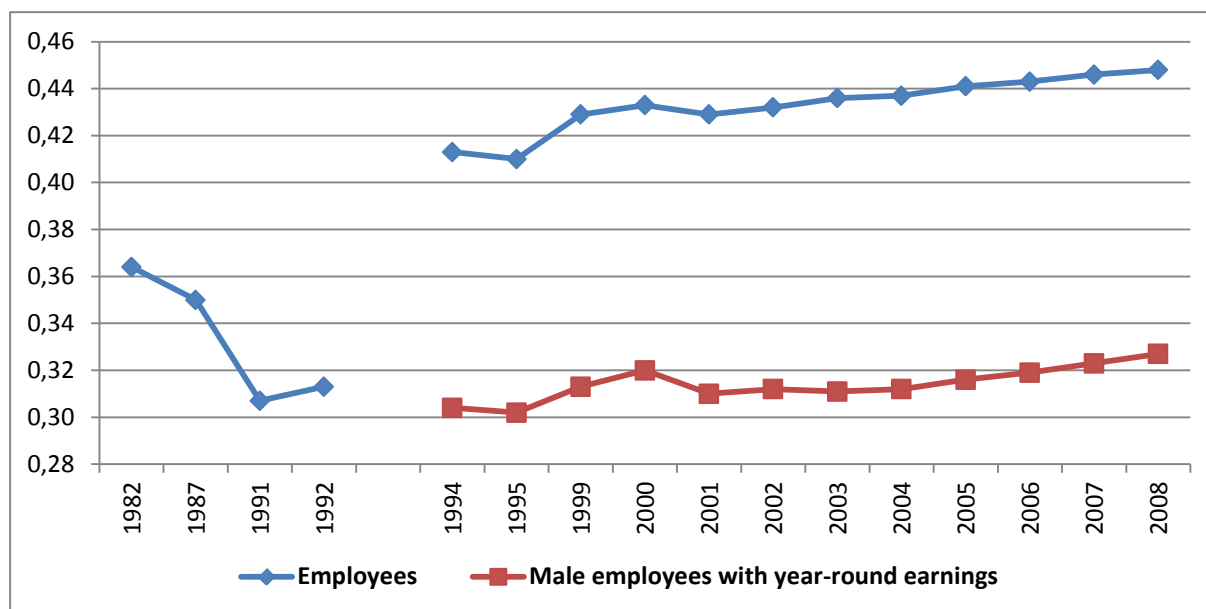


Source: Guger/Marterbauer (2007) and Mayrhuber/Leoni/Marterbauer (2010) based on social insurance data; in 1987 and 2000 the survey method was slightly changed, income below the marginal earnings threshold (2008: €349) and over the maximum contribution basis (2008: €3,930) is not considered.

Over time, the social insurance data report an increase in inequality during the second half of the 1980s, the second half of the 1990s and the period from 2003 to 2005. The income tax data, which also encompass the lowest and highest incomes, show a nearly continuous rise in inequality since the mid-1990s. The Gini coefficient for all employees rose from 41.0 in 1995 to 44.8 in 2008 (cf. *ibid.*:

264). According to the social insurance data, inequality is somewhat less pronounced, but these data do not sufficiently cover the margins of the income distribution.

**Figure 2.6: Wage inequality II (Income tax records)**



Source: Guger/Marterbauer (2007) and Mayrhuber/Leoni/Marterbauer (2010) based on income tax records; data are not comparable before and after 1994, when the employee tax assessment was introduced.

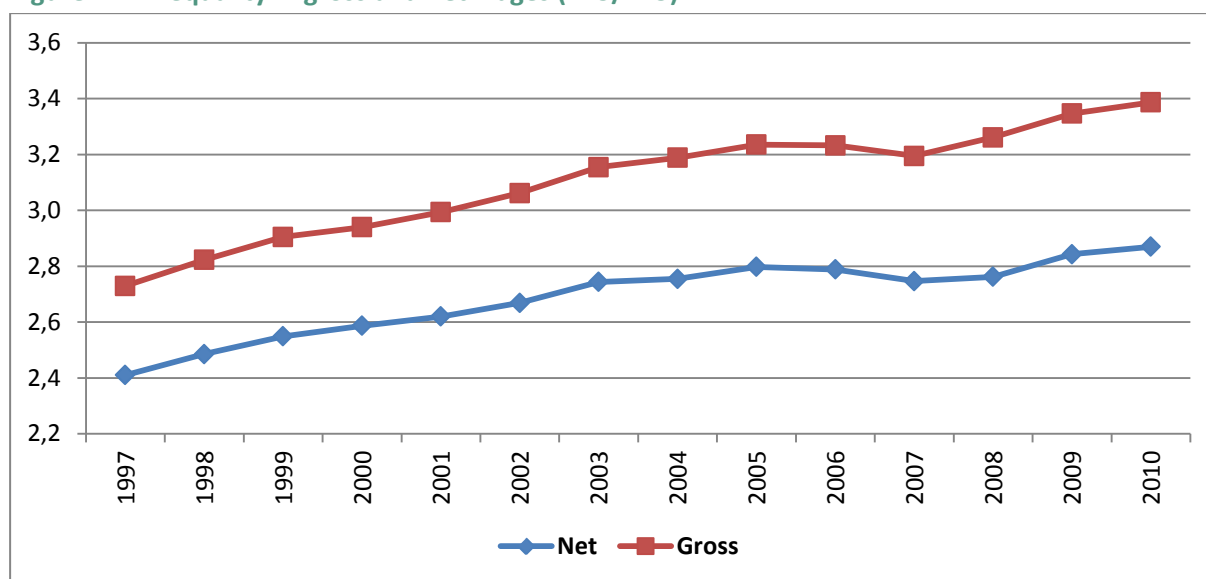
The increase in wage inequality should be viewed in the context of increasing unemployment and the flexibilization of the labour market (Barbieri 2009). The spread of part-time work – in particular among women – and of marginal employment are associated with low wages. Another reason for the increase in wage inequality lies in the large supply of insufficiently qualified workers (cf. Guger/Marterbauer 2007: 3). If one looks only at men with year-round earnings – for whom part-time work plays only a subordinate role – wage inequality is much less pronounced. Nevertheless, for this population as well, an increase in the Gini coefficient from 30.2 in 1995 to 32.7 in 2008 can be observed (cf. Guger/Knittler 2009: 265). The growth in wage inequality, then, can only in part be attributed to increasing flexibilization of the labour market.

The only time period during which the income tax records indicate a decline in inequality is the beginning of the 1990s. This can be explained in part by the favourable economic conditions, which increased demand for unskilled labour, and in part by the successful minimum wage policy of the unions (cf. Guger/Marterbauer 2007: 6) (see also Chapter 5.2).

A comparison of gross and net earnings of wage earners reveals that the welfare state mitigates inequality also through social insurance contributions. After deduction of social insurance

contributions and income taxes, inequality is somewhat less pronounced. This effect has increased since 1997, so that growth in inequality has been slightly less marked for net wages than for gross wages. The ratio of the upper boundaries of the 75<sup>th</sup> and the 25<sup>th</sup> percentiles increased for net wages from 2.4 in 1997 to 2.9 in 2010, and for gross wages from 2.7 to 3.4 (Statistik Austria 2012g). The overall redistributive effect of public charges on incomes (taxes and social insurance contributions) stems primarily from income taxes, which are clearly progressive, while social insurance contributions have a regressive effect (Guger 2009).

**Figure 2.7: Inequality in gross and net wages (P75/P25)**



Source: Statistik Austria (2012g) based on income tax records, own calculations of percentile ratio; yearly income of employees.

If one takes into account not only taxes and social insurance contributions, but also inflation, it becomes apparent that employees on the whole had to accept income losses between 1995 and 2008. Real wages sank on average by 2.6 per cent during this period. The decline was particularly sharp for the bottom two quintiles, where wages dropped by 22.4 and 12.7 per cent respectively. Only the top quintile saw its wages increase (cf. Mayrhuber/Leoni/Marterbauer 2010: 21-23). The decline in real wages can be attributed above all to tepid wage increases in the wake of a rise in unemployment, as well as to the flexibilization of the labour market with an increase in part-time and marginal employment (cf. Guger/Knittler 2009: 270). If one looks only at men with year-round earnings, one finds during the same period an increase in real net wages of 1.6 per cent (cf. Mayrhuber/Leoni/Marterbauer 2010: 21-23).

### Self-employment income

Only to a limited extent is it possible to analyse the development of the income distribution of self-employed persons in Austria. A study using administrative data came to the conclusion that self-employed persons with taxable earnings had higher average incomes than wage earners, and that their income distribution is less equal. In 2007, the Gini coefficient for self-employment income in agriculture and forestry was 51.2; for income from self-employed activity running a business it was 50.5; and for self-employment in the narrower sense, 55.2. The value for wage earners during the same year was 44.6 (see above).<sup>16</sup> Inequality has increased since 2000 for self-employment income from agriculture and forestry, but for self-employment income from running a business it has declined (cf. Mayrhuber/Leoni/Marterbauer 2010: 26-36).

**Table 2.6: Distribution of gross wages of the self-employed, 2000 and 2007 (Gini)**

	2000	2007
Agriculture and forestry	48,7	51,2
Self-employed work	57,8	55,2
Running a business	54,6	50,5

Source: Mayrhuber/Leoni/Marterbauer (2010) based on income tax records.

### Inequality in labour market participation

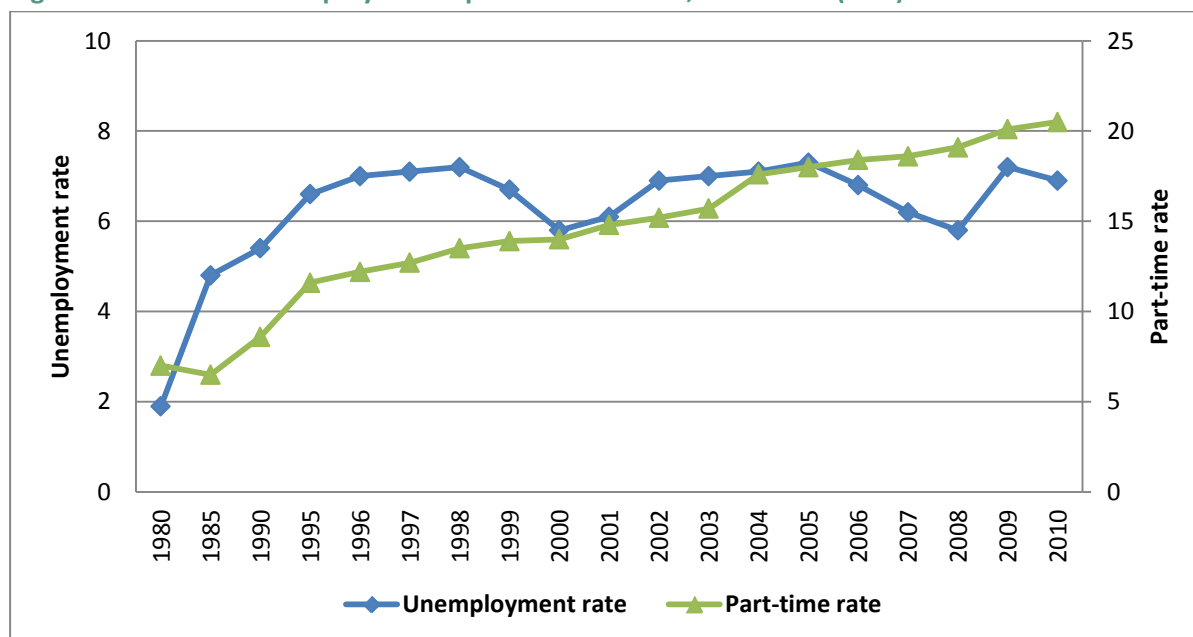
Since the early 1980s, labour force participation trends in the Austrian labour market resemble those found in other Western economies (cf. Blossfeld/Mills/Bernardi 2007; Rubery/Smith/Fagan 1999). On the one hand, it has increased among persons between the ages of 15 and 64, due exclusively to growth in labour market participation among women. In this context, the share of part-time work increased sharply as well (see Figure 2.8). On the other hand, over the past three decades Austria has also witnessed a substantial increase in unemployment. The share of unemployed rose between 1980 and 1995 from 1.9 to 6.6 per cent, and with few exceptions has remained above this level ever since.

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<sup>16</sup> For a discussion of the limitations inherent in comparison of the income distributions of self-employed and wage-earning workers, see Mayrhuber/Leoni/Marterbauer (2010: 27-29).



Figure 2.8: Share of unemployed and part-time workers, 1980-2011 (in %)



Source: Unemployment rate: Statistik Austria (2012a), national calculation: persons registered as unemployed as share of workforce; Part-time rate: Fritsch/Teitzer/Verwiebe (2012) on the basis of the Microcensus, part-time = less than 35 hours.

A similarly high share of the population between the ages of 18 and 59 lives in workless households, data since 1995 show. These are households in which no one is gainfully employed (see Table 2.7). Over the entire period, this percentage remained well below the EU-15 average. Whereas in the old EU countries the values for children and for persons of working age differ, in Austria, children are disproportionately at risk of living in a workless household. This difference has shrunk somewhat since 2001, however.

Table 2.7: Workless households, 1995-2010 (in %)

	1995	1998	2001	2004	2007	2010
EU-15 (people aged 18-59)	11.5	11.1	9.7	9.8	9.0	10.4
EU-15 (children aged 0-17)	11.0	10.8	9.6	9.7	9.2	10.7
Austria (people aged 18-59)	7.0	8.4	7.8	8.2	7.1	7.2
Austria (children aged 0-17)	3.7	4.4	3.8	5.2	5.3	5.5

Source: Eurostat (2012a); people aged 18-59 living in jobless households: share of persons aged 18-59 who are living in households in which no one is gainfully employed, children aged 0-17 living in jobless households: share of persons aged 0-17 living in households in which no one is gainfully employed.

In a comparative study of the period between the mid-1980s and 2000, De Beer (2007) analysed the relationship between the increasing employment rate and a series of outcomes such as unemployment and poverty. This is particularly interesting for Austria because despite its growing employment rate during this period, poverty was growing as well. Using decomposition analysis, De Beer shows that unemployment in Austria rose in spite of a growing employment rate because during the same period, the size of the labour force was also increasing. Second, the poverty reducing effect of a growing labour force participation rate was counteracted by the fact that it was primarily persons in work rich households who benefited, e.g. housewives whose partner was already gainfully employed (cf. *ibid.*: 381-383).

In recent decades, in addition to changes in the (un-)employment and labour force participation rates, also the composition of the economically active population changed (see Table 2.8). A comparison of 1995 and 2010 shows that during this time period the share of “technicians and associate professionals” increased whereas the share of “craft and related trade workers” as well as “plant and machine operators and assemblers” diminished. This shift towards occupations which require a higher skill level has to be seen in the context of technological progress leading to an increased demand for highly skilled workers (*skill-biased technological change*) (cf. Guger/Knittler 2009: 265-266).

**Table 2.8: Economically active population by occupation**

ISCO	1995	2010	Difference
1 managers	0.07	0.07	0.00
2 managers	0.09	0.11	0.01
3 technicians and associate professionals	0.13	0.20	0.08
4 clerical support workers	0.14	0.13	-0.01
5 service and sales workers	0.13	0.14	0.01
6 skilled agricultural, forestry and fishery workers	0.07	0.05	-0.02
7 craft and related trades workers	0.18	0.13	-0.05
8 plant and machine operators, and assemblers	0.09	0.05	-0.04
9 elementary occupations	0.09	0.11	0.02
0 armed forces	0.00	0.00	0.00
<b>Total</b>	<b>1.00</b>	<b>1.00</b>	

Source: Microcensus (1995, 2010), own calculations.

#### 2.1.4. Educational inequality

##### Changes in educational attainment

In recent decades there was a substantial educational expansion in Austria (Statistik Austria 2012d). Among women in particular there were major shifts. The share of women with no more than compulsory schooling sank during the past four decades from 70 to 24 per cent. Over the same period, the share of women with a tertiary degree rose from one to ten per cent. While the differences between men and women have not been completely eradicated, they have been dramatically reduced.

**Table 2.9: Educational level of the population by gender, 1971 to 2009 (in %)**

	1971	1981	1991	2001	2009	
<b>Men</b>	Max. compulsory school	43	34	25	19	15
	Lower secondary	45	51	57	59	58
	Upper secondary / post-secondary non-tertiary	7	9	11	13	16
	Tertiary	4	6	7	9	12
<b>Women</b>	Max. compulsory school	70	57	43	33	24
	Lower secondary	24	34	42	46	47
	Upper secondary / post-secondary non-tertiary	5	7	11	14	19
	Tertiary	1	2	4	6	10

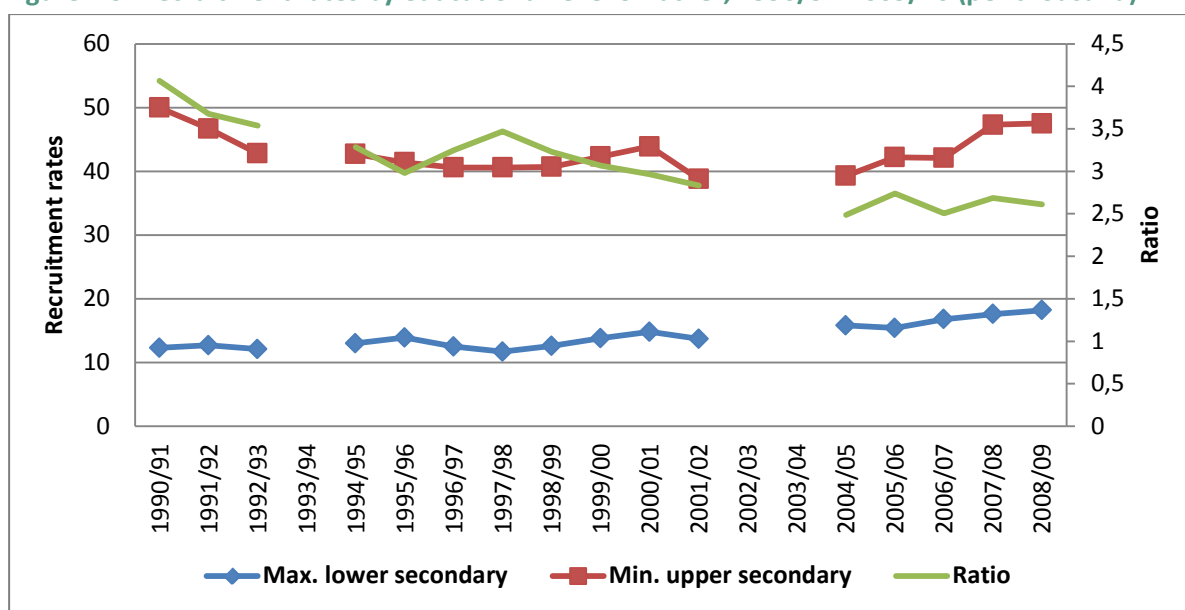
Source: Statistik Austria (2012d); Age: 25-64 years.

##### Educational inequality over time

Even after the educational expansion, success in school in Austria greatly depends on the educational level and occupational standing of a child's parents. Whereas intergenerational educational mobility has increased somewhat in recent years, it remains much lower than in most other European and Western countries (cf. Fessler/Mooslechner/Schürz 2012). It is on a par with the rates in the United States and Italy, and well below the rates in countries such as Denmark or Finland (cf. *ibid.*). The strong impact of parental resources is often attributed to the Austrian educational system. Despite being publicly run, it is characterized by an early process of selection among pupils with enduring consequences, as well as by a strong degree of segmentation among secondary schools (cf. *ibid.*). As a result of the cumulative effects of the system's structural peculiarities, Austria's tertiary educational institutions – especially universities – are highly selective.

In order to portray how strongly tertiary educational study has depended on parents' education over time, Figure 2.9 presents "recruitment rates," i.e. the ratio between first-year students with fathers of a given level of educational attainment and men in the population aged 40-65 with same level of education, expressed per thousand.<sup>17</sup> Degrees of educational attainment are highly simplified into "high" (having at least an upper secondary school-leaving certificate which qualifies for university studies) and "low" (having at most a lower secondary school-leaving certificate). In the years 2008/09, for every 1,000 men between the ages of 40 and 65 with a high level of education, there were 48 first-year students whose father had a high level of education. For every 1,000 men in this age group with a low level of education, there were 18 first-year students whose father had a low level of education (Unger/Zaussinger 2010); since the mid-1990s this figure has increased significantly.

Figure 2.9: Recruitment rates by educational level of father, 1990/91-2009/10 (per thousand)



Source: Unger, Zaussinger et al. (2010); recruitment rates = first-year students whose fathers have high/low educational attainment relative to men aged 40-65 with same level of education, ratio: probability of pursuing tertiary education for individuals whose father has a high level of education in relation to individuals whose father has a low level of education.

If one forms a ratio out of these two values, this yields the probability of pursuing tertiary education for these two groups in relation to one another. At the beginning of the 1990s, the probability of pursuing tertiary education was 4.1 times higher for people whose father had a high level of

<sup>17</sup> These take into account changes in levels of educational attainment in the population.

educational attainment than for the comparison group. Recently this value had sunk to 2.6. The overrepresentation of students from families with high educational capital has thus declined somewhat. This is primarily due to the expansion of the polytechnic sector, which is much less socially selective than the university sector (cf. Unger/Zaussinger 2010: 60).

### Employment chances by level of educational attainment

Labour-market opportunities in Austria are highly stratified by educational level. It is very interesting to examine this over time by gender. Here we find only two groups for whom significant changes have occurred since the mid-1990s: While women with a medium level of education have been able to increase their employment rate since 1996 from 66 to 72 per cent, the employment rate of low-skilled men sank from 60 to 57 per cent (see Table 2.10). These results are in line with recent findings from labour-market sociology (cf. Blossfeld/Hofmeister 2007; Blossfeld/Mills/Bernardi 2007). Hence on the one hand we see that the low-skilled men have faced mounting labour market risks. And on the other, the increase in the labour market participation of women is strongly related to their level of education.

**Table 2.10: Employment rate by education for men and women, 1996-2011**

		1996	1999	2002	2005	2008	2011
Women	ISCED 0-2	44.4	42.5	43.0	41.3	46.6	45.0
	ISCED 3-4	66.2	66.9	66.0	67.4	71.6	72.4
	ISCED 5-6	82.7	81.8	82.1	81.5	81.9	81.7
Men	ISCED 0-2	59.8	57.6	55.5	55.2	57.4	56.8
	ISCED 3-4	80.6	81.4	79.0	79.1	82.2	80.8
	ISCED 5-6	89.1	87.1	87.4	86.2	89.4	89.5

Source: Eurostat (2012b).

### Returns to education

Returns to education in Austria are hierarchically highly stratified. An analysis of the development over time (see Table 2.11) shows that both for men and women returns to education declined during the 1980s and 90s.

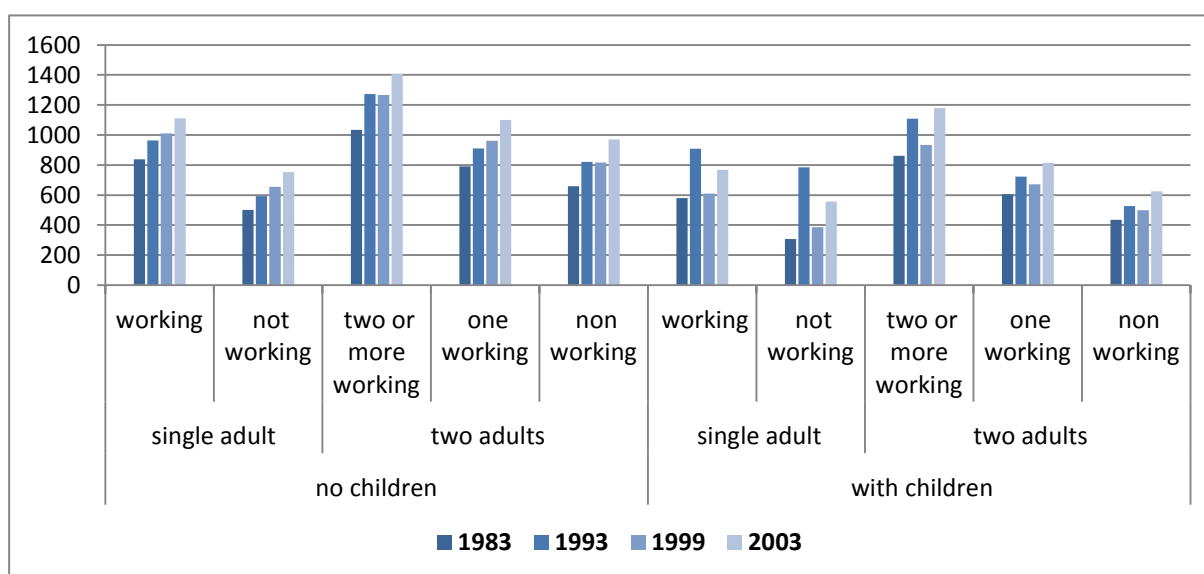
**Table 2.11: Returns to education by gender, 1981-2005**

	1981	1985	1989	1993	1997	2001	2005
<b>Men</b>	Apprenticeship	0.14	0.15	0.17	0.17	0.15	0.15
	Vocational schools	0.29	0.28	0.38	0.34	0.31	0.25
	Secondary academic schools	0.53	0.55	0.52	0.50	0.43	0.37
	Vocational colleges	0.70	0.65	0.62	0.61	0.50	0.46
	University / polytechnic	1.03	0.89	0.89	0.86	0.70	0.72
<b>Women</b>	Apprenticeship	0.13	0.15	0.13	0.16	0.13	0.13
	Vocational schools	0.35	0.38	0.35	0.36	0.34	0.31
	Secondary academic schools	0.66	0.56	0.50	0.45	0.42	0.34
	Vocational colleges	0.84	0.57	0.59	0.50	0.47	0.42
	University / polytechnic	1.18	0.89	0.88	0.76	0.66	0.67

Source: 1981-1997: Fersterer/Winter-Ebmer (2003), 2001-2005: Steiner/Schuster/Vogtenhuber (2007); base: compulsory schooling, all parameters are transformed by  $\exp(\beta)-1$ , additional control variables in all regressions are experience and its square, when considering females a part-time dummy was included, vocational college = BHS, polytechnic = Fachhochschule.

## 2.2 Who has been affected?

The distribution of household incomes in Austria became more unequal above all during the 1990s. Since then inequality has only risen slightly further. In this section we first determine, using secondary literature, which groups were affected by increasing inequality (Biffl 2003, 2007). Then, using EU-SILC data, we will explore what dynamics were operating beneath the surface during the past decade.

**Figure 2.10: Median incomes by household type, 1983-2003**

Source: Biffl (2007), 1983-1999 based on Microcensus, 2003: based on EU-SILC.

Figure 2.10 depicts median incomes for various household types whose head of household is of working age, from 1983 to 2003. The data show that the rise in inequality from 1993 to 1999 struck in particular families with children. Their median incomes sank during this period, whereas the incomes of childless families either rose or remained nearly constant. Couples with children were able to counteract this decline through 2003, while lone parent families were worse off in 2003 than a decade earlier (cf. Biffi 2007).

**Table 2.12: MLD index by age of the main earner, 1983-2005**

	1983	1993	1999	2005
Main earner: 18-65	0.225	0.233	0.246	0.260
Main earner: 65+	0.245	0.249	0.243	0.257

Source: Biffi (2008), 1983-1999 based on Microsensus, 2005: based on EU-SILC.

Taking into account the age of the head of household yields similarly interesting findings. Table 2.12 represents the degree of income inequality among families headed by a person of working age, and among families headed by someone over age 65. The MLD index is used to measure inequality. The analysis shows that from 1983 to 2005, inequality rose much more in the former group. A large portion of the rise in inequality thus seems to have afflicted the population of working age and their family members (cf. Biffi 2008).

**Table 2.13: At-risk-of-poverty rate by educational level, degree of urbanization, migrant status**

	2004	2005	2006	2007	2008	2009	2010
<b>Educational level</b>							
ISCED 0-2	15.9	20.1	21.2	18.7	23.3	20.9	21.1
ISCED 3-4	9.3	9.4	9.1	9.5	8.9	9.6	8.8
ISCED 5-6	10.1	7.2	6.2	6.7	6.2	4.9	6.8
<b>Degree of urbanization</b>							
dense	15.0	11.9	14.9	14.7	15.5	14.6	16.1
medium density	10.8	10.8	9.7	9.4	10.4	10.2	8.4
low	12.0	13.6	12.2	11.2	10.6	10.8	10.8
<b>Migrant status</b>							
Austria	10.5	10.1	10.4	9.6	9.8	9.6	9.2
EU-27	19.2	15.7	14.7	13.8	13.5	18.6	15.2
other	24.7	25.4	23.7	24.0	25.4	24.3	28.2

Source: Eurostat (2012c); Poverty threshold: 60% of median equivalized income after social benefits; education: percentage of population aged 18 to 64 years, degree of urbanization: percentage of population as a whole; migrant status: percentage of population over age 17.

Let us now examine the poverty rates of various groups on the basis of EU-SILC data. We find that low-skilled persons, the unemployed, and residents of densely populated areas have been subject to rising poverty risks since 2003 (see Table 2.13 and Table 2.14). Migrants born outside of the European Union have been exposed to poverty risks of around 25 per cent, until in 2010 this rose yet again (see Table 2.13). The differences between men and women have remained fairly constant since 2003 (see Table 2.14).

**Table 2.14: At-risk-of-poverty rate by employment status in prior year**

	1995	1997	1999	2001	2004	2006	2008	2010
<b>Employment status in prior year</b>								
employed	8	7	7	6	7.4	6.5	6.5	4.9
unemployed	32	31	20	23	36.2	43.4	40.7	40.2
Retiree	11	12	8	12	9.9	10.3	11.6	12.1
<b>Gender</b>								
Men	12	11	10	9	11.4	11.0	11.2	10.7
women	15	14	14	14	14.1	14.0	13.5	13.5

Source: Eurostat (2012c); Poverty threshold: 60% of median equivalized income after social benefits; employment status: percentage of population aged 16 to 64 years; gender: percentage of population as a whole.

### 2.3 Interdependence between the above inequalities over time

Upon a closer look at the income inequality in Austria from 1980 to 2010, it is apparent that since 1999, despite growing disparities in the labour market, inequality in household incomes has risen only moderately.

This is due on the one hand to the redistributive effects of the Austrian welfare state. The welfare state retrenchment which took place in Austria especially between 2000 and 2006 (Obinger/Tálos 2009, see next chapter) seems to have had little effect on household inequality in general. The Austrian welfare state still corrects the distribution of market incomes to a considerable extent. Its degree of progressivity has even increased over the past decade and a half if one considers monetary *and* real transfers, e.g. also spending on education, health or child care. Among state expenditures, the strongest effects are exerted by unemployment benefits, social assistance and housing benefits (cf. Guger 2009: 1-10).

A further reason for the comparatively moderate increase in inequality in household incomes is seen in the employment behaviour of couples. Whereas most men work full-time, women in Austria tend to work part-time (cf. Biffl 2008: 783; Steiber/Haas 2010). Furthermore, women tend to work less if



their partner has high earning potential. This stabilizes middle incomes (cf. *ibid.*: 794). In the context of a current study, the author was able to show that the employment pattern of mothers with high levels of education and children below the age of three has changed to resemble that of women with low education. They increasingly prefer a modified male-breadwinner model (Berghammer 2012). The growing importance of the modified male-breadwinner model where the woman works only part-time has to be seen in the context of labour market flexibilization since the late 1980s (see next section). The increase in part-time employment has been fuelled almost solely by women (Hermann/Flecker 2009: 34).

## 2.4 Why has inequality grown? The national story

### Labour market and wage inequality

Studies that explore growing wage inequality in Austria attribute this above all to the rise in unemployment and a flexibilization of the labour market, with the concomitant expansion of part-time and atypical employment (Guger/Knittler 2009; Guger/Marterbauer 2005b; Guger/Marterbauer 2007). The Austrian labour market has long been highly regulated to provide a high degree of protection for (male) full-time employees (Unger/Heitzmann 2003: 381). This was the case much longer than in other conservative-corporatist countries. Since the late 1980s a moderate shift towards labour market deregulation and flexibilization can be observed (Hermann/Flecker 2009: 34). Labour market policy became more active over the same period, although the share of active labour market policy in relation to overall spending on labour market policy remained low (Unger/Heitzmann 2003: 378).

A further cause of the rise in wage inequality is assumed to lie in the large supply of insufficiently skilled workers. Although the share of low-skilled people diminished with ongoing educational expansion, especially during the early 1990s the Austrian labour market had to absorb a large number of low-skilled immigrant workers (Unger/Heitzmann 2003: 377). Furthermore, in the wake of globalization and technological advances the employment prospects of low-skilled workers have deteriorated considerably over the last few decades. Technological progress has led to increased demand for high-skilled workers (*skill-biased technological change*). Low-skilled workers have been left behind. The resulting oversupply of low-skilled workers, juxtaposed with a dearth of high-skilled workers, could explain why wage inequality in Austria has increased even during periods of strong economic growth, e.g. at the end of the 1990s and again since 2004 (cf. Guger/Knittler 2009: 265-266).

Gusenleitner, Winter-Ebmer and Zweimüller (1996) find that the rise in inequality during the 1980s took place primarily among white-collar workers, while inequality among blue-collar workers actually declined. Since during the period under study no significant institutional changes occurred, possible causes for the rise in inequality are presumed to be technological change and the international division of labour (cf. *ibid.*: 18). Alongside structural changes in the labour market, the weakening of political participation and union density are also adduced as sources of increasing wage inequalities (cf. Mayrhuber/Leoni/Marterbauer 2010: 18; siehe dazu auch chapter 4).

### **Demography and household inequality**

The rise in inequality in household incomes during the 1990s has been linked to a demographic shift in family employment models, as well as to a shift in earning opportunities within specific household types (Biffi 2003, 2007). Thus the increasing number of two-earner households contributed just as much to a widening of the income gap as the growing earning potential of single adult households and the diminishing earning potential of lone parent households (cf. Biffi 2007: 12). In a comparative study, De Beer (2007) shows that the increase in poverty in Austria between the mid-1980s and 2000 can be attributed above all to the increasing poverty risk faced by work rich households, while that of work poor households changed only marginally (cf. *ibid.*: 382-383). Figure 2.10 confirms this, at least with regard to families with children. Another source of growing inequality often mentioned in research is educational homogamy (Blossfeld/Buchholz 2009; Blossfeld/Timm 2003). However, for Austria, no evidence can be found for a rise in assortative mating (Appelt/Reiterer 2009; Ressler 2005).

With regard to the demographic shift, the aging of society must also be taken into account. However, since Austria's system of old-age provision is one of the most generous in Europe, demographic aging has until now played only a subordinate role in the growing inequality of household incomes (cf. Biffi 2008: 788). Differences in the extent of inequality between 1993 and 1999 could also be attributable to the fact that the two waves represent different phases in the business cycle.<sup>18</sup> At the beginning of the 1990s, moreover, there was a strong immigration wave – mainly from areas of the former Yugoslavia – bringing people with predominately low earning potential. This population was only later incorporated into the survey concept (cf. *ibid.*: 2-3).

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<sup>18</sup> The first two points in time (1983, 1993) mark the end of a recession, the last point in time (1999), however, marks an economic boom.

## **Welfare state and inequality**

The patterns of inequality since 1980 also have to be seen in the context of the development of social policies. The Austrian welfare state is usually described as conservative-corporatist in comparative research (Esping-Andersen 1990). It has “a highly developed, albeit mainly employment related, social security system strongly based on the idea of status preservation of wage-earners” (Obinger/Tálos 2009: 101). A look at the development of welfare state policies over the past 30 years reveals some peculiarities about the Austrian case.

In the period of increasing internationalization through 1986, problems that emerged in the labour market were addressed through either social or industrial policy. Austria managed to maintain high employment levels through labour hoarding in (heavily subsidized) nationalized industries (Unger/Heitzmann 2003: 376). Generous early-retirement provisions constituted an important policy tool to counter rising unemployment rates. Despite these policy interventions, the Austrian unemployment rate rose markedly between 1980 and 1998.

The period between 1987 and 1999 has been referred to as a period of retrenchment (Obinger/Tálos 2009: 121). Due to a growing budget deficit, the goal shifted from full employment to budget consolidation. This development was reinforced from 1995 onward by the country’s EU membership. The Maastricht criteria required Austria to implement a strict policy of budget consolidation. These increasing fiscal pressures led to privatization, a decrease in public employment and cuts in social protection expenditures, e.g. in the field of unemployment and (early) retirement benefits (Unger/Heitzmann 2003: 377).

Between 2000 and 2006 “pathbreaking changes” took place within the Austrian welfare state (Obinger/Tálos 2009: 121). Status preservation is no longer guaranteed in the field of pensions for all workers. In the field of unemployment protection, cash benefits were cut and more emphasis was put on the activation of the unemployed. The country’s traditionally strong corporatism – the power of the social partners – was disabled during this period as well (Obinger/Tálos 2009: 113).

In the last years an end of retrenchment and a return of corporatism can be detected. Obinger and Tálos describe Austria as a “partially defrosted” Bismarckian welfare state (Obinger/Tálos 2009: 102). Whereas some traits of the Bismarckian welfare state have been reinforced, over the last three decades new principles have been introduced as well, e.g. in the areas of pension and unemployment policies. The authors suggest that this could lead to a higher degree of inequality over the long run (Obinger/Tálos 2009: 121).

Looking at changes in the Austrian welfare state over the last three decades, it seems plausible that growing household inequality in the 1990s and growing household poverty between 1983 and 1999

have to be understood especially in the context of growing unemployment and a re-orientation of the welfare state from 1987 onward. Social policy changes after 2000, at least on the surface, have had little impact on household inequality. From a comparative point of view the Austrian welfare state still has a highly redistributive effect. The transfer system in particular is highly progressive. Considering both monetary and real transfers (e.g. spending on education, health, child care), the degree of progressivity has even increased over the past decade and a half (cf. Guger 2009: 1-10). Another peculiarity of the Austrian case is the comparatively low unemployment rate, which since 1999 has never exceeded 7.3 per cent of the workforce. Taken together, this could be a major explanation for the comparatively low and stable degree of household inequality during the last decade.

### **Outlook**

While inequality in household incomes is less pronounced in Austria than in most other OECD countries, inequality in financial and housing wealth is comparatively high. Inheritances play a pivotal role in this regard (Schürz 2007). Both the acquisition and accumulation of wealth and the attainment of educational degrees depend heavily in Austria on socio-economic background (Fessler/Mooslechner/Schürz 2012). While it is true that intergenerational educational mobility has increased over time, it still remains lower than in most other European countries. In Austria, then, there is a comparatively low degree of equality of opportunity (education, wealth) juxtaposed with a comparatively degree of equality of outcomes (at least in household incomes).

In general, despite only a slight increase in inequality among households, we can expect a certain dynamic in its social, cultural and political effects. Disposable household income has a greater impact on one's material standard of living than does one's personal wage earnings. Individual decisions, sensitivities and capabilities are shaped at least as strongly by labour market conditions. And here, since the mid-1990s if not earlier, there has been a noticeable increase in inequality. As described above, the growing disparities in earnings can be seen in part in relation to the increasing flexibilization of the labour market. In the course of this development, differences *between* individuals in the labour market became more important, e.g. between full and part-time workers. These differences will play a major role in the analyses of the following chapters.

### 3. The social impacts of inequality

#### 3.1 Introduction

Household income is a key metric in social inequality research. Yet a purely income-based poverty measure provides no information about the participation or exclusion of members of society. Moreover, an analysis of the economic resources at the disposal of a household is an insufficient measure of inequality. In order to adequately assess the impacts of income inequality on standard of living, in this chapter we will examine indicators of deprivation and social exclusion in various realms of society.

The goal of this chapter is to analyse the social impacts of inequalities in income. The focus lies on patterns and trends in material deprivation, poverty risk and vulnerability, social exclusion, family formation, health, housing, social cohesion, crime and happiness, in relation to trends in economic and/or educational inequality. The main data used is both international (Eurostat, European Social Survey) and national (Statistics Austria database, Health Survey 2006/07, Microcensus-Labour-Force Survey, Work Climate Index of the Austrian Chamber of Labour, Österreichische Nationalbank). We do not make causal claims about the social impacts of inequality based on the analyses and data used in this chapter, but point the reader to the relevant literature and related empirical studies.

#### 3.2 Material deprivation

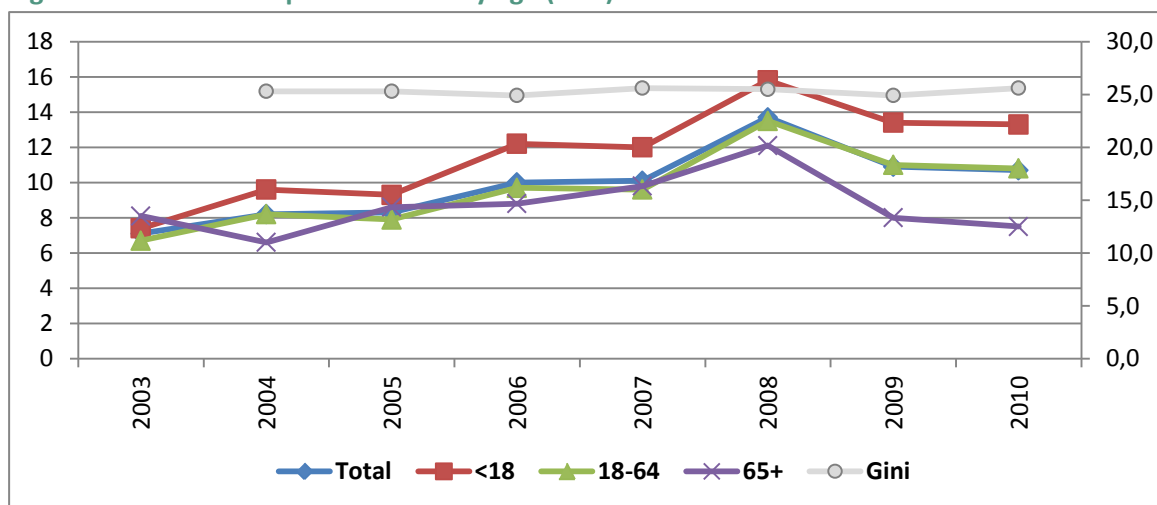
Table 3.1 presents the rate of severe material deprivation for the Austrian population. In the years 2003-2007 the total severe material deprivation rate ranged between 3.0 and 3.6 per cent. In 2008 it jumped to 6.4 per cent. This suggests the impact from the financial crisis. Its consequences can be seen further in 2009 and 2010, but to a decreasing degree.

The impact of the recession on material deprivation from 2008 onward is clearly evident in the comparison of age groups in Figure 3.1. Levels of reported material deprivation are higher for children than adults and are lowest for the elderly, each with a marked increase in deprivation from 2008.

**Table 3.1: Persons suffering from severe material deprivation (as share of total population in per cent)**

2003	2004	2005	2006	2007	2008	2009	2010
3.3	3.4	3.0	3.6	3.3	6.4	4.8	4.3

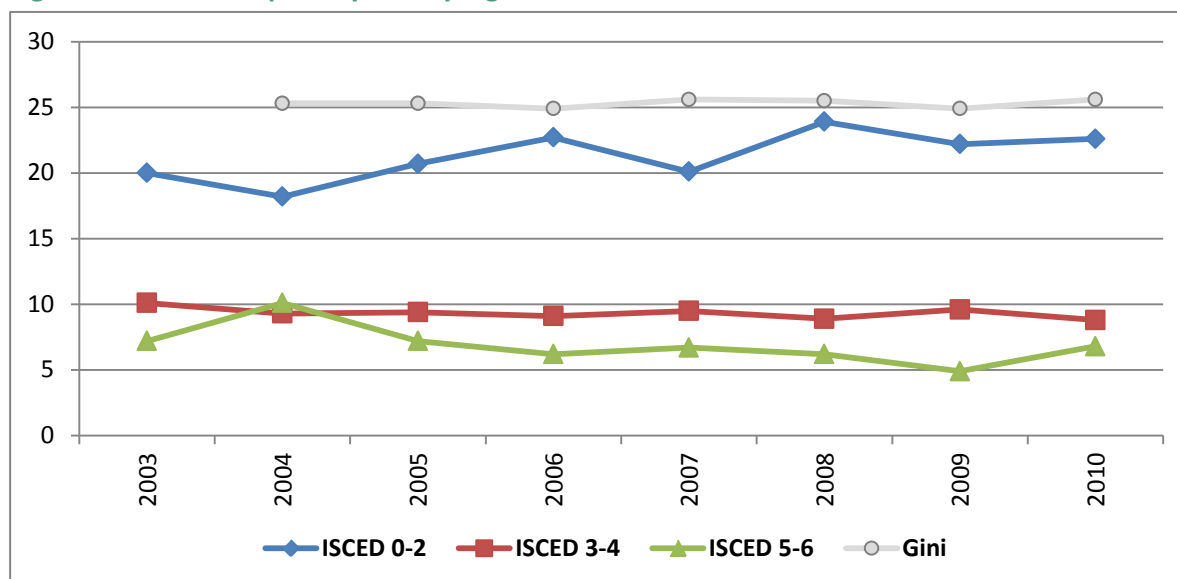
Source: Eurostat (EU-SILC); “material deprivation” group indicators on economic strain, consumer durables, housing and housing environment. For persons suffering from considerable material deprivation, living conditions are highly constrained due to lack of means. These people are not in a position to pay for four out of the following nine expenses: i.) rent and utilities, ii) adequate heating of the apartment, iii) unexpected expenses, iv) one meal every other day that includes meat, fish or equivalent protein intake, v) a one-week vacation at a different place, vi) a car, vii) a washing machine, viii) a colour television or ix) a telephone.

**Figure 3.1: Material deprivation rate by age (in %)**

Source: Eurostat (EU-SILC); the indicator is defined as the share of the population that does not dispose of at least three of the nine components of material deprivation in the dimension “economic strain and durables.”

Education plays a very important role in shaping poverty risks (see Figure 3.2.). Whereas the rates of risk of poverty for persons with intermediate education (vocational qualification or secondary school-leaving certificate without academic degree) and higher education have been relatively stable over the years, it has increased slightly among those with low levels of education. Moreover, it is people with lower education who were hit hardest by the consequences of the financial crisis of 2008.

Figure 3.2: At-risk-of-poverty rate by highest level of educational attainment



Source: Eurostat; the indicator is defined as share of persons with a disposable equivalized income under the at-risk-of-poverty threshold, which is defined as 60% of national median equivalized income (after social benefits); ISCED 0-2: pre-primary, primary, and lower secondary education; ISCED 3-4: (upper) secondary and post-secondary non-tertiary education; ISCED 5-6: first and second stages of tertiary education.

### 3.3 Cumulative disadvantage and multidimensional measures of poverty and social exclusion

The share of Austrians at risk of poverty, i.e. those having 60 per cent or less than the median income after social transfers, has remained steady at 12-13 per cent over the past 10 years (Statistik Austria 2011c). Particularly at risk are those with a low level of education, lone parent households, large families, the unemployed, migrants from non-EU countries and the elderly (age 65+) (Troger/Anibas 2011; Wiesböck 2011). Poverty goes hand-in-hand with a cumulation of problem constellations and the gradual, mutual reinforcement of the consequences of exclusion (Barlösius 2004). Closely linked with the process of exclusion is the lack of opportunities for participation in essential realms of social life, such as consumption, economic security and social status (Kronauer 2010: 46). In Austria in recent years, between 16 and 18 per cent of the population has been at risk of poverty and materially deprived (see Table 3.2).<sup>19</sup> In 2008 this increased by nearly two per cent compared to the previous year, but then fell back to its 2007 level over the following two years.

<sup>19</sup> As figures refer to the population affected by the EU 2020 poverty target, persons living in low income households are included.

**Table 3.2: Poverty risk and social exclusion (as % of total population)**

2004	2005	2006	2007	2008	2009	2010
17.5	16.8	17.8	16.7	18.6	17.0	16.6

Source: Eurostat (EU-SILC, EU 2020 target); the indicator corresponds to the sum of persons who are at risk of poverty, materially deprived, or in households with very low employment.

If one does not exit poverty within the first few years, the odds of doing so sink considerably (Finnie/Sweetman 2003). In Austria, the probability of remaining in poverty is higher for those with low education and those over 60 years of age (Riederer/Wolfsbauer 2011). The share of persons who are consistently poor was around 7 per cent from 1998 to 2001 (see Table 3.3). In 2007, this value was slightly lower, at 5.5 per cent, but then rose steadily during the subsequent three years to 6.5 per cent. Women have a slightly higher rate of consistent poverty than men.

**Table 3.3: Trends in number of individuals consistently poor (at 60% of median equivalent income)**

	1998	1999	2000	2001	2007	2008	2009	2010
<b>total</b>	7.0	7.0	7.0	7.0	5.5	5.6	6.2	6.5
<b>female</b>	8.0	8.0	8.0	9.0	7.3	6.3	7.9	7.1
<b>male</b>	6.0	5.0	5.0	5.0	3.5	4.9	4.4	5.8

Source: Eurostat; share of persons with a disposable median equivalized income under the poverty threshold in the current year and in at least two out of the three preceding years. The threshold value is defined as 60% of national median equivalized income (after social benefits).

### 3.4 Indicators of social cohesion

Low social cohesion is a consequence of growing inequality (Wilkinson/Pickett 2009b). Table 3.4 shows that social inactivity and social isolation have declined over the years, but European Social Survey data for Austria on the frequency of social participation is only available for 2002, 2004 and 2006. A much longer time-span would be needed in order to be able to relate these indicators to inequality trends.



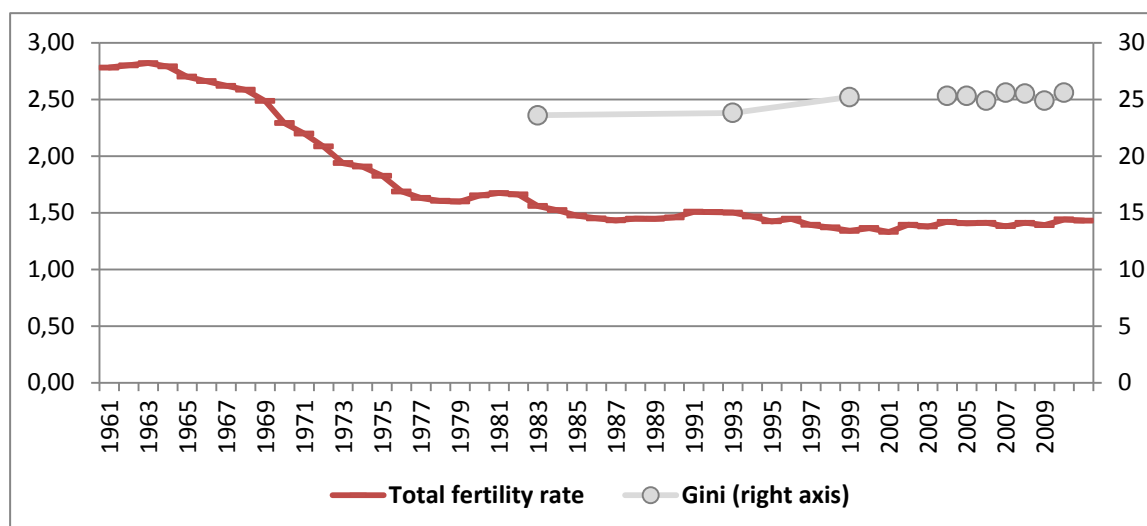
**Table 3.4: Social cohesion indicators (in %)**

	2002	2004	2006
<b>Socially inactive*</b>	37.4	31.1	28.0
<b>Socially isolated**</b>	8.7	7.8	6.0

Source: European Social Survey; \*taking part in social activities compared to others of same age (much) less than normal; \*\*meeting with friends, relatives or colleagues never or less than once a month.

### 3.5 Family formation and breakdown, lone parenthood, fertility

In 1963, the total fertility rate reached a zenith of 2.82 and has been in decline ever since. Over the past 10 years, it has hovered between 1.33 (in 2001) and 1.43 (in 2011). The mean age at first birth has been increasing since the mid-1970s, when it was 26.5 years of age. By 2011 it had increased by 2 years to 28.5 (Statistik Austria 2012e). The trend toward a lower fertility rate and higher age of first birth can be seen in relation to the increases in educational level and labour-market participation among women. The shortage of day care facilities has played a role as well (Bahle 2008). Furthermore, young adult women are increasingly exposed to labour-market risks and insecurities stemming from processes of flexibilization, which influences their family planning (Bernardi/Nazio 2005).

**Figure 3.3: Total fertility rate (number of children per woman)**

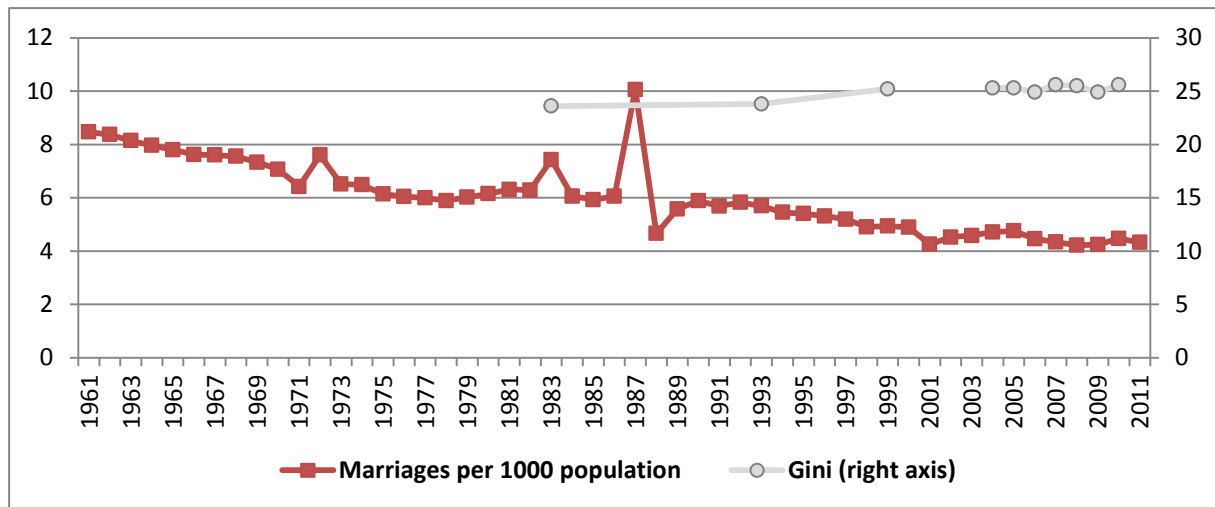
Source: Statistics Austria.

In recent decades, statutory changes in particular have exerted a powerful influence on marriage statistics (see Figure 3.4). In 1972 a social benefit was introduced that provided financial assistance for weddings, as a result of which marriages steadily increased. The repeal of this measure in 1988

and even rumours of its repeal in early 1984 had a marked influence on the number of marriages (Statistik Austria 2012). During the 1990s, despite some fluctuation, the inclination to marry tended downward.

By 2001 the marriage rate reached its lowest point ever, which corresponded to its 1988 level. A total of 36,426 couples wed in Austria in 2011 – 4.3 marriages per 1,000 population, 3 per cent fewer than in 2010.

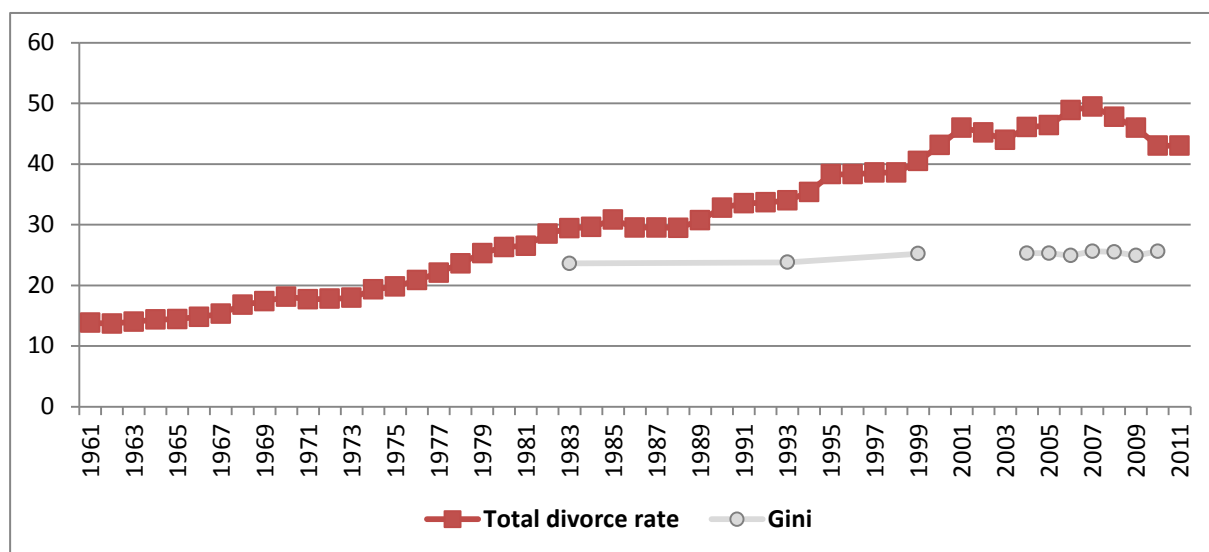
Figure 3.4: Marriages per 1000 population



Source: Statistics Austria; the register office statistics include only marriages that take place in Austria. Marriages abroad, which are presumably executed by many people in Austria with migration backgrounds, are not contained in the data.

The total divorce rate (the probability that marriages concluded in a given year will end in divorce, assuming no changes in divorce behaviour) increased from 26.5 per cent in 1981 to the highest level thus far, 49.5 per cent, in 2007 (see Figure 3.5). In 2011 the total divorce rate was 43.02 per cent. The median duration of marriage among divorced marriages increased from 7.7 in 1981 to 10.7 years in 2011 (Statistik Austria 2012f).

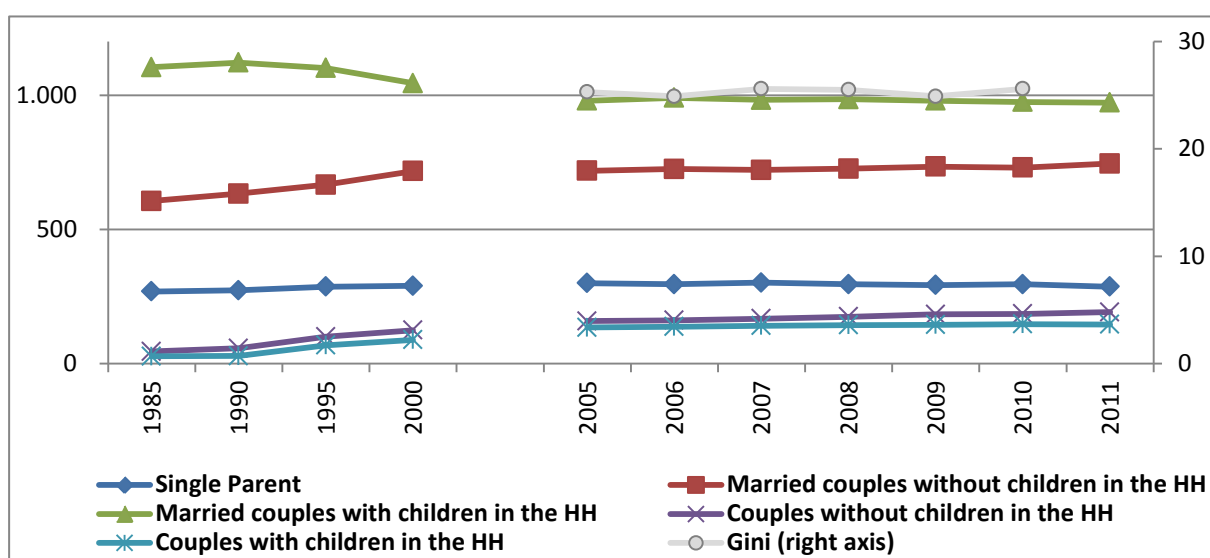
Figure 3.5: Total divorce rate



Source: Statistics Austria; sum of annual divorce rates in per cent.

The structure of household composition has changed only marginally in recent years (see Figure 3.6). From 1985 to 2000, the shares of households consisting of married couples and children declined somewhat, while there was an increase in households of childless married couples, childless couples and couples with children. In general, the two-person or two-parent family is still predominant. The proportion of single parent households has been fairly constant in recent decades. From 2005 to 2011, the structure of household composition remained constant.

Figure 3.6: Family characteristics (in 1000s)

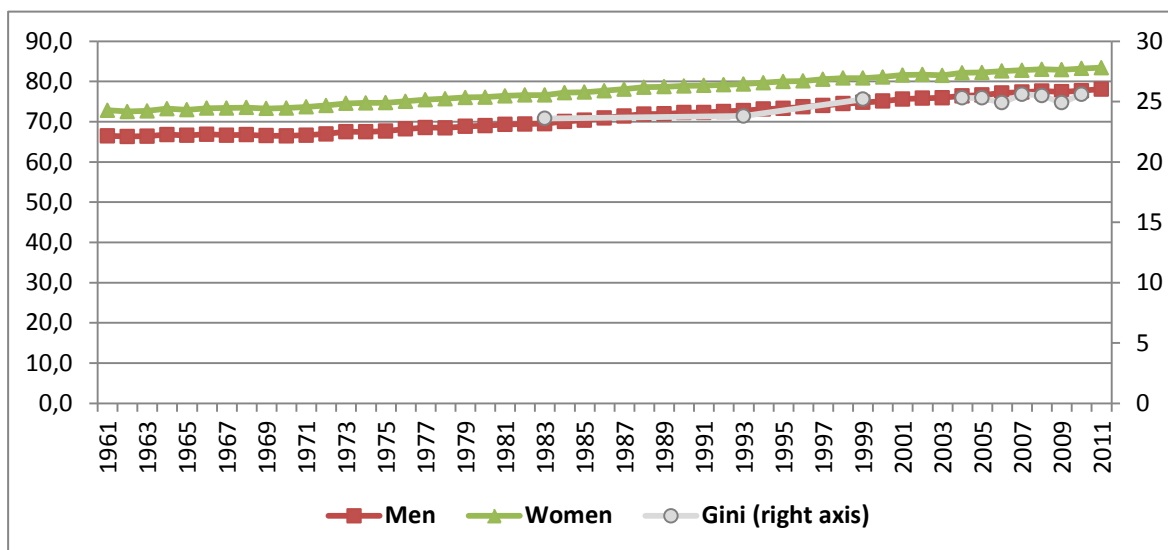


Source: Statistics Austria; until 2003 Microcensus (average of the months March, June, September and December); from 2004 on Microcensus-Labour Force Survey.

### 3.6 Health inequalities with objective and self-reported measures

Life expectancy has risen steadily in Austria in recent decades (see Figure 3.7). In 2011, men had a life expectancy of 78.1 and women of 83.4. While the female advantage in life expectancy has declined from its high point of 7.2 years in 1982, it still amounts to 5.3 years. While the increase in life expectancy over the last 100 years was initially achieved primarily due to the decline in infant and child mortality, in recent decades the decline in mortality at older ages has contributed more and more to growing life expectancy (Statistik Austria 2012e).

Figure 3.7: Life expectancy at birth, by gender



Source: Statistics Austria.

Moreover, self-reported health status improved steadily from 1991 to 2007, with the majority reporting (very) good health and a decreasing and small proportion reporting (very) poor health (see Table 3.6). In general, men report better health than women. The slight improvement in self-reported health is consistent with the rather stable level of income inequality over this period.

The number of Austrians who report having a chronic, i.e. long-term illness, is growing. Whereas until 2007 less than a quarter of the Austrian population was affected by an enduring health problem, in 2010 more than a third were. Here, too, a marked increase is evident from 2007 to 2008.

**Table 3.5: Life expectancy in 2006 by subjective health status, age and highest level of educational attainment**

Age	Men					Women				
	Remaining life expectancy 2006 in years				Share of subjectively healthy years (%)	Remaining life expectancy 2006 in years				Share of subjectively healthy years (%)
	Total	of which in subjective ... health				Total	of which in subjective ... health			
		(very) good	moderate	(very) poor	(very) good		moderate	(very) poor		
	<b>Total</b>									
<b>25</b>	53.0	37.8	11.2	4.0	71	58.2	39.4	14.0	4.7	68
<b>45</b>	33.9	20.3	9.8	3.7	60	38.7	22.1	12.2	4.4	57
<b>65</b>	17.2	8.7	6.0	2.5	51	20.5	8.9	8.4	3.2	44
	<b>Higher technical/vocational college, Tertiary</b>									
<b>25</b>	56.3	45.6	7.5	3.2	81	59.8	45.4	9.8	4.6	76
<b>45</b>	36.9	27.0	6.8	3.1	73	40.1	27.0	8.5	4.5	67
<b>65</b>	19.3	12.6	3.7	2.9	65	21.7	11.1	6.3	4.3	51
	<b>Vocational training, Upper secondary</b>									
<b>25</b>	53.1	37.3	11.8	4.0	70	58.7	41.7	13.1	3.9	71
<b>45</b>	34.1	20.2	10.1	3.8	59	39.2	24.3	11.3	3.6	62
<b>65</b>	17.4	9.0	6.1	2.3	52	21.1	10.9	7.7	2.5	52
	<b>Compulsory schooling (to age 14)</b>									
<b>25</b>	51.1	31.7	13.8	5.6	62	57.7	33.4	18.0	6.3	58
<b>45</b>	32.5	15.9	11.8	4.8	49	38.4	18.0	14.8	5.6	47
<b>65</b>	16.6	6.7	7.2	2.7	40	20.5	7.5	9.4	3.6	36

Source: Statistics Austria, Mortality Tables by Educational Level 2006/07, Health Survey 2006/07.

**Table 3.6: Subjective health status (in %)**

	(Very) good	Moderate	(Very) poor
		<b>1991</b>	
Total	71.2	22.3	6.5
Female	68.2	24.9	7.0
Male	74.6	19.4	5.9
		<b>1999</b>	
Total	73.5	20.4	6.1
Female	71.9	21.6	6.5
Male	75.4	19.0	5.6
		<b>2006/07</b>	
Total	75.6	18.5	6.0
Female	73.4	20.2	6.4
Male	77.8	16.8	5.5

Source: Statistics Austria, Health Survey 2006/07.

**Table 3.7: Chronically ill (in %)**

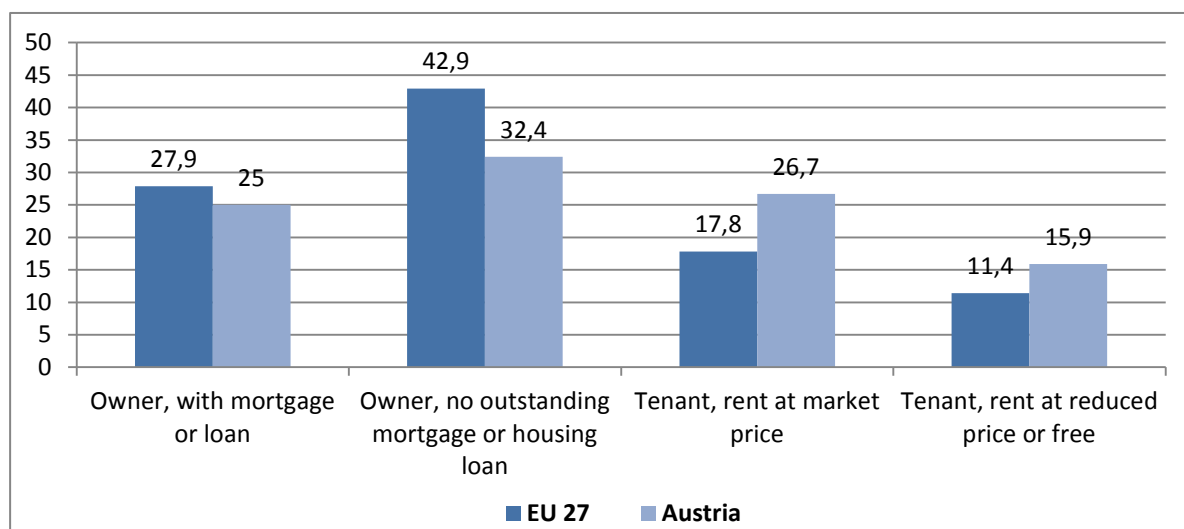
2004	2005	2006	2007	2008	2009	2010
21.9	21.4	21.6	23.5	32.6	31.5	34.2

Source: Eu-Silc.

### 3.7 Housing tenure

Housing is a basic need and consumes a large share of household income. Housing policy in Austria is strongly shaped by the tradition of social housing. The housing market in Austria is predominately shaped by public subsidies for new residential construction (*Wohnbauförderung*). These subsidies support both rental units as well as privately owned apartments and houses (Schoibl 2001). As a result, a higher proportion of tenants in Austria (15.9 per cent) than elsewhere in Europe (11.4 per cent) are able to rent apartments at a below-market price or fee. The share of homeowners in Austria, however, lies below the EU-27 average. Because the residential rental market is regulated and there is a substantial share of public housing units, rents are relatively affordable and therefore it is less attractive to purchase a home in Austria (Mau/Verwiebe 2001: 233).

Figure 3.7: Population by tenure status in 2010



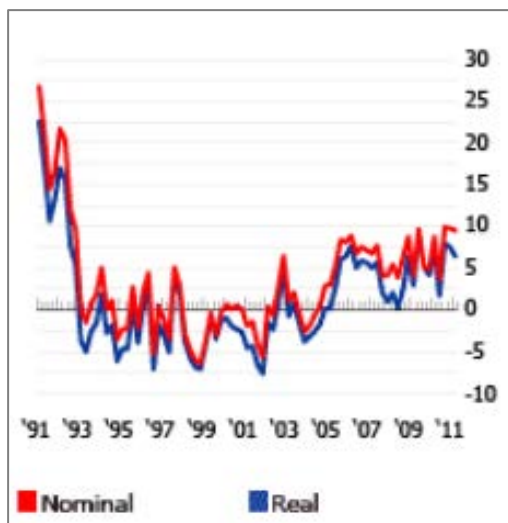
Source: Eurostat.

House prices in Austria continue to rise (see Figure 3.9). In Vienna, they have been rising consistently since 2004. During the first quarter of 2012 house prices in Vienna rose by 4.3 per cent.<sup>20</sup> In Austria excluding Vienna, house prices soared by 11 per cent during the first quarter of 2012. From 2005 to 2012, house prices in Vienna rose by 67 per cent, compared to a 33 per cent increase in the rest of the country.

The burden of housing costs as a share of private household incomes in Austria averages 18 per cent. Austria's EU-SILC study of 2007 shows that households at risk of poverty are particularly burdened by housing costs. They spend on average 38 per cent of their household income on housing. In Vienna and other cities with more than 100,000 residents, the housing cost burden for households at risk of poverty is especially high, averaging 43 per cent (Statistik Austria 2012a).

<sup>20</sup> All numbers are inflation adjusted.

Figure 3.8: House price change, annual (%)



Source: Österreichische Nationalbank.

### 3.8 Crime and punishment

Over the past four decades, there has been a continual decline in criminal convictions in Austria (see Table 3.8). The taking effect of the new Criminal Code in 1975 caused a break in the time series. Substantively, the new Criminal Code differs from the old one both in its guiding principles and also in its revision of the definitions of crimes in key areas (Statistik Austria 2010). The new Penal Law of 2000 also led to a significant drop in convictions, due to the new possibility of diversion in adult criminal cases (Statistik Austria 2012h). The number of court convictions in 2011 declined by 5 per cent vis-à-vis the previous year, thus dropping below the all-time low of 2009.

In Table 3.9 one sees that the number of prisoners increased sharply from 2003 to 2004. That year has been characterized as “the growth phase of the foreign population” (Pilgram 2005: 6) and is interpreted in the context of the open borders brought by the expansion of the EU. From 2004 onward, the number of prisoners remained rather constant, but declined in 2008. This is attributable to the prison relief programme of the then Justice Minister, Maria Berger. The reform, approved on 5 December 2007, contained numerous proposals to unburden the overcrowded Austrian prisons: allowing those who were convicted to serve prison time for failing to pay a fine to be ordered to perform community service instead; using more instructions and probation services; forgoing enforcement of prison sentences when there is simultaneous expulsion and an exclusion order; and introducing electronic tagging (“ankle bracelets”) into the Austrian penal system.



**Table 3.8: Criminal convictions and criminal offences (per 1000)**

Year	Convictions	Criminal offences	
		reported	resolved
1970	19,17		
1975	13,92		
1980	13,63		
1985	13,37		
1990	11,17	457,6	202,4
1995	10,53	486,4	242,2
2000	6,18	560,3	273,0
2005	6,52	605,3	239,6
2010	5,30	535,7	221,6

Source: Statistics Austria; Ministry of Internal Affairs, Criminal Statistics of the Police Authorities.

**Table 3.9: Number of prisoners and share of persons experienced victimisation in the last five years**

Year	Number of prisoners (in 1000)	Victimisation (in %)
2000	6,90	
2001	6,92	
2002	7,51	9,3
2003	7,82	
2004	9,00	10,5
2005	8,96	
2006	8,78	9,7
2007	8,89	
2008	7,90	
2009	8,42	

Source: Eurostat; European Social Survey, Question wording: "Have you or a member of your household been the victim of a burglary or assault in the last 5 years?" The above figure shows the proportion of respondents answering "yes".

In 2011, 540,007 criminal offences were reported, 0.8 per cent more than in the previous year of 2010. The clearance rate (resolved cases as a share of reported cases) in 2011 was 43.4 per cent and thus 2 percentage points higher than in the previous year. Violent crimes are on the rise in Austria. More cases are being reported both of premeditated murder and assault as well as of sexual offences. White-collar crime through the internet is also growing (e.g. credit card fraud, mobile phone fraud). By contrast, the number burglaries in apartments and single-family homes, as well as vehicle thefts, sank compared to the previous year (Bundeskriminalamt 2012).

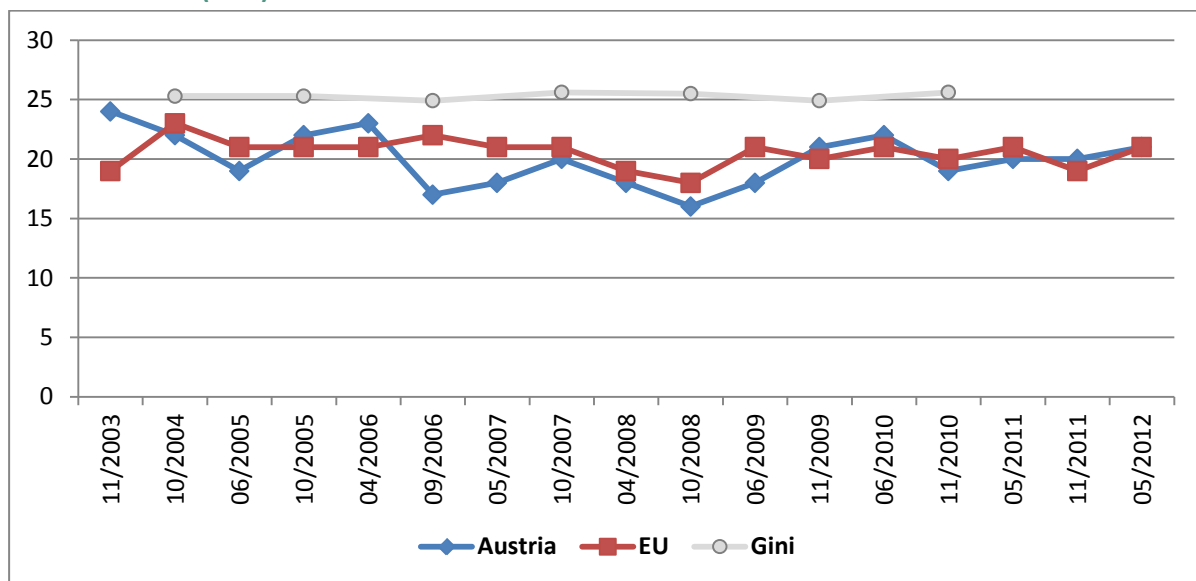
Victimization is another important indicator of the level of public safety. The European Social Survey contained a question that referred to victimization through burglary or assault in the past five years. The rate of victimization in Austria remained fairly constant between 2002 and 2006, decreasing slightly from 10.5 per cent in 2004 to 9.7 per cent in 2006. Slightly less than 10 per cent of

Hungarians experienced burglary or assault in 2006. Compared to other ESS countries this figure is one of the lowest among EU countries.

### 3.9 Subjective measures of well-being, satisfaction, “happiness”

Austrians’ reported level of satisfaction with their lives has risen continuously since the 1980s (Haindorfer 2011). Austria performs very well in overall well-being. It ranks among the top ten countries in several areas of the OECD Better Life Index. However it should be noted that survey respondents generally are reluctant to report that they are not satisfied with their lives (Branger 2002). Figure 3.10 compares shares of persons reporting being very satisfied in Austria and the EU respectively from 2003 onwards. We found fluctuations and trends.

Figure 3.9: Life satisfaction: share of those who are very satisfied with their life in Austria and the EU (in %)



Source: Eurobarometer.

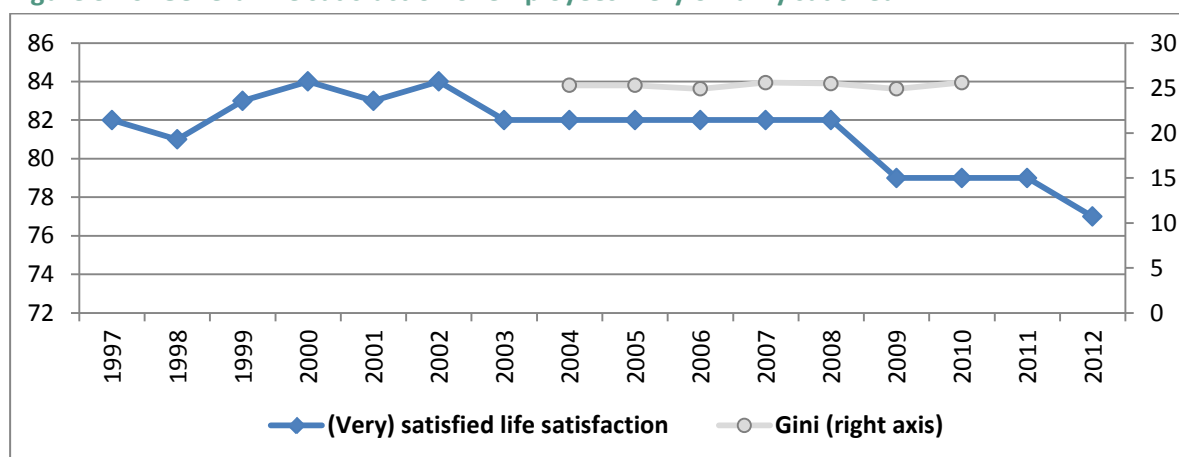
One approach to assessing the level of life satisfaction or happiness – apart from examining indicators of subjective well-being – is by considering the suicide rate. The standardized rate of death due to suicide in Austria has been declining during the last decade from 17.3 per 100,000 inhabitants in 1999 to 12.7 in 2010. This puts the Austrian suicide rate around the average for the EU. The highest rates in 2010 were found in Lithuania (28.5%), Liechtenstein (26.7%) and Hungary (21.7).

**Table 3.10: Standardised death due to suicide rate by 100 000 inhabitants**

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
17,3	17,5	16,3	17	15,8	15,2	14,7	13,4	13,2	12,7	12,8	12,7

Source: Eurostat; death rate adjusted to a standard age distribution.

With regard to the life satisfaction of Austrian employees, the Austrian Work Climate Index indicates a decline in the wake of the financial and economic crisis. While in 2008 82 per cent of respondents reported that they were “very or fairly satisfied,” by 2009 this value had fallen to 79 per cent. In 2012 it hit an all-time low of 77 per cent.

**Figure 3.10: General life satisfaction of employees: very or fairly satisfied**

Source: Work Climate Index; covers all employees in Austria.

There is a strong relationship between satisfaction with one’s life and one’s income. Among people who report being satisfied with their income, 94 per cent indicate being satisfied with their lives overall. Of those who are somewhat dissatisfied or not at all satisfied with their incomes, only 70 per cent report life satisfaction (Austrian Chamber of Labour 2011). Poverty conditions also strongly influence satisfaction. The least satisfied are the manifestly poor, defined by Statistics Austria as those persons who not only earn less than the at-risk-of-poverty threshold, but are also materially deprived in at least one of the five areas of disadvantage. The second most dissatisfied group is the materially deprived, followed by those who are income poor, i.e. those who are not deprived but at risk of poverty (Haindorfer 2011).

### 3.10 Intergenerational mobility

Compared to other European countries, in Austria socio-economic background has a large influence on student performance (OECD 2010). Austria's system of early differentiation, i.e. the decision already at age 10 regarding one's subsequent educational path, leads to a situation in which educational opportunities are increasingly socially inherited. Which educational path is taken by young adults, and which educational degree is attained, continues to be closely related to the parents' educational background (see Chapter 5.5). In recent decades, there has been a clear trend toward higher levels of formal training. To represent this development, Table 3.11 draws on the age group of 25-34 year olds, for in this age group the overwhelming share of young adults has finished their education (vgl. Knittler 2011). Compared with the formal educational situation of their parents, that of 15-34 year olds is much better, whereby above all young women have caught up. As of 2009, nearly one third of 15-34 year olds had attained a higher level of formal education than their parents, and around half had achieved a level equivalent to their parents. Intergenerational mobility has thus increased over time, but remains lower than in most other European countries (Fessler/Mooslechner/Schuerz 2012).

**Table 3.11: Highest level of educational attainment among 15-34 year olds and their parents, 2009 (in %)**

Highest completed education	Father	Mother	15-34 year olds total	15-34 year old men	15-34 year old women
Compulsory schooling	24.4	40.3	13.0	11.1	14.9
Vocational training	51.6	30.7	43.9	54.1	33.8
VET school	7.9	15.0	12.7	8.1	17.3
Higher technical/vocational college	9.0	8.1	18.5	17.1	19.9
University 1)	7.2	5.9	11.9	9.6	14.2

Source: Statistics Austria, Microcensus-Labour Force Survey ad-hoc-module "Entry of Young Men into the Labour Market" – 2nd Quarter 2009. – Population in private households (15-34 year olds) and their parents. – Persons not in education/training. - 1) incl. post-secondary technical and vocational education services.

### 3.11 Conclusions

Wilkinson and Pickett (2009) suggest that increasing inequality leads to an increase in various social impacts. Given that the Austrian inequality rate has remained quite stable over time, there have been only fairly minor changes in its social effects. However, the economic crisis of recent years has had numerous social consequences for Austrian society. From 2007 to 2008, Austria's material

deprivation rate rose from 3.3 to 6.4 per cent, and has been trending downward since. Most impacted by this are children and persons with low educational attainment. In 2008, there was a nearly two per cent increase from the previous year in the share of the population at risk of poverty and/or suffering material deprivation. But the rate dropped back to 16.6 per cent over the ensuing two years. Levels of reported material deprivation are higher for children than adults and are lowest for the elderly, each with a marked increase in deprivation from 2008. Whereas persons with moderate and high educational attainment exhibit a fairly stable rate of deprivation, the material deprivation rate for people with a low level of education has risen slightly. It is they, moreover, who have been hardest hit by the consequences of the financial crisis of 2008. Legal regulations contribute significantly to the regulation of social impacts. Thus, the wedding subsidies introduced in 1972 played a pivotal role in the steady growth in marriages. Its elimination in 1988 had a marked influence on the number of marriages. Similarly, the prison relief programme approved at the end of 2007 significantly reduced the number of prisoners in Austria. In general, the two-person or two-parent family remains dominant. The proportion of single parent households has been fairly constant in recent decades. Overall, it is clear that educational level has a decisive impact on most social domains such as health, risk of poverty, or life expectancy. In Austria, the educational level of children depends heavily on their social background (Bacher 2003). Children from vulnerable and/or less educated families are correspondingly disadvantaged. We can conclude with the observation that there are few signs of a direct causal relationship between inequality trends and the evolution of social outcomes. Rather, political direction and governance in the form of laws, micro and macro-economic market influences as well as redistributive effects of the welfare state function as influential intervening variables. High levels of inequality however, remain persistent over time.

## 4. Political and cultural impacts

### 4.1 Introduction

This section discusses the potential effects of inequality on cultural and political values and attitudes. In Chapter 2 we described various measures for inequality and its development over time. We also showed that in Austria wage inequality has increased since the 1990s, particularly in the course of the flexibilization of the labour market (see Chapter 2).

As we discussed in Chapter 3, this rise in inequality is likely to have far-reaching social impacts. Growing inequality can also – as we argued in Chapter 1 – significantly affect political and cultural values, as well as opinions. To determine which values and opinions are affected in particular and to what extent, this chapter will trace the development over time of political culture and of values and attitudes in Austria, and assess and discuss these in relation to growing inequalities.

We describe long-term and short-term trends and, where possible, conduct bivariate analyses in order to gain more insight into group differences. Given the particular relevance of labour-market flexibilization for growing inequality in Austria (Guger/Marterbauer 2005b; Guger/Marterbauer 2007; Guger 2009), we will take into account not only differences across social strata but also dimensions of inequality that cut across classic metrics like occupational status and education, such as differences in the form of employment (Castel 1995). This should enable us to ascertain whether persons affected by new forms of economic insecurity, for example those in atypical employment, have attitudes that differ from those in other groups.<sup>21</sup>

The chapter is structured as follows: The first section describes the development of political and civic participation in Austria over time. The second part deals in depth with the issue of trust – both in institutions and in one's fellow human beings. The third and fourth sections address political values and political legitimacy as well as attitudes toward social policy and the welfare state.

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<sup>21</sup> Given that above all part-time work is widespread and therewith the numerically most relevant form of atypical employment, as well as due to data limitations, we will restrict our analyses here to this group.

## Data

The calculations in the preceding chapters drew on a range of data sources. On the one hand, we relied on official national and European statistics on the aggregate, state level, above all on the development of voter turnout in national and European elections as well as on the election of extremist political parties. The most important of these sources were the statistics of the Austrian Ministry of Internal Affairs, the OECD and Eurostat.

On the other hand, we analysed national and European cross-national survey data, above all from the European Social Survey (ESS: 2002-2006) and the International Social Survey Programme (ISSP: 1987-2009), as well as Eurobarometer (1995-2010). We were thus able to construct time series of varying length, depending on the topic area. With these data, it was also possible in some cases to conduct analyses by various social groups. Where this was possible, we will discuss the results.

## 4.2 Political and civic participation

### Voter turnout

Participation of the population in political decision-making, particularly in the form of elections, is one of the defining features of democratic societies (Fieldhouse/Tranmer/Russel 2007). Voter turnout and its development over time thus warrant close examination. We find that in Austria, voter turnout in national elections has declined considerably. Particularly striking is the drop in voter turnout in times of growing inequality in Austria since the 1990s (see Table 4.1). Nevertheless, Austrian voter participation remains higher than the EU average (see Figure 4.1).

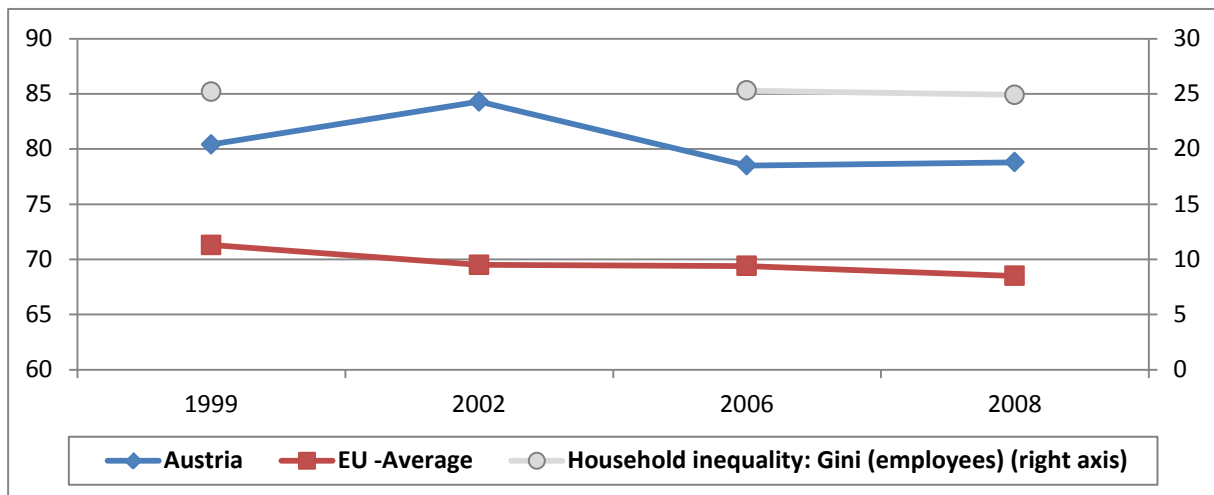
**Table 4.1: Turnout in general elections (in %)**

	1971	1975	1979	1983	1986	1990	1994	1995	1999	2002	2006	2008
National elections	92.4	92.9	92.2	92.6	90.5	86.1	81.9	86.0	80.4	84.3	78.5	78.8

Source: Austrian Ministry of Internal Affairs:

[http://www.bmi.gv.at/cms/BMI\\_wahlen/nationalrat/2008/files/NRW\\_08\\_Hauptergseit1945.pdf](http://www.bmi.gv.at/cms/BMI_wahlen/nationalrat/2008/files/NRW_08_Hauptergseit1945.pdf) .

Figure 4.1: Turnout in general elections - Austria and EU countries (in %)



Source: Austrian Ministry of Internal Affairs; Eurostat: Election Guide (CEPPS).

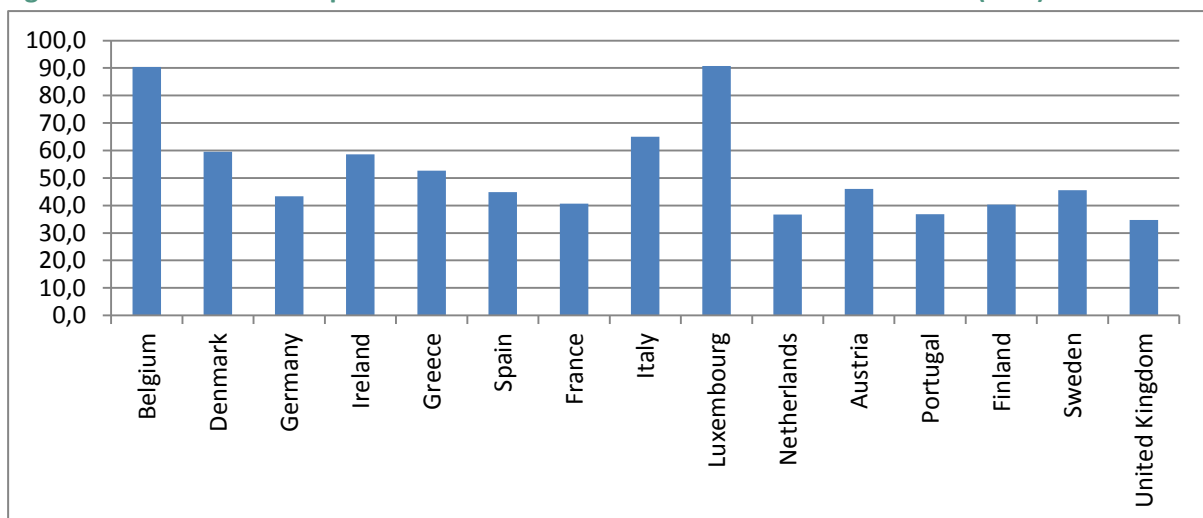
The opposite applies for elections to the European Parliament. Here, voter participation in Austria is markedly lower than in other countries of the European Union (see Table 4.2). While during the early years of Austria’s membership voter turnout was quite high, it has sunk dramatically since then. In 2004, turnout hit its nadir, but then rose slightly in the wake of the financial crisis of 2009 (see Table 4.2).

Table 4.2: Turnout in European Parliament elections (in %)

	1996	1999	2004	2009
European Elections	67.7	49.4	42.4	46.0

Source: Austrian Ministry of Internal Affairs: [www.bmi.gv.at](http://www.bmi.gv.at).

Figure 4.2: Turnout in European Parliament elections - Austria and EU countries (in %)



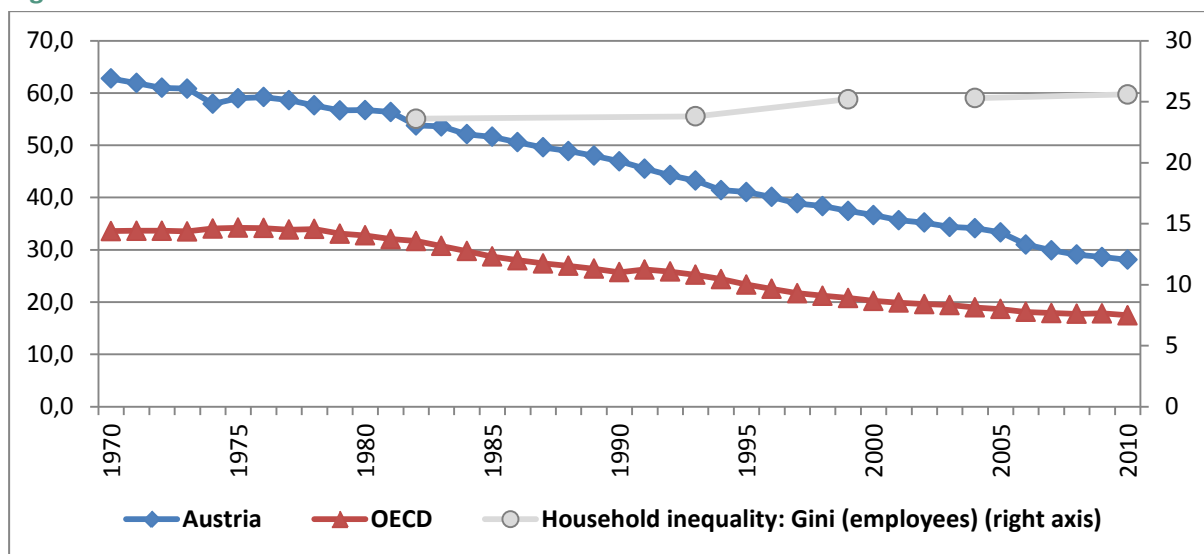
Eurostat: Election Guide (CEPPS).



### Union density

Alongside voter turnout, the degree to which workers are organized in unions is considered an important feature of political participation. This applies above all to states like Austria, whose political landscape is characterized by the prominent role of the social partners in processes of negotiation and regulation (both in labour markets and in welfare-state institutions and administration) (c.f. Crouch 1993; Hall/Soskice 2001; Obinger/Tálos 2010). The union density of the workforce thus warrants examination in the course of this Country Report.

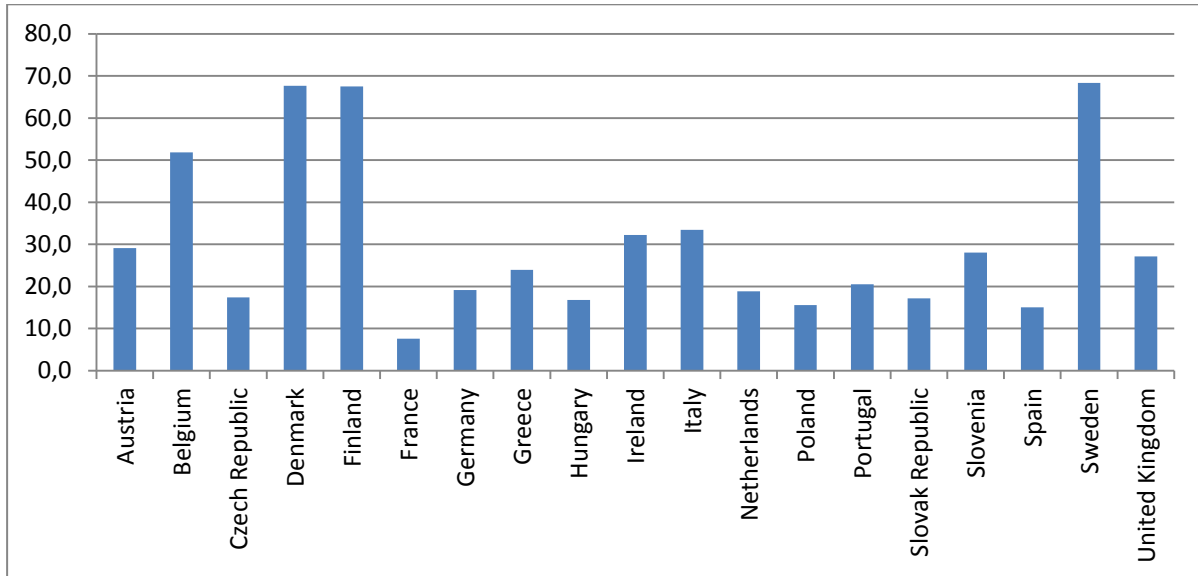
**Figure 4.3: Union members as % of workforce**



Source: OECD StatExtracts: [www.stats.oecd.org](http://www.stats.oecd.org).

As in the majority of EU states, in Austria as well, union density has steadily declined in recent decades (Ebbinghaus/Visser 1999). It dropped from roughly 60 per cent in the 1970s to about 30 per cent in 2010. While Austria's decline in union density was relatively dramatic compared to other OECD countries, its union density remains above average – with the exception of most Scandinavian countries (see Figure 4.4).

Figure 4.4 : European comparison: Union members as % of workforce 2008

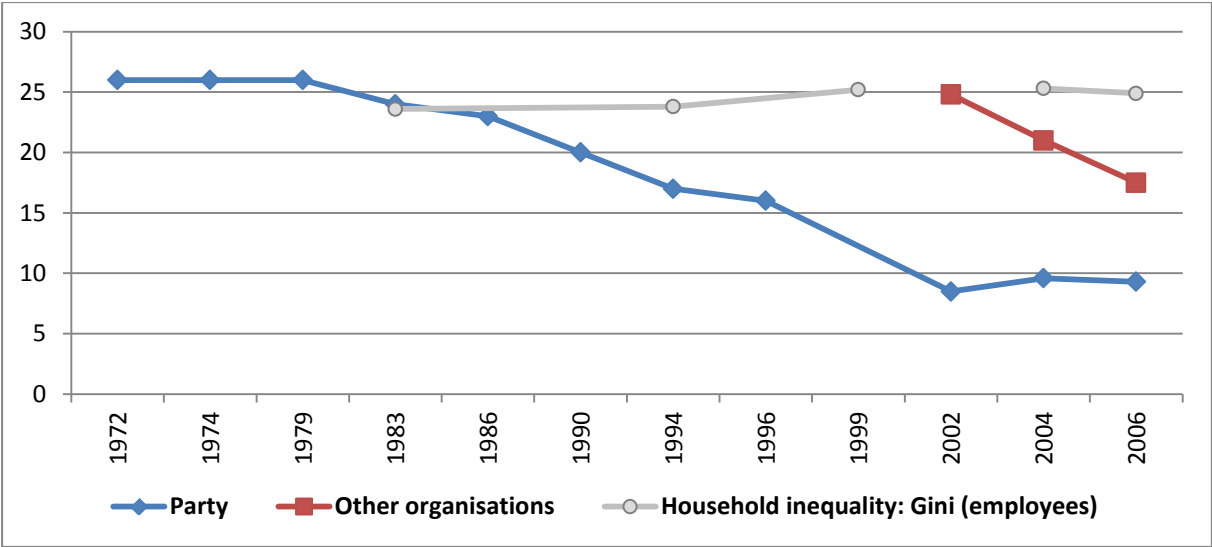


Source: Eurostat: Election Guide (CEPPS).

### Civic Organizations

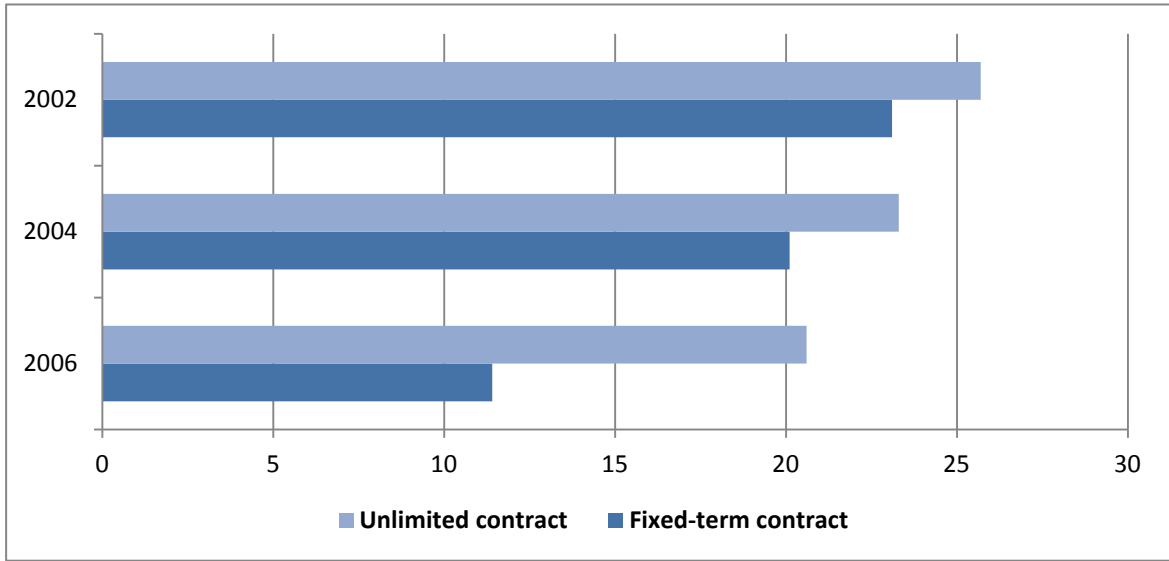
In addition to union membership, the degree to which people are organized and active in political parties and other civic organizations is an important indicator of the degree to which people are integrated in public social and political life. Looking at the case of Austria, one finds that not only has union density steadily declined, but also the number of people engaged in civic organizations has dropped in recent decades. The long-term trend is clear: alongside a marked decline in party membership levels (Müller/Plasser/Ullram 1999), membership in non-partisan civic organizations has fallen sharply over the past decade (see Figure 4.5).

**Figure 4.5: Members of political parties in Austria (in %) and number of people who worked for civic organizations in last 12 months (answered “yes” in %)**



Source: Müller et al. 1999: 206 1972-1996; European Social Survey 2002-2006, own calculations.

**Figure 4.6: Number of people who worked for civic organizations in last 12 months**



Source: European Social Survey 2002-2006, own calculations.

Participation rates in particular for non-political civic organizations show a declining trend, especially for nonstandard workers such as employees with fixed term contracts (Figure 4.6).

These findings suggest that growing inequality, especially new forms of inequality such as that between workers with different types of work in Austria, has been accompanied by less participation in social life, and hence by lower levels of civic and political engagement, as Putnam (2000) and other authors (Uslaner/Brown 2005) have shown for the United States.

### 4.3 Trust in others and in institutions

Social inequality affects not only civic and political engagement but also the degree to which people trust their fellow human beings and society as a whole, as well as its institutions, as Uslaner and Brown (2005) find for the United States. In Europe, too, trust in state institutions is known to be strongly shaped by socio-economic factors (Gabriel et al. 2002). Those with low incomes, less education and lower occupational status are more likely than others to be less trusting of both their fellow human beings and state institutions.

Yet greater social inequality affects not only disadvantaged groups and their attitudes. An unequal society is characterized by less trust generally, also among people who are not directly socially disadvantaged in any way, as international research reveals (Wilkinson/Pickett 2007, 2009a).

Taking a closer look at levels of trust in institutions thus appears relevant here. For Austria, we do not see evidence of the patterns described above. While we do find that those in elementary occupations exhibit the lowest levels of trust vis-à-vis important institutions like the parliament and the justice system, whereas those in higher occupations, e.g. professionals, report particularly high levels of trust. Above all those at the bottom end of the occupational hierarchy reveal an especially strong decline in trust (Table 4.3), while those in higher occupations exhibit more stable levels over time (exception: managers). This confirms findings from earlier studies on Austria, which found that social situation influences trust in institutions (Fuchs/Gabriel/Völkl 2002; Riederer/Teitzer 2012).

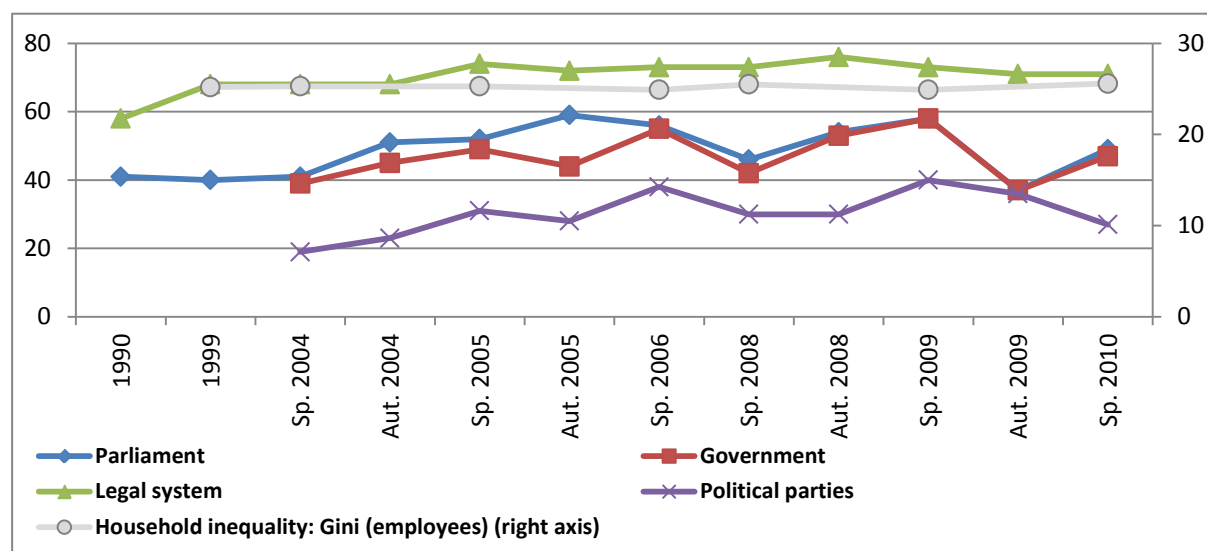
Additionally, we find that people in nonstandard employment (for example part time workers) show lower trust than those in standard employment (Table 4.3).

In Austrian society as a whole, however, there is no clear long-term trend of a decline in trust (Figure 4.7). That said, in particular in the course of the financial crisis and its aftermath there have been multiple periods of drastic and largely parallel declines in trust in parliament and government, as well as more general fluctuations in trust levels. In times of crisis and of growing (wage) inequality, there is far less stability in trust levels than in less crisis-ridden periods. Still, Austrians trust their government and parliament at least as much as they trust their fellow human beings (see Table 4.4).

**Table 4.3: Trust in parliament and justice system (in %) by occupation and working hours**

Occupation	trust parliament		trust justice system	
	1999	2008	1999	2008
elementary occupations	32.0	22.6	64.0	55.8
plant/machine operators	46.6	31.1	74.0	54.3
craft/trade workers	35.5	32.9	66.0	70.1
skilled agricultural workers	43.2	38.6	67.6	61.4
sales/service workers	32.6	26.9	69.1	53.8
clerks	36.3	27.2	60.2	60.3
technicians	45.1	32.9	70.8	73.4
professionals	41.8	40.4	76.1	78
managers	52.4	26.8	69.1	70.9
<b>working hours</b>				
part time	28.9	24.5	-	-
full time	40.6	28.5	-	-

Source: European Values Study 1999-2008.

**Figure 4.7: Trust in institutions (in %)**

Source: European Values Study 1990 and 1999; Eurobarometer 2004-2010; own calculations.

The data also reveal that Austrians have long exhibited high levels of trust in their legal system. This trust has risen over time and then stabilized. Rising inequality in Austria thus does not go hand-in-hand with a loss of trust in law and justice and in the institutions that enforce these.

Trust in one’s fellow human beings has remained fairly stable in recent years as well (Table 4.4). Here, however, in all time periods we find significant differences based on education. Across all time periods, respondents with the highest levels of educational attainment (tertiary education) trust their fellow human beings most, while those with low levels of education, in particular, such as those with only elementary education (or less) or lower secondary education, trust their fellow human beings least. Interestingly, variation in trust across social groups has increased in recent years. This is due primarily to increases in trust among the highest educated, while other educational groups have seen their levels of trust converge (see Figure 4.8).

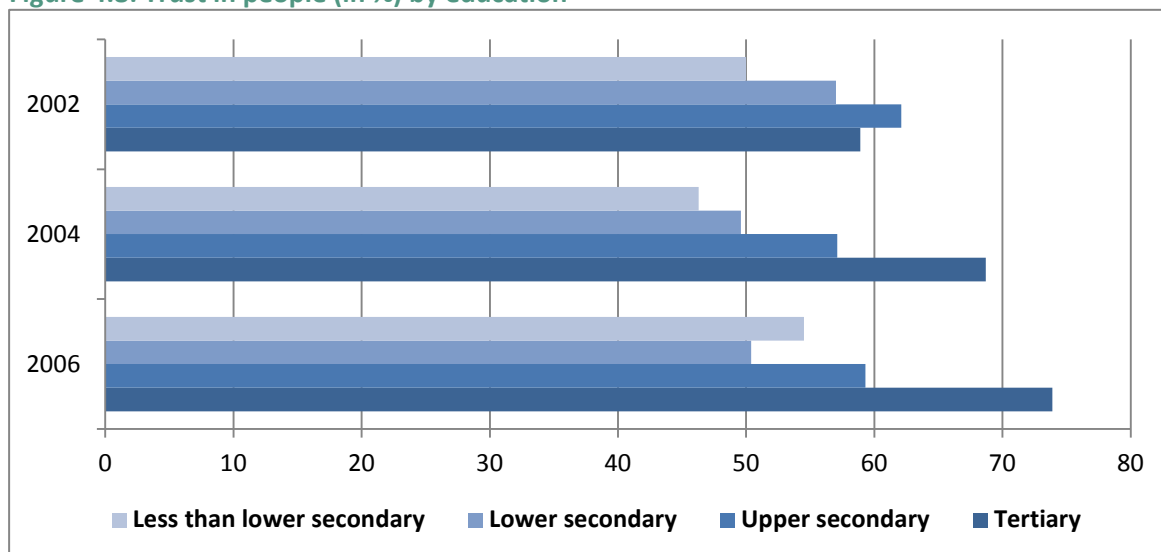
Political parties are trusted least by Austrians. They trust them much less than they do fellow human beings in their immediate social surroundings. Whereas trust in political parties exhibited an upward tendency in the last decade, especially in last few years it is clearly declining.

**Table 4.4: Trust in people (in %)**

	2002	2004	2006
<b>Most people can be trusted</b>	42.0	43.2	42.7

Source: European Social Survey (ESS) 2002-2006, own calculations.

**Figure 4.8: Trust in people (in %) by education**



Source: European Social Survey (ESS) 2002-2006, own calculations.

### 4.4 Political values and legitimacy

#### Voting for extreme parties

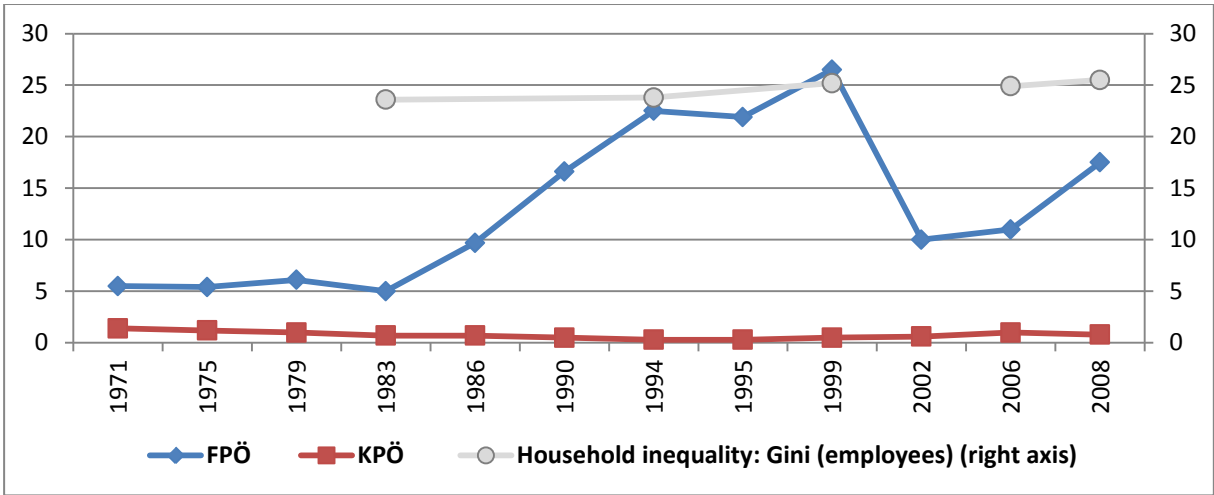
Research has shown that increasing social inequality leads to more widespread approval of extreme religious and political views. In particular, growth in social inequality resulting from welfare state retrenchment has contributed significantly to the increasing electoral success above all of right-wing parties in Europe (Swank/Betz 2003).

In Austria as well, as Figure 4.9 shows, one sees a strengthening of populist right-wing parties as well as of parties leaning extreme right such as the FPÖ, especially since Jörg Haider took over the party in 1986 and reorganized it as a mainly right-populist movement.

With this new programmatic orientation and against the background of not only cutbacks in the welfare state but also growth in flexible forms of employment, the FPÖ became quite successful from the 1990s onwards. As a result, the FPÖ and its successors – like the BZÖ, also led by Jörg Haider – were able to participate in Austrian governments from 2000 to 2007 (Preglau 2001; Stiftung Dokumentationsarchiv des österreichischen Widerstandes 1994).

Since in Austria, the Communist Party has traditionally had only a weak foothold (Hartleb 2011) and groups with lower socio-economic status have traditionally tended to vote for right rather than left parties (Plasser/Ulam 2007), no corresponding growth in voters can be observed for extreme left parties such as the Austrian Communist Party.

Figure 4.9: Percentage of people voting for FPÖ/ KPÖ in national elections

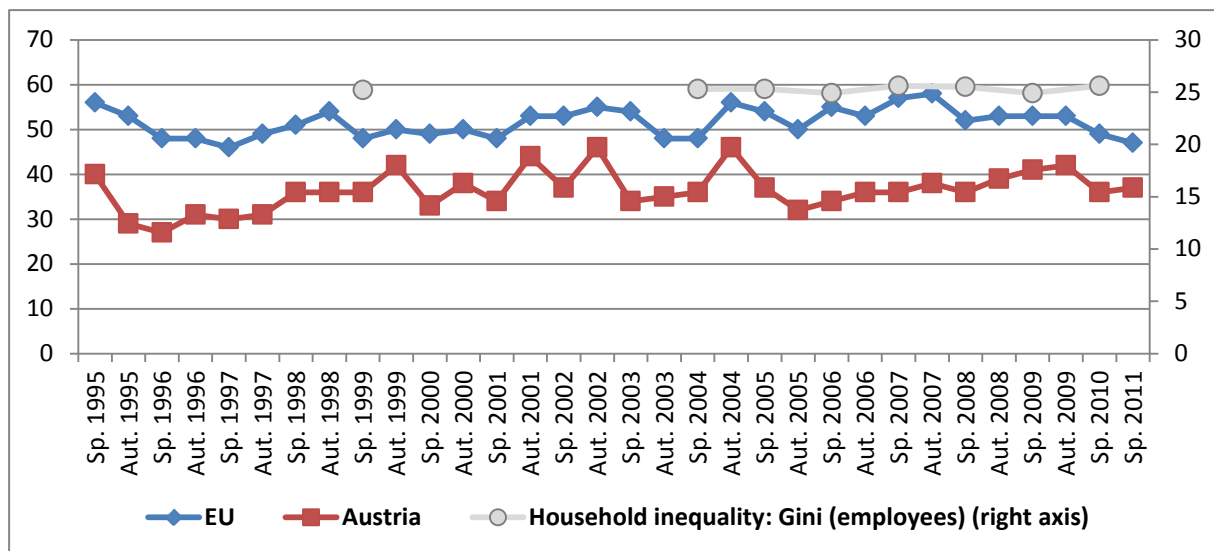


Source: Austrian Ministry of Internal Affairs: [www.bmi.gv.at](http://www.bmi.gv.at).

**Approval of EU membership**

Since their country joined the EU in 1995, Austrians have exhibited quite a low rate of approval of EU membership. The share of Austrians who find that the EU is a good thing lies far below the EU average. Interestingly, this low approval of EU membership has remained fairly stable (see Figure 4.10): Over time, it has neither declined nor increased measurably. Approval of EU membership thus appears to be largely unaffected by processes of moderately increasing inequality in Austria.

**Figure 4.10: Membership in European Union, % reporting “a good thing”**

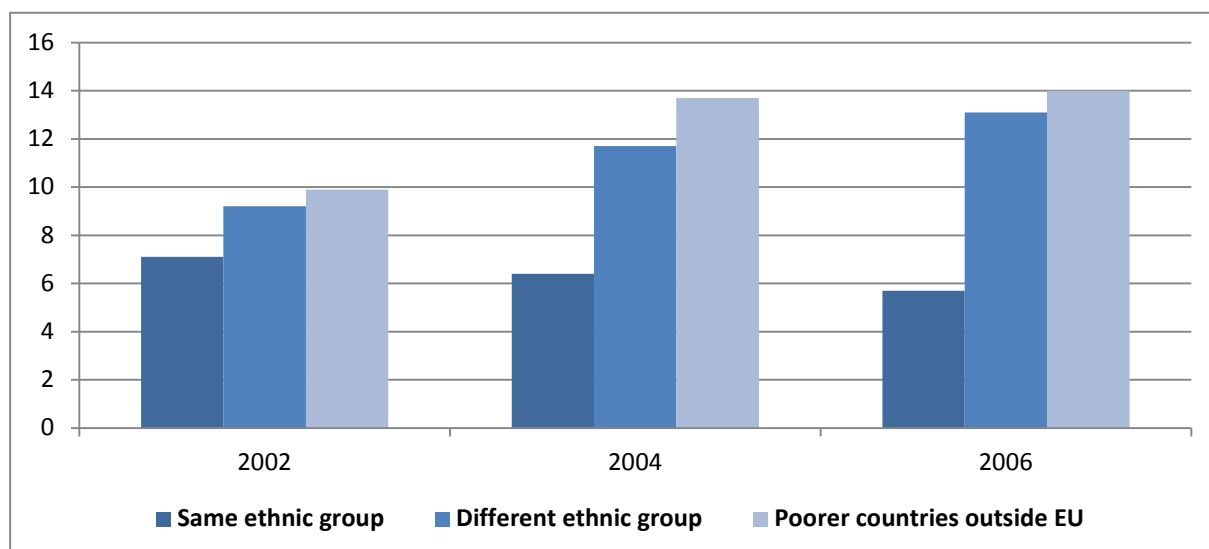


Source: European Commission: Eurobarometer: [http://ec.europa.eu/public\\_opinion/archives/eb\\_arch\\_en.htm](http://ec.europa.eu/public_opinion/archives/eb_arch_en.htm).

**Attitudes toward Immigration**

With regard to immigration, over time we see an increase in restrictive attitudes above all vis-à-vis immigration from poorer countries outside the European Union (see Figure 4.11). As the economic situation has worsened and wage inequality has grown in Austria, competitive thinking seems to have taken root, with the concomitant desire to block newcomers (c.f. Pettigrew et al. 2008).



**Figure 4.11: Persons agreeing that none of the mentioned immigrant groups should be allowed to come to Austria (in %)**

Source: European Social Survey 2002-2006, own calculation.

A similar reaction can be observed vis-à-vis members of different ethnic groups. There is a growing rejection of immigration by persons perceived to be from ethnic backgrounds other than one's own. Less severe attitudes are expressed, by contrast, toward potential immigrants from one's own group or ethnicity – they are far more welcome than other immigrants (c.f. Masso 2009). Apparently, members of this group are viewed less as competition. On the other hand, growing wage inequality might be leading to more solidarity here, as evidenced by the decline over time in approval of the statement that no one from one's own ethnic group should be allowed to immigrate (see Table 4.5).

**Table 4.5: Persons agreeing that no immigrant from poorer countries outside the EU should be allowed to come to Austria (in %) - by education**

	2002	2004	2006
less than lower secondary	25.0	21.4	20.8
lower secondary	14.1	19.9	16.9
upper secondary	8.3	13.0	14.4
tertiary	5.6	4.0	6.1

Source: European Social Survey 2002-2006, own calculations.

Other interesting findings in these data are, first, that it is above all among middle-class respondents that opposition to immigration has increased over time, while primarily among those on the bottom end of the socio-economic spectrum resistance to immigration – particularly from poorer countries

outside the EU – has declined considerably. It is thus above all the broad mass of society that increasingly fears competition, while particularly disadvantaged groups have even tended to show increased solidarity over time (c.f. Malchow-Møller et al. 2009) (see Table 4.5).

### Legitimacy of meritocratic principles

Social inequality can affect not only political attitudes and civic and political engagement, but also attitudes toward legitimacy and social inequality (Gerlitz et al. 2010; Kelley/Evans 1993; Wegener 1991). In this and the following section, therefore, we will take a closer look at attitudes toward legitimacy and social inequality.

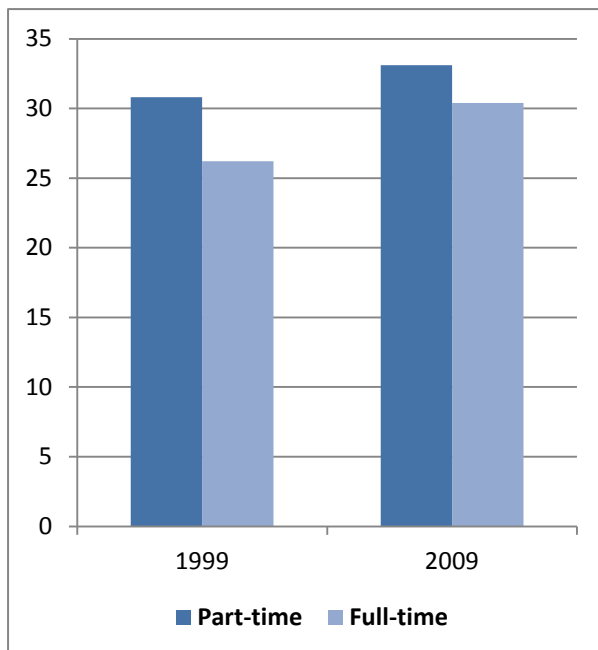
**Table 4.6: Getting ahead depends on.... (% essential/very important)**

	1987	1992	1999	2009
coming from a wealthy family	29.6	31.4	29.0	31.1
ambition	79.2	82.4	-	72.4
hard work	65.5	67.5	67.6	64.7

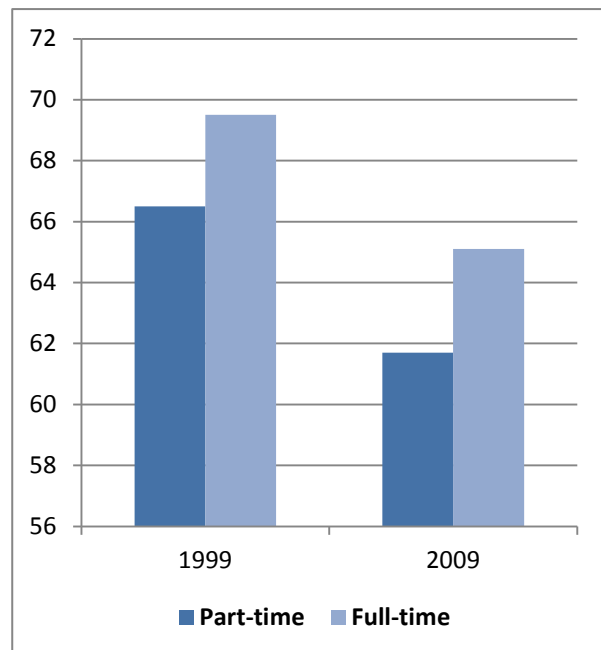
Source: ISSP 1987-2009, own calculations.

When one examines the extent to which respondents in Austria believe that achievement is rewarded, the results show high stability. Nevertheless, almost one third of Austrian respondents think that non-meritocratic factors, such as coming from a wealthy family, also play an important role in getting ahead in society (see Table 4.6).

**Figure 4.13: Getting ahead depends on coming from a wealthy family by working hours (in %)**



**Figure 4.12: Getting ahead depends on hard work by working hours (in %)**



Source: ISSP 1999-2009, own calculations; part time defined as working 30 hours or less per week

Nevertheless there are differences between different groups in society when it comes to opinions on what is important for getting ahead, and these differences are increasing, especially during the recent economic crisis. In particular, people facing more insecurity, for example those who are atypically employed (indicator: part-time employment yes/no) believe less and less that hard work is rewarded, and more and more of such precariously employed individuals believe that getting ahead depends above all on coming from a wealthy family (Figures 4.13 and 4.12).

## 4.5 Values about social policy and the welfare state

### Perception of inequality in Austria

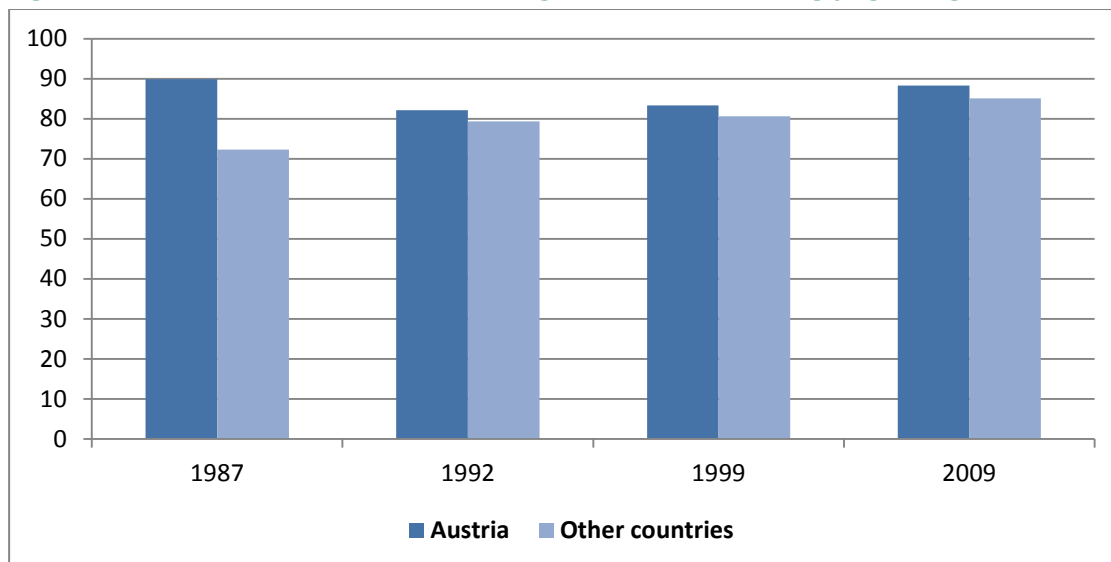
Growing objective social inequality, as evidenced in Austria above all by an increase in wage inequality, need not be accompanied by a corresponding increase in perceived (subjective) social inequality (e.g. Kluegel/Mason/Wegener 1995). One's own objective socio-economic situation indeed influences perceptions of social inequality and hence of income inequality, and in particular the extent to which income inequality is perceived as just, or as excessive, respectively. Nevertheless,

perceptions of social inequality are also shaped by other factors, such as society’s dominant ideologies about inequality (e.g. Hadler 2005).

Against this background, how do Austrians perceive social inequality in the form of income differences? If one asks them whether they perceive inequality to be too large, one finds the following: The vast majority of Austrians perceive inequality in their country to be excessive – more than citizens in other countries do, a finding which holds true for most of the considered time points (see Figure 4.14).

Here we see the influence of cultural values. The historically rooted significance of social accommodation in Austria (the special significance of social partnership in balancing the interests of employers and employees), as well as the enduring importance of unions – also in terms of membership – continue to shape attitudes toward the justice and legitimacy of social inequality in Austria today. Nevertheless, in times of diminishing importance of unions and deregulation of social accommodation also in Austria, we can observe a convergence of public opinion in Austria and elsewhere in the OECD, namely a diminishing and almost disappearing difference between Austria and the OECD with respect to perceived income inequality in recent years.

**Figure 4.14: Income differences are “too large” in Austria (% strongly agree/agree)**



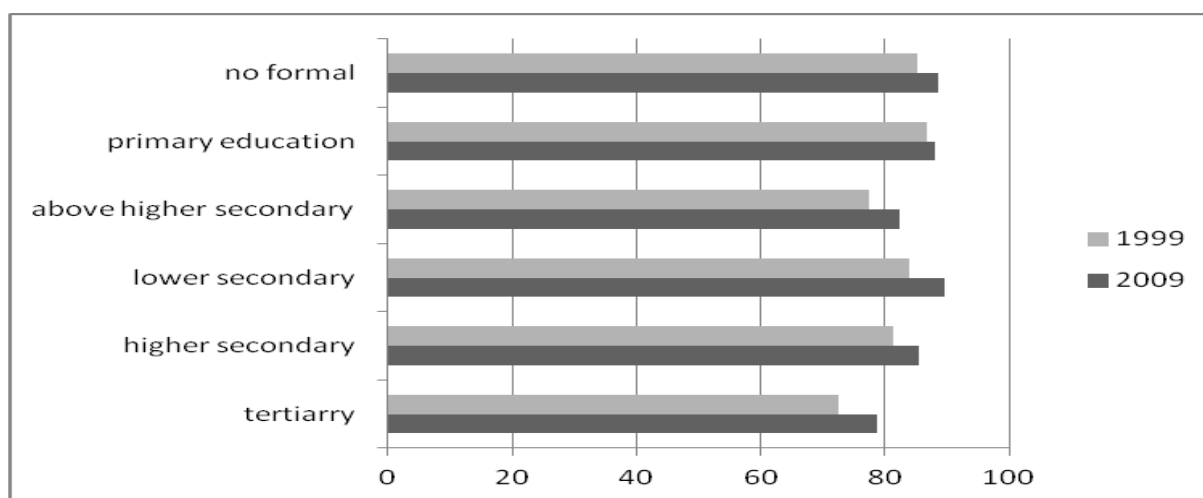
Source: ISSP 1987-2009, own calculations

Attitudes toward inequality are characterized not only by stability, however. There is also a temporal dynamic: While above all during the 1990s there was a decline in the perception that income differences were too large, in recent years inequality is seen more problematically than in the 1990s.

Here, alongside the aforementioned cultural influences on the extent to which inequality is viewed problematically, we find differences based on socio-economic status.

For example, perceptions of whether income differences are too large vary by education. Above all those with less educational attainment perceive income differences to be particularly problematic, while those with more education find income differences in Austria less problematic. We also see that differences by education have grown slightly larger over time (see Figure 4.5).

**Figure 4.15: Income differences are “too large” in Austria (% strongly agree/agree) by education**



Source: ISSP 1999-2009, own calculations.

If we go a step further and examine differences across types of employment, we find the following: Those who are atypically employed, e.g. those working part-time, report more than those working in standard employment relationships that they find income differences in Austria to be too large. This disparity has increased over the past decade: Part-time employees are now more so than in the late 1990s of the opinion that income differences in Austria are too large (Table 4.7).

**Table 4.7: Income differences are “too large” in Austria (% strongly agree/agree) by working hours**

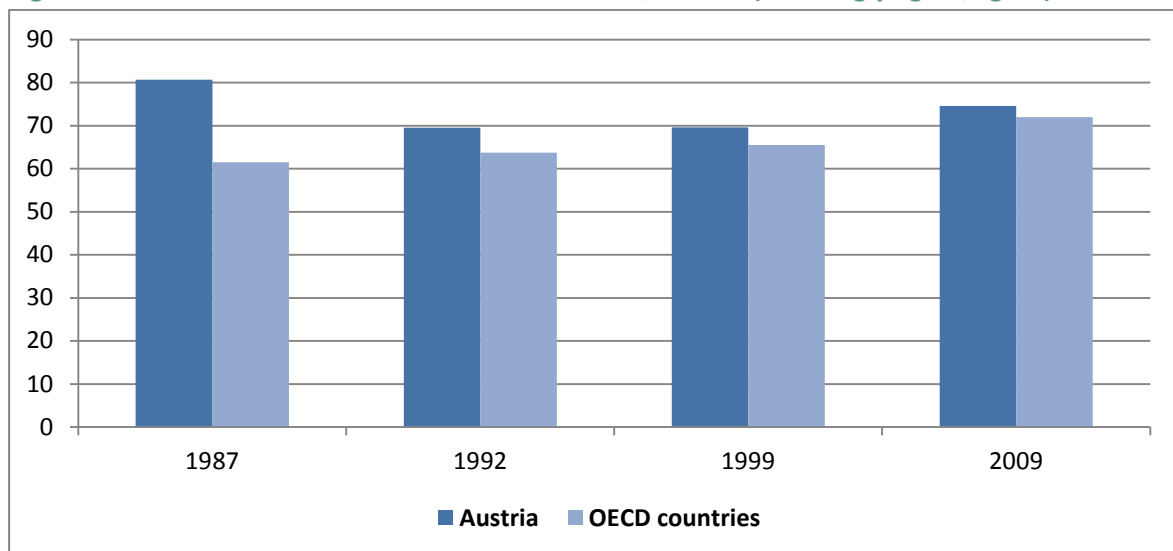
	1999	2009
part time	84.7	91.0
full time	82.3	84.2

Source: ISSP 1999-2009, own calculations; part time defined as working 30 hours or less per week.

### Role of government in redistribution of wealth/income

Similar trends as in the estimation of whether social inequality is too large are also evident in the desire of Austrian citizens for redistribution of wealth and income by the government (Figure 4.16). Here, too, approval of state intervention lies well above the international norm. In addition, approval of government redistribution sank in the 1990s, parallel to the decline in perception of social inequality as excessive. In recent years, however, it has begun to rise again. However, in 2009, after years of neo-liberal reforms (Butterwegge/Lösch/Ptaqk 2007), approval of state redistribution is well below where it was at the end of the 1980s.

**Figure 4.16: Government should redistribute wealth/income (% strongly agree/agree)**



Source: ISSP 1987-2009, own calculations; other countries: all other participant countries of the ISSP except for Austria.

### Opinions about causes of poverty

If one asks Austrian respondents why people in their country are poor, one finds that over time the belief that poverty is due above all to laziness or lack of will power has steadily declined. At the same time, especially during the crisis, the belief that social inequality results in some people having to live in poverty has gained traction (Table 4.8). Increasing socio-economic insecurities, which in the meantime have spread to broad segments of the population reaching well into the middle classes (c.f. Burzan/Berger 2010), have evidently left their mark and are reflected in attitudes toward the causes of poverty.

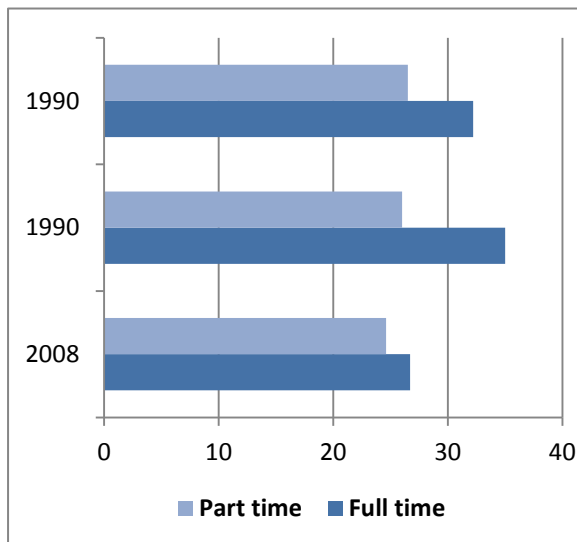
**Table 4.8: Why do people live in need - most important reasons (in %)**

	1990	1999	2008
laziness or lack of will power	36.6	31.9	27.8
injustice in society	25.2	22.3	35.4
bad luck	14.0	12.9	12.2
is part of modern progress	24.2	25.3	21.2

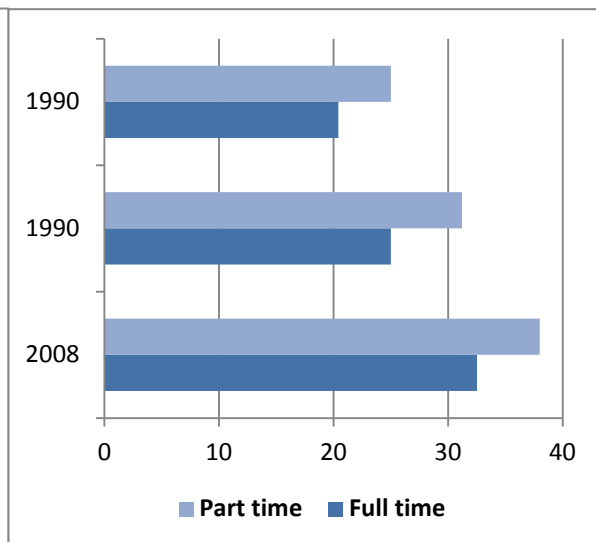
Source: European Values Study 1990-2008, own calculations.

With this indicator as well, just as with questions about what is decisive for getting ahead in society, we find differences across socio-economic groups. Over time, people who work in atypical employment relationships are less and less of the opinion that poverty is attributable to laziness. By contrast, they increasingly believe that growing social inequality is responsible for the fact that more people must live in poverty (Figure 4.18 and Figure 4.17).

**Figure 4.18: People live in need because of laziness / lack of will power by working hours (in %)**



**Figure 4.17: People live in need because of "injustice in society" by working hours (in %)**



Source: European Values Study 1990-2008, own calculations; part time defined as working 30 hours or less per week.

## 4.6 Conclusion

As we have shown in this chapter, growing social inequality has significant political and cultural impacts. Thus in recent years, parallel to an increase in inequality, we have seen a marked decline in political participation, e.g. in voter turnout, but also in membership and engagement in political and civic associations. We have seen a decline in membership in unions, which in Austria in particular are an important component of political life. Our findings confirm for Austria tendencies similar to those identified by Putnam (2000), namely a decline in participation in public life. Moreover, the population – particularly the broad middle classes – has undergone a radicalization, as evidenced by increasing rejection of immigration. In particular, immigration from poorer regions outside of Europe is increasingly opposed. Furthermore, growing inequality has led more and more voters to move toward extreme parties, which in Austria benefits primarily parties on the right, e.g. the FPÖ.

Approval of Austria's membership in the European Union has been scarcely affected by the development of inequality. With or without the economic crisis, i.e. independent of trends in inequality, Austrians' approval of the EU remains far below the EU average. Moreover, Austrians see the European Union as having an especially high legitimacy deficit.

Trust in various state institutions and in one's fellow human beings evinces similar stability. Here, times of crisis have brought a decline in trust, above all in political parties. Over the long term, however, levels of trust remain relatively stable. However, across the entire time period under study, people from lower social strata exhibit low levels of trust.

With regard to perceptions of social inequality and its legitimacy, after a decline in the 1990s, in recent years Austrians again increasingly view inequality as too large. This development goes hand-in-hand with an increase in approval of state policies that would help reduce these inequalities. Compared to other OECD countries, Austrians perceive inequality to be especially problematic and hence calls for more far-reaching state redistribution than the populations of many other countries.

Above all in times of crisis and of discussions about excessive manager bonuses, approval of the statement that achievement is rewarded drops, at least for newly emerging, vulnerable groups in society, such as nonstandard workers. Here, ever more people find that privileged background and hence non-meritocratic factors are critical to getting ahead in life.

Similar tendencies are revealed in response to questions about why people in Austria live in poverty: Increasingly in recent years, this is attributed to the growing cleavage within Austrian society, and also here it is especially nonstandard workers who articulate this cleavage in a more pronounced way than those working in standard employment, who are more strongly protected by the welfare state.



Moreover, we also find significant differences in the perception of social inequality across those different types of employment status. The increase in atypical employment (and here primarily part-time work), which in Austria has been a main driver of the growth in wage inequality (see Chapter 2), has gone hand-in-hand with differences in the subjective perception of inequality between workers in standard employment and those in non-standard employment.

If we summarize the main findings from Chapter 4, we find clear political and cultural impacts of growing social inequality in Austria. Alongside a decline in participation in public and political life, we see a radicalization in the political realm, which is reflected in a movement toward right-wing parties. Moreover, increasing social inequality is viewed very critically by the Austrian population. They view it as ever less legitimate, because success or failure in one's own life is found to be ever less dependent on hard work.

## 5. Effectiveness of policies in combating inequality

### 5.1 Introduction

European welfare states face tremendous social, economic and political challenges. They are under pressure from a tough economic environment, unfavourable socio-demographic development, and advancing processes of globalization and flexibilization (Giesecke 2009). The fiscal sustainability of the welfare state and debates over social policy reform are taking centre stage. Demands for cost containment and for concrete measures to reform or restructure welfare state programmes predominate. Austria is no exception to this trend (Heitzmann/Österle 2008).

A glance at other European countries reveals, however, that the Austrian welfare state still remains comparatively generous. Austria ranks third in spending among European countries, after France and Sweden.<sup>22</sup> A particularity of the Austrian welfare state is its strong orientation toward labour market participation, as well as the design of its social insurance programmes toward traditional family forms. This is characteristic for what international comparative welfare state research terms conservative, Continental welfare states (Castles 1993; Esping-Andersen 1990; Sainsbury 1999). As a consequence, inequalities are fairly pronounced among certain social groups. Women, persons not integrated into the labour market, and the growing group of atypically employed are affected by these risks (Barbieri 2009; Blossfeld 2008; Blossfeld et al. 2007). These comprise increasing risks of unemployment or unstable occupational careers, high levels of low-paid employment or disadvantages in the payout of social expenditures; especially when payouts are related to former earned incomes.

In this chapter, we will, on the one hand, highlight core characteristics of the Austrian welfare state and analyse current trends and changes in labour market and social policies. To this end, the sections in this chapter present time series on policy variables related to economic inequality, especially income inequality. On the other hand, we will discuss policies to combat inequality and their wide range of direct and indirect effects.

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<sup>22</sup> Public social expenditures measured in terms of the percentage of GDP (OECD SOCX; last available data for 2007).

## Data

The empirical foundation of this chapter consists of multiple data sources. Official national and European statistics inform the analysis of long-term trends and developments. Alongside comparative analysis, we will examine Austria's development over the past 20 years. We will use statistical data primarily from the OECD, Eurostat and Statistics Austria. With these data sources it will be possible to determine, for example, the level of Austria's minimum wage, social expenditures, and public educational expenditures over this period

## 5.2 Labour income

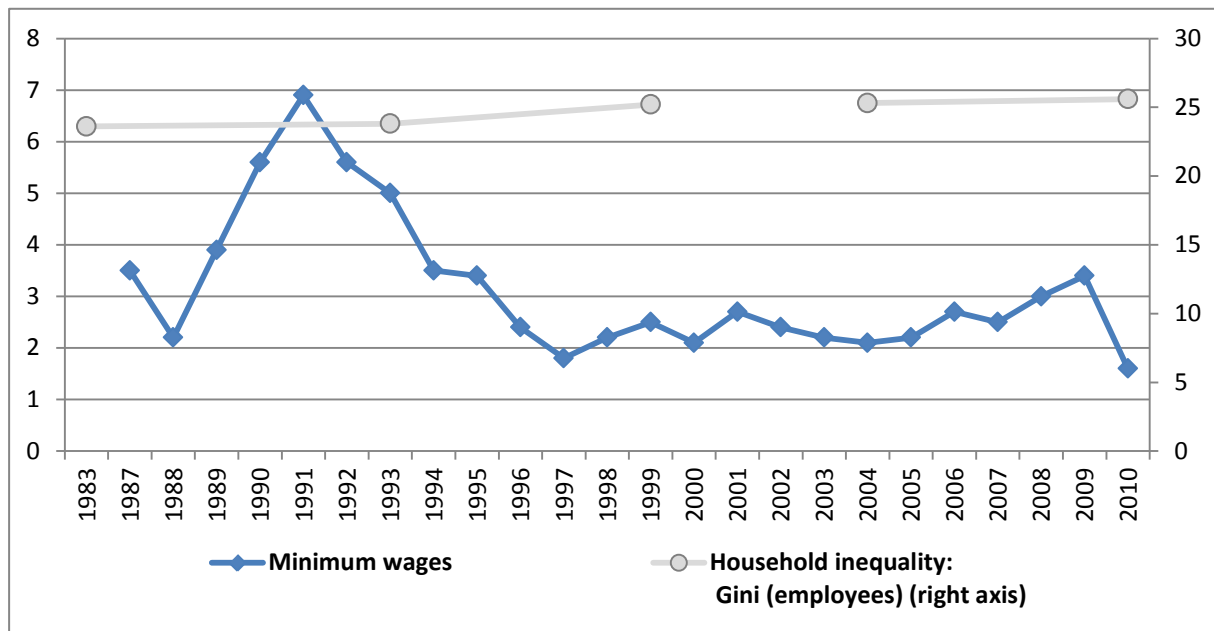
### Minimum wages

Austria belongs to the group of countries that has no general regulation for a statutory minimum wage. In 20 states of the European Union, legally determined minimum wages are part of the core set of tools of labour-market regulation. Besides Austria, only in Germany, Italy, and the Scandinavian countries there is no comprehensive, legally binding minimum wage (Mau/Verwiebe 2009: 182).

In Austria, however, there are certain branches which introduced minimum wages (e.g. for metal workers). The level of minimum wages therefore differs considerably as they are set by collective bargaining agreements (Hermann 2006, 2009). Due to the strong orientation of Austrian firms to the country's collective bargaining system, the majority of employees are covered by a minimum wage. Figure 5.1 depicts the development of the minimum wages since 1987. It is based on data from Austria's Index of Agreed Minimum Wages, which measures the development of minimum wages in the country.<sup>23</sup> As was discussed in Chapter 2 (in the section "Wage Inequality"), the late 1980s was the only time period during which income tax data reveal a decline in inequality. This development can be attributed to a successful minimum wage policy by the unions.

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<sup>23</sup> The Index of Agreed Minimum Wages constitutes an up-to-date indicator of the development of minimum wages and salaries in Austria. The Index measures changes in the minimum wages and salaries which have been agreed upon in collective bargaining agreements, in company agreements, minimum wage pay scales or by act of parliament. Altogether, it covers 95 per cent of wage earners in Austria (Schedlberger/Necas 2007).

**Figure 5.1: Rate of change (in %) of minimum wages and salaries compared to previous year, 1987 to 2010**

Source: Statistics Austria Index of Agreed Minimum Wages; index values do not account for inflation.

Minimum wages and salaries rose on average by 1.6 per cent in 2010. This is the smallest increase since the creation of the Index in 1986 (cf. Schedlberger/Necas 2007). An examination of average rates of increase since 1987 reveals that the Index grew fastest between 1988 and 1991 and between 1990 and 1993. In 2010, however, it grew by only 1.6 per cent, well below the rates of the previous years (2009: 3.4%, 2008: 3.0%, 2007: 2.5%). This development can be attributed above all to adjustment in the wake of the economic crisis and changed economic conditions (low inflation and slow growth) (Andreasch/Mooslechner/Schürz 2010; Mayrhuber/Leoni/Marterbauer 2010; Mooslechner/Schürz 2009).

The situation of self-employed and atypically employed persons looks somewhat different. These are the groups that have been primarily affected by the flexibilization and liberalization processes of recent years; low job security and low wages are the result (Blossfeld et al. 2007). A not insignificant and growing segment of the workforce is thus excluded from minimum wage regulations. This group includes first and foremost freelancers, independent contractors, and temporary employees, who are very common in certain branches of the Austrian economy (cf. Geisberger/Knittler 2010), for example personal services, commerce, the hotel and restaurant industry, and agriculture. The system of collectively bargained minimum wages thus exacerbates Austria's sectoral wage disparities, which are already very high by international standards (Guger/Marterbauer 2007; Hermann 2009). Sectoral disparities are compounded by differences by type of employment contract. Traditionally in Austria,

a distinction is made between white and blue-collar employees, whereby the former enjoy better employment terms in a series of dimensions, including the security of being covered by a minimum wage (Hermann 2006: 128).

We should add that since 2003, voices in Austria have grown ever louder calling for a universal, statutorily set minimum wage of €1,000 (with full employment and aliquot share for part-time employees); this was pushed by the various social partners and the Austrian Trade Union Federation. These calls, however, have not yet been successful. Hence there is no uniform minimum wage in Austria, and for the foreseeable future, minimum wages will continue to be set by the respective parties in collective bargaining negotiations.

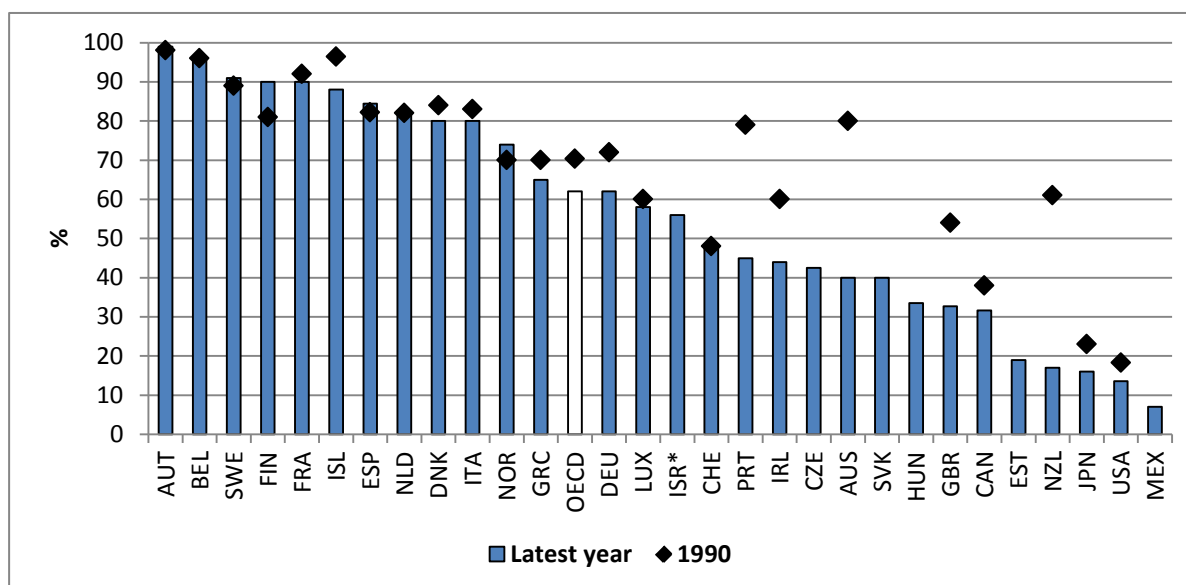
### **Wage bargaining**

Trade union density and collective bargaining coverage rates are standard indicators used to assess the bargaining power of workers and the extent of collective bargaining (OECD 2012a). In wage bargaining, as with minimum wages, collective bargaining coverage plays a crucial role in Austria. In comparative social-scientific research, the Austrian system of wage bargaining is considered to be highly centralized (Bruno/Sachs 1985; Clamsfors/Driffill 1988). Wage negotiations are conducted on the employee side by the unions,<sup>24</sup> and on the employer side by the respective umbrella associations of the Austrian Economic Chambers (*Wirtschaftskammer Österreich*) (Knell/Stiglbauer 2009; Pollan 2004). The collective bargaining agreements establish formal differences in the wage increases set for blue and white-collar workers, respectively. It also distinguishes between industrial workers and those in crafts and trades (construction industry, metal trades). Here, there are at times marked differences in both wage/salary levels and in negotiated wage increases (ibid.). The negotiated wage levels apply throughout the country and are typically set for a period of one year.

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<sup>24</sup> The GDP for white-collar workers, various unions for blue-collar workers (organized differently across sectors), and the Union of Public Service for public employees.

Figure 5.2: Collective bargaining coverage rate



Source: OECD Employment Outlook 2012a: 136; employees excluded from bargaining rights have been removed from both the numerator and denominator; <http://dx.doi.org/10.1787/888932651712>.

Figure 5.2 shows collective bargaining coverage rates. These rates refer to the number of workers which are covered by wage bargaining agreements as a proportion of all wage and salary earners. This figure shows that the collective bargaining coverage rate in Austria is especially widespread. Austria is the leading country, when taking a cross country perspective account and way before the OECD- average.

### 5.3 Taxation

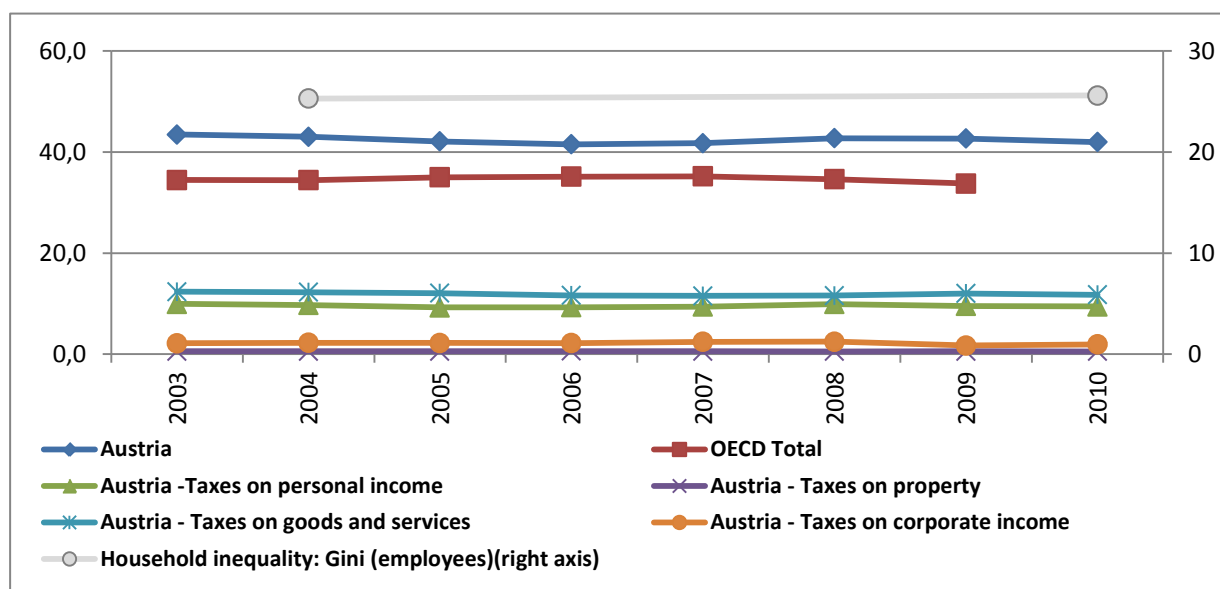
#### Tax receipts as per cent of GDP, broken down by type (PIT, VAT, SSC, levies)

Market incomes in Austria are redistributed by the state to a considerable degree (Lunzer 2006). State intervention is necessary to mitigate the large and growing inequality in primary incomes among wage earners (see Chapter 2 “Wage Inequality”). Tax revenues in Austria amount to 42 per cent of GDP, nearly 10 per cent above the OECD average (see Figure 5.3). The most important revenue sources are personal income taxes, property taxes, taxes on goods and services and corporate income taxes.

Taxes on goods and services are levied on the exchange of deliveries and services. In Austria, this tax rate is 20 per cent – 10 per cent for food. Altogether, in 2010 taxes on goods and services yielded revenues equal to about 12 per cent of GDP (see Figure 5.3).

The system of personal income taxes in Austria is divided into a series of tax brackets. Earned incomes below €11,000 per year are tax-free. Those above €60,000 are taxed at 50 per cent (BMF 2012a). Tax revenues from personal income are higher than those from corporate income or property (see Figure 5.3). Guger and colleagues (2009: 2) establish, further, that revenues from the personal income have risen more in recent decades: Since the second half of the 1970s, the distribution of national income has shifted markedly at the expense of labour. By contrast, property taxation in Austria is relatively modest, amounting to 0.5 per cent of GDP (ibid.).

**Figure 5.3: Total tax revenue and tax revenue by origin as a percentage of GDP**



Source: OECD 2012; OECD Total: unweighted average,  
[http://www.oecd.org/pages/0,3417,de\\_34968570\\_35008980\\_1\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/pages/0,3417,de_34968570_35008980_1_1_1_1_1_1,00.html).

The corporate income tax is levied on profits earned by a corporate entity. It amounts to 25 per cent of taxable income, independent of the amount. Contrary to the progressive income tax scale, then, the corporate income tax is a linear, or flat-rate tax (BMF 2012b). In Austria, revenues from the corporate income tax declined slightly from 2003 to 2010. Altogether, taxes on corporate income yielded revenues equal to about 12 per cent of GDP in 2010 (see Figure 5.3).

### **Redistributive effect<sup>25</sup>**

Austria's tax ratio of 42 per cent together with its government expenditure ratio of more than 48 per cent yield considerable scope for redistribution (OECD 2012b). However, the redistributive effects on the revenue side are very limited – not least because the progressive impact of the income tax system is largely counteracted by the regressive effect of social expenditures contributions and indirect taxes on goods and services. Moreover, the redistributive effect of public revenues has been rendered more regressive on the whole by political reforms (in the context of income tax reforms) of the past 15 years. Even though very low incomes are exempt from income taxes today, the overall tax burden in relation to income has risen more for low earners than for high earners (Guger 2009). Indirect taxes weigh particularly heavily on low earners.

## **5.4 Social expenditures**

### **Social expenditures – Total, cash and in-kind**

Social benefits are cash or in-kind transfers provided to private households or individuals through social protection schemes designed to mitigate the burdens that arise from a defined set of risks or needs (Eurostat 2008; Heitzmann/Österle 2008). The share of social expenditures relative to GDP is influenced by factors such as the prevailing demographic and economic conditions, as well as reform measures that increase or reduce eligibility and benefit levels (Steiner 2008). The development of social expenditures both in absolute terms and as a share of GDP is depicted in Table 5.1 and Figure 5.4.

One sees that social expenditures as a whole rose markedly (from 22 to over 26 per cent of GDP) and then remained roughly stable through 2007, when they were 27 per cent of GDP (see Figure 5.4). The same holds true when we look at social expenditures measured per capita (OECD 2012). Real annual growth in social expenditures (Column 4, Table 5.1) has, nevertheless, declined considerably since the 1990s. The additional costs stemming from the aging of society were offset by shifts in social policy emphasis and by cost-saving consolidation measures (Steiner 2008). As a result, policymakers were able to hold the social expenditure ratio constant over the long term, despite an aging society. Since 2009 social expenditures have risen anew by roughly 30 per cent, and the social expenditure ratio has risen, as in other EU countries (Statistik Austria 2012b). The primary causes of this are, on the one hand, the sharp decline in Gross Domestic Product in the wake of the economic crisis, and on

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<sup>25</sup> Micro data for redistributive effects of the tax system are not available for Austria.



the other hand, the steep increase in unemployment (Guger/Knittler 2009; Guger 2009; Steiner 2008). Moreover, in 2009, both for demographic reasons and due to an increase in the care allowance, spending on allowances for nursing care rose disproportionately. An example of this expansion of the care allowance was the extension of hardship allowance for severely – mentally or physically – disabled children or for people suffering from dementia.

**Table 5.1: Social expenditures, 1990-2009**

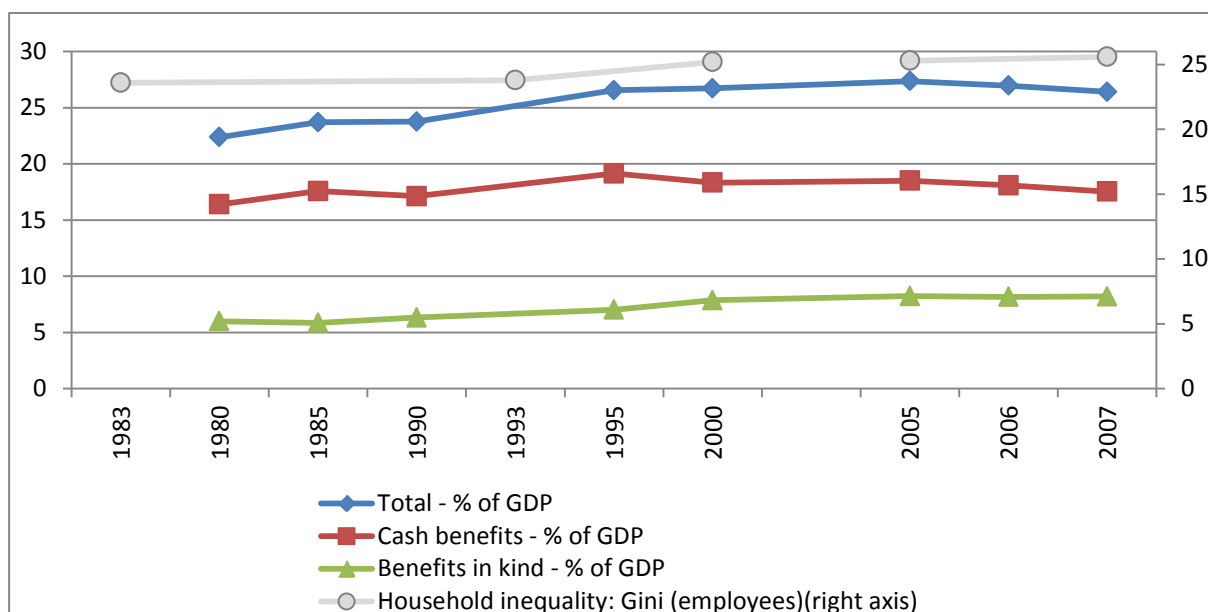
Year	Social expenditures (in billion euros)	GDP (in billion euros)	Real <sup>1</sup> change in social expenditures (in % vs. previous year)
1990	35.5	136.2	-
1995	50.4	174.6	4.52
2000	59.0	207.5	1.93
2001	61.2	212.5	0.9
2002	63.9	218.8	2.4
2003	66.2	223.3	2.3
2004	68.3	232.8	1.1
2005	70.5	243.6	1.1
2006	73.1	256.2	1.9
2007	75.8	270.8	1.5
2008	79.8	281.9	2.0
2009	84.1	274.3	4.8

Source: Sozialausgaben Österreichs (Steiner 2008); Statistics Austria. BMASK: ESSPROS Database of Social Statistics; for GDP: Statistics Austria; <sup>1</sup>inflation-adjusted with Consumer Price Index of Statistics Austria; <sup>2</sup> average real annual growth from 1990-1995; <sup>3</sup> average real annual growth 1995-2000.

Figure 5.4 shows the level of social expenditures as a per cent of GDP, distinguishing here between cash and in-kind benefits. While cash benefits are provided above all as income replacement e.g. during phases of retirement or child rearing, in-kind benefits are designed to provide necessary goods or services (e.g. during illness) (Guger 2009; Steiner 2008). The data reveal that cash benefits predominate in Austria. Here, too, a modest increase during the mid-1990s can be observed (nearly 20% of GDP in 1995). Thereafter, cash benefits decline somewhat (about three per cent), while in-kind benefits increase over the same period. In many other countries we see a trend towards more benefits in kind, and a growing share of voluntary private social expenditure as well (Biffel 2007; OECD 2012d).

About half of social expenditures are spent on women – half on men. On the one hand benefits which are based on career earnings disadvantage women considerably. On the other hand, because of their greater life expectancy, women tend to receive more health and nursing care benefits, and because of the one-sided distribution of child-care benefit, they receive a greater share of universal benefits (Talós/Wörister 1994).

Figure 5.4: Social expenditure – as percentage of GDP



Source: Social Expenditure Database SOCX (2012c); household inequality in 2000: value for 1999.

### The policy domains of social protection

The following section examines in detail the most important areas of social protection. The analysis of spending for social protection reveals that the priorities of the Austrian welfare state lie above all in the areas of pensions, health and families (Heitzmann/Österle 2008; Talós 2002; Talós/Wörister 1994). Table 5.2 depicts the development in these policy domains since the year 2000.

### Old age pensions and survivor pensions

In terms of expenditure, the pension system is the largest realm of social protection in Austria. Nearly half of all social spending is devoted to old age and survivors pensions (cf. Heitzmann/Österle 2008). The Austrian pension system consists on the one hand of a compulsory statutory scheme; voluntary supplemental insurance is also available from private insurers. The supplemental plans are pay-as-you-go schemes, which are funded by the contributions of blue and white-collar workers, employers, the self-employed, and public servants (Haydn 2011). Contributors must be vested, i.e. have contributed for a minimum number of months, in order to earn benefits.<sup>26</sup> Further, earning levels also play a role in the calculation of monthly pension benefits. If one lacks a sufficient duration or level of contribution, then according to the solidarity principle, a minimum pension is paid out

<sup>26</sup> Periods of child care and military or civil service can be counted.

instead. In addition to old-age pensions, the pension system offers benefits for survivors. The goal of pensions for widows and orphans is to replace the income lost upon the death of an insured earner. Here too, a minimum number of contribution months is necessary to earn benefits (Heitzmann/Österle 2008; Prinz/Marin 1999).

Expenditure for old-age pensions in Austria have risen again in recent years, while the share of persons younger than the retirement age (60/65) has declined. This shift in social expenditures across age groups corresponds roughly to demographic changes. This means that the system of social protection has, on the whole, responded flexibly to the aging of society (Steiner 2008). In political and public discourse, however, voices calling for raising the statutory and effective retirement age have become louder (Beirat für Wirtschafts- und Sozialfragen 2011; Guger/Mayrhuber 2004; Mandl/Dörflinger/Gavac 2008).

**Table 5.2: Social expenditure by type as percentage of total social expenditure**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Disability	9.65	9.36	9.67	9.40	9.13	8.95	8.82	8.50	8.31	8.00	7.73	7.63
Survivor	9.02	8.52	8.34	8.17	7.89	7.75	7.60	7.47	7.34	7.23	7.04	6.81
Unemployment	5.39	5.30	4.90	4.94	5.44	5.96	6.01	5.81	5.83	5.32	4.99	5.91
Old Age*	38.31	38.41	39.67	40.02	40.08	40.09	40.22	40.61	41.26	41.84	42.18	42.35
Housing	0.44	0.40	0.38	0.39	0.39	0.37	0.41	0.39	0.42	0.42	0.41	0.41
Health	26.02	26.38	25.61	25.64	25.54	25.06	25.21	25.52	25.33	25.92	26.21	25.47
Family	9.83	10.04	10.70	10.52	10.57	10.88	10.77	10.66	10.38	10.13	10.27	10.29

Source: Eurostat 2012; [http://stats.oecd.org/Index.aspx?datasetcode=SOCX\\_REF](http://stats.oecd.org/Index.aspx?datasetcode=SOCX_REF); \*Old Age = old age pensions and the provision of goods and services (other than medical care) to the elderly; <http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tps00106&language>

### Health care

Measured in terms of expenditure levels, the health care system is the second largest area of social protection. Health care benefits constitute roughly one quarter of total expenditure. The health care system is financed both through social insurance contributions from workers and their employers, and from general revenues; this is necessary, for example, to fund hospitals and nursing homes (Heitzmann/Österle 2008). Private financing plays a significant role as well: In addition to private supplemental insurance plans and services paid for directly by patients, this includes deductibles and co-payments for benefits that in principle are covered by the social insurance system (Österle 2004). In addition to compulsorily insured workers, their family members are covered as well. Despite the

universal character of health insurance in Austria, roughly two per cent of the Austrian population is uninsured (Fuchs et al. 2003).

With a few minor fluctuations (for example a decline from 2008 to 2009), health care expenditures have remained nearly constant between 2000 and 2009 (2000: 25.6% vs. 2009: 25.5%). A peculiarity of the health sphere is that here in-kind benefits predominate. The share of in-kind benefits lies currently at 83 per cent. By comparison, their share in old-age benefits lies at roughly three per cent (Steiner 2008).

### **Family benefits**

This area of protection also consists of a combination of publicly financed support and family work which, despite the growing share of women in the workforce, is still performed largely by women (Leitner 2004; Mayrhuber/Knittler 2010). Publicly financed support consists of cash and in-kind benefits. In-kind benefits include, among other things, subsidized kindergarten places or free school transportation (Heitzmann/Österle 2008). Cash benefits are paid for example in the form of monthly family allowance (independent of income level, but dependent on the age of the child and the number of children in the household). Since July 1, 2011, family allowance is not provided beyond the age of 24. Other transfers include maternity allowance (8 weeks before and after the birth of a child; the amount depends on previous income).

Wage-earning mothers and fathers also have a right to unpaid maternity/paternity leave. In place of their salary or wage, the mother or father receives a childcare benefit (Rosenberger/Schallert 2000). The maximum duration of unpaid maternity/paternity leave is two years, and begins (at the earliest) with the expiration of maternity protection, i.e. 8-12 weeks after the birth of the child. Since January 1, 2010, the new Childcare Benefit Act applies here. Now parents can choose from two systems with a total of five different options. There are two different types of childcare benefit – flat-rate and income-related. The family-policy reform embodied in the Childcare Benefit Act was designed to promote a more equal division of care work among men and women, and provide incentives for women to re-enter the workforce more quickly after maternity leave. Given that the earnings differential between men and women remains sizeable (cf. Bundeskanzleramt 2010; Mairhuber 2002), traditional patterns of care giving remain the rule (Eckes 2010).

Expenditures for families have risen somewhat more slowly than social expenditures on the whole. A primary reason for this is the shrinking number of people under the age of 19 (Steiner 2008). Family benefits are the third-largest realm of social protection, amounting to just over 10 per cent of

expenditures. In recent years, there has been frequent discussion of increasing the number of day care places. Dovetailing with this, there is an interest in shifting expenditures away from cash toward in-kind benefits.

### **Disability benefits**

Expenditures on disability benefits are much smaller than those for the health care system, and they are highly fragmented (Heitzmann/Österle 2008: 55). At the beginning of the 1990s, a comprehensive reform of the long-term care system was enacted, at the centre of which was universal provision of nursing care services (Österle 2001; Schneider et al. 2006). Since this reform, persons of all ages who need long-term care now have a legal right to cash benefits. The amount of this care allowance depends on the intensity of care required, and varies across seven care levels. The reform of the long-term care system led to a considerable expansion of benefits; nonetheless, gaps in care remain, particularly in night and weekend care (Heitzmann/Österle 2008). Persons in need of long-term care thus continue to be dependent to a large extent upon informal care provision. This affects above all women, who perform the bulk of informal care work (Pochobradsky et al. 2005). Additionally, over the past 10 years, care provided by migrants has developed as an alternative to professional social services (and to care provided by family members as well) due both to its affordability and the fact that many migrants are willing to work longer hours. Usually these employment relationships take place beyond the reach of labour-market and social-protection regulations.

As a share of total social expenditure, disability benefits have continually declined during the period under study – from 9.7 per cent in 2000 to 7.6 per cent in 2009. Measures designed to forestall early exit from the labour force for health reasons appear to have borne fruit. Currently, a debate is underway to reform disability pensions to reduce early retirement by those who have health limitations or have endured a longer illness, while at the same time pushing them back into the labour market.

### **Unemployment benefits and social welfare**

One key fact about the Austrian labour market, often discussed in international research, is the extreme low level of unemployment (Auer 2000; OECD 2009). Over the course of the last 15 years, the unemployment rate has ranged between 3.7 (1995) and 4.4 per cent (2010). Within the European Union, only the Netherlands has had a similarly persistently low level of unemployment over this period. This low level of unemployment is a peculiarity of Austria and somehow related to its

traditionally strong social partnership and high union density. The low unemployment rate is the result of a focus on what was long the most important and prevailing economic policy goal: keeping unemployment low. The labour market remained regulated longer than elsewhere, and labour market problems were displaced into other policy realms. This affected pensions above all, where the instrument of early retirement was able to reduce unemployment among older workers (Heitzmann/Österle 2008; Unger 2001). With growing pressure on the national labour market and changed economic conditions at the end of the 1990s, the policy focus shifted as well. Budget consolidation became the top goal, and it was accomplished through liberalization and flexibilization of the labour market. A sharp increase in atypical employment was the result (Biehl 2008; Tálos 2005; Talós/Mühlberger 1999).

Austrian unemployment insurance is administered by the Public Employment Service Austria (österreichische Arbeitsmarktservice), which is located within the Federal Ministry of Labour, Social Affairs and Consumer Protection. Preconditions for receipt of unemployment compensation are a minimum number of covered months of prior employment, as well as a willingness to work. Benefits are based on an unemployed worker's earnings during the previous year, and are paid out for a limited period of time (up to one year) (Heitzmann/Österle 2008: 59). Alongside unemployment compensation, since January 1, 2011 needy Austrians may be eligible for means-tested minimum income (in 2012 it amounted to €773.26 per month/ per person<sup>27</sup>). Those who do not have the means to subsist on their own, and are willing to work, are eligible (Woltran 2008).

The unemployment rate rose slightly during the period under study from 4.9 per cent in 2000 to 5.9 per cent in 2009. Due to the sharp upturn in unemployment during the economic crisis of 2009, spending on unemployment compensation rose 20 per cent vis-à-vis 2008. Moreover, there has been a shift from pure monetary benefits toward active and activating measures (cf. Steiner 2008). The percentage of expenditures on active labour market policies has been increasing over the last 20 years but remains rather low in Austria. Measured as a percentage of GDP, expenditures levelled off at less than one per cent (OECD 2012c).

### **Housing subsidies**

Housing subsidies are less prominent in Austria's social budget than in those of most other advanced industrial countries. This portion of social expenditures is aimed at combating social exclusion, e.g.

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<sup>27</sup> The level of means-tested benefits changes with the number of children and adults living in a household.

with housing benefits. Furthermore, subsidies for residential housing construction are intended to make housing more affordable for all. Compared to other OECD countries, Austria's support of home building is focused more on the supply side, i.e. subsidies for buildings, rather than on benefit payments to individuals.

In the case of such indirect subsidies, the support goes to the developer and is usually not tied to income limits, or if so, has generous ones. By contrast, direct subsidies are targeted at low-income persons and are means-tested. A small amount of indirect subsidies are also provided through the tax code (Guger 2009: 279). Table 5.2 shows that expenditures in this realm of social protection have remained at a low level, and stable, throughout the period under study.

## 5.5 Education

### **Expenditures on education per educational level**

In modern societies, education functions increasingly as a determining factor of life chances, as a guarantee of quality of life, and as protection from unemployment and social exclusion

(cf. Allmendinger/Nikolai 2006; Bacher 2004a; Geißler 1987). Furthermore, education protects against morbidity and mortality. The unequal distribution of education, alongside other variables like ethnic or socio-economic background, constitutes a prime determinant of social inequality (Solga/Powell/Berger 2009: 18).

Comparative international social research reveals that the Austrian school system does not adequately combat social inequalities. The school system is divided into four units, whereby the more advanced the level, the more differentiation in school types. The multi-layered system requires pupils to make a decision at a very early point in their lives (age 10) about their subsequent educational path; it is socio-economically selective (Bacher 2004a; Eder/Kroath/Thonhauser 2007). As a result of this early differentiation, educational opportunities in Austria are increasingly inherited (Schreiner/Haider 2007; Specht 2009). Overall, school performance, dropout rates and the probability of transition to the next educational level are all shaped by the socio-economic background and ethnic background of the family, their educational capital and the school type (Schreiner 2007) (see Chapter 2: "Educational Inequality over Time").

Analysis of educational expenditures offers an important foundation for the assessment of the effectiveness and selectivity of national educational systems (Mau/Verwiebe 2009). Austria spent €16,267 million on education in 2010, much of which (€4,670 million) went to compulsory general education schools (primary, secondary, special-needs and pre-vocational [polytechnic] schools),

followed by universities (€3.608 million) (Statistik Austria 2011b). An analysis of educational expenditures over time (see Table 5.3) reveals further that on average in the EU 27, spending on education has recently begun to increase. On average, OECD countries devote 12.9 per cent of total public expenditure (5.4 per cent of GDP) to education, but values for individual countries range from less than 10 per cent in the Czech Republic, Italy and Japan, to more than 20 per cent in Mexico (OECD 2011c). Since 2000, Austria has consistently spent more than the OECD average, most recently (in 2009) spending six per cent of GDP on education.

**Table 5.3: Public expenditure on education in % of GDP**

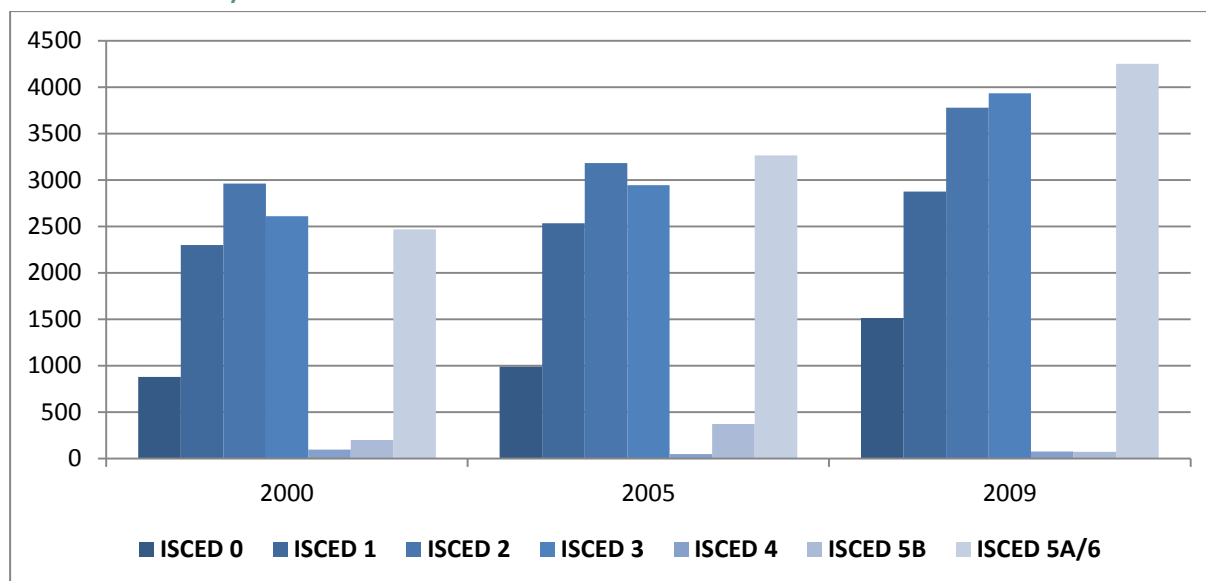
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>European Union (27 countries)</b>	4.91	4.99	5.10	5.14	5.06	5.04	5.03	4.95	5.08	5.41
<b>Austria</b>	5.66	5.74	5.68	5.53	5.48	5.44	5.40	5.33	5.47	6.01

Source: Eurostat 2012.

Figure 5.5 differentiates spending by educational level. It shows public educational expenditure by educational level from 2000 to 2009. A large share is spent on ISCED Levels 2 and 3 as well as on ISCED Level 5A/6. Comparatively little and decreasing shares are spent on post-secondary education (ISCED 4) and the non-university tertiary level. If one takes a look at change over time, one clearly sees that spending on the tertiary level has increased relatively sharply since 2000. Whereas in 2000 about €2.5 million were spent here, by 2009 this had risen to €4.2 million.



**Figure 5.5: Public expenditure on education by educational level, 2000, 2003, 2009 (in million euros)**



Source: Statistik Austria (2012c) Educational Expenditure Statistics; ISCED 2: Lower level of academic secondary schools (AHS-Unterstufe); lower secondary schools (Hauptschule); special needs schools; other schools offering general education; ISCED 3: Upper level of academic secondary schools (AHS-Oberstufe); pre-vocational schools (polytechnische Schule); special needs schools; other schools offering general education; advanced-secondary vocational and teacher's training schools (without 4th and 5th year); middle-level vocational training schools; middle-level teacher training schools; compulsory vocational training schools; other vocational training schools; ISCED 4: 4th and 5th year of vocational and teacher-training secondary schools; add-on courses, medium and advanced level special courses; schools for para-medical staff; schools for health and nursing care vocations; ISCED 5B: Post-secondary tertiary colleges; schools for master craftsmen, foremen, construction trades; vocational colleges; teacher's training colleges; abbreviated university studies.

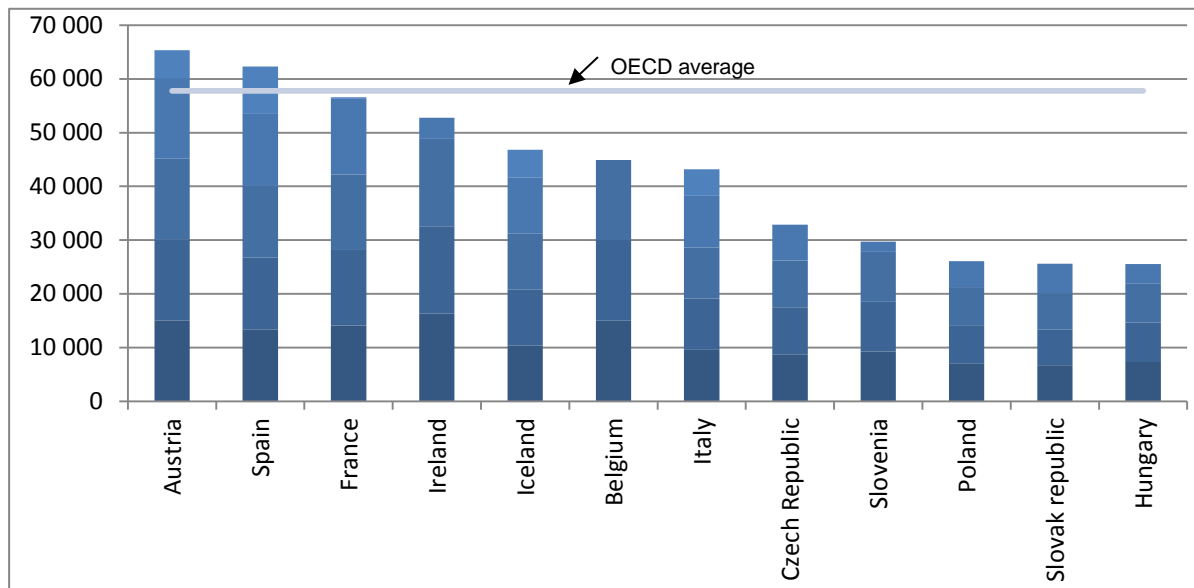
### Expenditures on tertiary education

Apart from total spending on the various educational levels, comparative analysis of educational systems is particularly concerned with the duration of studies and the intensity of students' participation (full or part-time). Thus, low annual spending levels per student can lead to relatively high total costs on the tertiary level if the average duration of studies is long.

Against this background, it is worth examining average expenditure per student over the entire course of study. Figure 5.6 does this in a comparison of twelve European countries. The numbers refer to all students who incur expenses, regardless of whether they ultimately graduate. The following differences can be observed in the ranking of the countries:

Overall, Austria leads this selected group of countries. Its annual educational expenditure per student in the tertiary realm is roughly on par with Belgium's (\$15,043 vs. \$15,020) (OECD 2011b). Due to the differing university structure of the degrees, the average duration of tertiary studies in Austria is over a year longer than in Belgium (4.3 vs. 3.0 years); hence the cumulative expenditure per student on the tertiary level is lower in Belgium than in Austria (*ibid.*).

**Figure 5.6: Cumulative expenditure per student by educational institutions over the average duration of tertiary studies (2008)<sup>28</sup>**

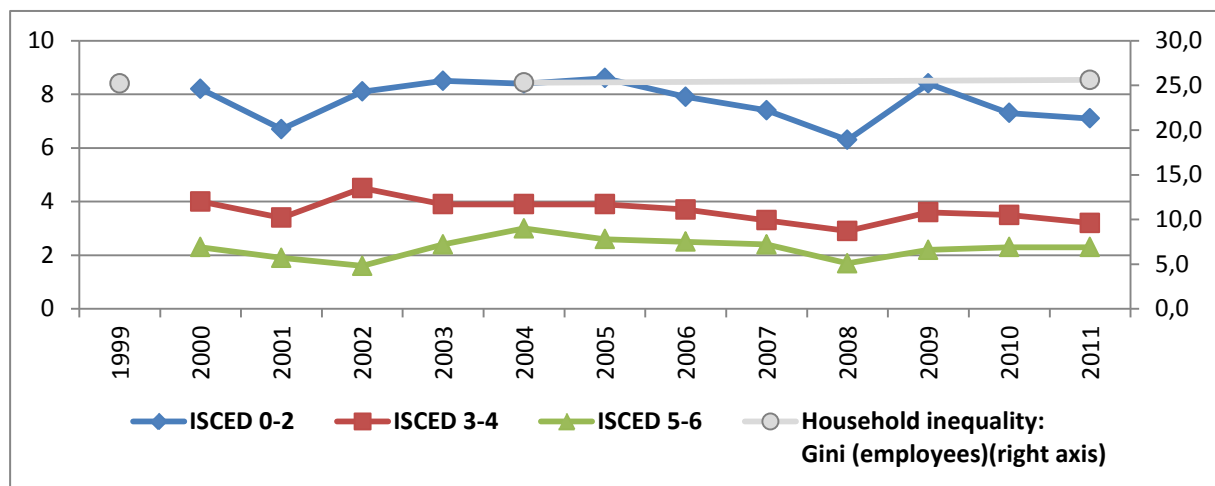


Source: OECD Education at a Glance (2011b); Note: Each segment of the bar represents the annual expenditure on educational institutions per student. The number of segments represents the average number of years a student remains in tertiary education. Average duration of tertiary studies is estimated based on national data. Countries are listed in decreasing order of total expenditure on education per student during the average number of years a student remains in tertiary education.

Figure 5.7 shows unemployment rates by educational level. The last level represents the unemployment rate of people with tertiary education in Austria. Compared to the EU-27 countries, Austria has a relatively low level of unemployment among the highly educated (2011: 5.0 per cent versus 2.3 per cent). Greece (12.8 per cent), Spain (11.7 per cent) and Estonia (7.9 per cent) have the highest rates.

<sup>28</sup> Annual expenditure on educational institutions per student multiplied by the average duration of studies, in equivalent USD converted using PPPs.

Figure 5.7: Unemployment rate and educational level in Austria



Source: Eurostat 2012.

### Student grants

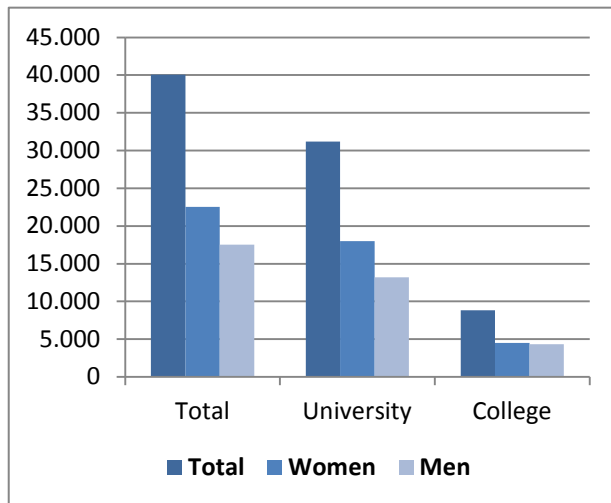
In Austria, everyone is supposed to have the opportunity to pursue university training. A series of support measures are available for low-income families: family benefit, housing allowance, or scholarships and grants (BMWf 2012).

In Austria, 40,037 persons received support for their studies during the Winter Semester of 2011; 29 22,515 of these were female, 17,522 male (BMWf 2011: 90).<sup>30</sup> Figure 5.8 displays the difference between universities and polytechnics. The vast majority of supported persons attend a university: there are 31,189 students in the university sphere vs. 8,848 at polytechnics. Alongside the number of recipients of student aid, Figure 5.9 contains data on the level of support. It depicts the average annual expenditure on student aid per student. Both graphics below show that more students are supported in the university realm than in polytechnics. At the same time, students at polytechnics are provided slightly more aid on average; in the Winter Semester of 2011, this difference amounted to about €500 per year.

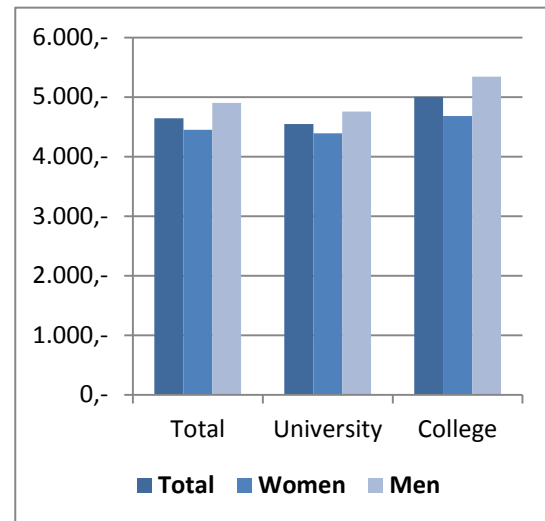
<sup>29</sup> Student grants or allowances.

<sup>30</sup> More recent numbers on the supported students in all university students are not yet available.

**Figure 5.8: Recipients of student aid\* at universities and polytechnics Winter Semester 2011**



**Figure 5.9: Average annual student aid at universities+ and polytechnics Winter Semester 2011**



Source: Statistisches Taschenbuch (BMWF 2011); \*Student grants and/or allowances (All student grant recipients are refunded the full value of their tuition in the form of a grant); + public and private universities.

## 5.6 Conclusion: Social inequality and the distributive effect of the Austrian welfare state

We use the term social inequality to characterize valuable, not absolutely equally distributed, advantageous and disadvantageous living conditions that people experience as a result of their position in the social structure (Hradil 2001: 27). Using various indicators, this chapter established that social inequality is a relevant topic even in the Austrian welfare state. It also showed how redistribution processes undertaken by the Austrian state combat this social inequality. The distribution of incomes after all taxes, social insurance contributions and public benefits (secondary distribution) is markedly more equal than the distribution of primary – or market – incomes (Guger 2009).

What redistributive processes combating social inequality does the Austrian government pursue? The following measures can be observed. Even though both universal benefits (available to all eligible persons regardless of income) and horizontal distribution predominate in the Austrian welfare state, its social protection policies clearly contribute to vertical redistribution (cf. Lunzer 2006). State expenditures have a progressive effect: On the one hand, they flow more to lower-income strata than to the wealthy; and on the other hand, their economic significance for lower-income groups is much greater. Different gradations of distribution effects are observable in the various policy domains of social protection.

Public benefits for unemployed persons, in the realms of both social and housing benefits, have a particularly progressive character: Nearly 90 per cent of these expenditures flow to the bottom third of the income distribution; they go disproportionately to the lowest income strata (Guger 2009: 333). If one also takes into account household size as well, then a similar situation can be observed in the realm of family and survivors' benefits. Nearly half of expenditures in this fields of social protection flow to the bottom third of the income spectrum. Here, benefits provided upon the birth of a child and during the first year of a child's life, as well as benefits for families with many children, flow mostly to low-income families. Nonetheless, single parent families and large families face an above-average risk of poverty in Austria (cf. Troger/Anibas 2001). The distributive effect of the health care system is less clear, because it is strongly related to a person's age.

In the educational sphere, the situation is somewhat different, for the publicly financed educational system in Austria per se is not an instrument of redistribution (Biffl 2002). Its primary task lies in raising the general level of education in order to promote equality of opportunity and equitable access for children of all social strata (Bacher 2004b). Nevertheless, the following distributive effects can be observed. Public school expenditures disproportionately benefit households from the bottom half of the income distribution. Of these households with pupils, in turn, those with the highest number of school-aged children profit the most. The public school expenditures thus have a progressive effect on the income distribution (Halsmayer 2009).

In the coming years, the consequences of the international economic crisis will be of particular relevance to questions about the role of state redistribution (Guger 2009). On the one hand, different population groups have been affected to differing extents. On the other hand, when it comes time to finance the budgetary follow-up costs from the policies pursued to cushion the crisis, new questions about the distributive effects of the country's tax and contribution systems will be raised.

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## Appendix

**Table 7.1: Log Table with Trends in Inequality as well as important Social, Political, Cultural and Policy Indicators**

	1980s	1990s	2000s	Corresponding table / graph
<b>Inequalities:</b>				
Household inequality	=	+	=	Figure 2.1
Poverty	+	+	=	Figure 2.2
Wage inequality		+	+	Figure 2.5, 2.6
Returns to tertiary education	-	-	=	Table 2.11
<b>Social Impacts:</b>				
Severe material deprivation			+	Table 3.1
Material deprivation rate total			+	Figure 3.1
Material deprivation rate under age 18			+	Figure 3.1
Material deprivation rate age 18-64			+	Figure 3.1
Material deprivation rate age 65+			-	Figure 3.1
At-risk-of-poverty rate ISCED 0-2			+	Figure 3.2
At-risk-of-poverty rate ISCED 3-4			=	Figure 3.2
At-risk-of-poverty rate ISCED 5-6			=	Figure 3.2
Poverty risk and social exclusion			-	Table 3.2
Number of individuals consistently poor		=	-	Table 3.3
Social cohesion			-	Table 3.4

Total fertility rate	-	-	+	Figure 3.3
Marriages	-	-	-	Figure 3.4
Divorce rate	+	+	=	Figure 3.5
Family characteristics: single parents		+	=	Figure 3.6
Life expectancy at birth	+	+	+	Figure 3.7
Subjective health status: (very) good		+	+	Table 3.6
Chronically ill			+	Table 3.7
House price change		-	+	Figure 3.9
Criminal convictions	=	=	-	Table 3.8
Criminal offences: reported		+	-	Table 3.8
Criminal offences: resolved		+	-	Table 3.8
Number of prisoners			+	Table 3.9
Persons experienced victimisation			=	Table 3.9
Life satisfaction			-	Figure 3.10
Suicide rate			-	Table 3.10
General life satisfaction of employees		+	-	Figure 3.11
<b>Political &amp; Cultural Impacts:</b>				
Voting Turnout in general elections	=	-	-	Table 4.1, Figure 4.1
Voting Turnout in European Elections		=	-	Table 4.2, Figure 4.2
Union density	-	-	-	Figure 4.3

Membership in civic / political organization	-	-	-	Figure 4.5
Trust in institutions / others		=	=	Figure 4.7, Table 4.4.
Voting for extreme parties	+	+	-	Figure 4.9
Approval of EU membership		=	=	Figure 4.10
Attitudes towards immigration			+	Figure 4.11
Legitimacy of meritocratic principles	=	=	=	Table 4.6, Figure 4.12, Figure 4.13
Perception of inequality as to large	+	-	+	Figure 4.14
Perception of Role of government in redistributing wealth	+	-	+	Figure 4.16
Poverty cause: individual failure		-	-	Table 4.8
<b>Welfare state:</b>				
Total taxes			=	Figure 5.3
Social expenditures in % of GDP - Total	+	+	=	Figure 5.4
Cash benefits	+	+	=	Figure 5.4
Cash in kinds	=	+	+	Figure 5.4

The authors of the underlying report ask to keep caution with causal interpretations. Change in inequalities is generally low in Austria between 1980 and 2010 compared to other countries. There is little evidence for causal links between change in inequalities and social, political and cultural outcomes.