

# Has Accession to the EU and Monetary Union Changed Austria's Labor Market?

## State of Play and Need for Action

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*Amid increasing internationalization, the domestic labor market had undergone fundamental changes even before Austria joined the EU. In the ten years since, total employment has virtually risen as fast as in the decade before accession, while the increase in dependent employment has been more moderate. Total, long-term and youth unemployment has continued to be low by international standards. Modest growth of wages and unit labor costs has promoted price stability and reinforced Austria's competitiveness. Growth of real wages, however, has slowed down. Many structural problems on the domestic labor market were already in sight at the time of accession. Austria may yet better utilize its unused potential in the employment of women and, in particular, of older people.*

### 1 Introduction

Since early 1995, the following three factors have influenced developments on the Austrian labor market: Austria's accession to the EU, its membership in monetary union (which had already been in sight at the time of EU accession and became effective in 1999) and the ensuing requirement of meeting the Maastricht convergence criteria. The entry into the EU in itself does not seem to have triggered a sudden change in the Austrian economy and its labor market, since as early as 1973, a Free Trade Agreement between the European Community and Austria had started a long process which saw the EU's Single Market and the European Economic Area (EEA) be created well before Austria joined the EU.

Then, the labor market, boasting highly positive data by international standards, already saw some problems emerge: At the beginning of the 1980s, unemployment (and its duration) shot up and was remarkably persistent since then (Pichelmann and Hofer, 1999), which pointed to structural problems in the Austrian labor market. The publication in 1994 of the OECD Jobs Strategy more or less coincided with Austria's accession to the EU. The OECD found and still finds that problems in European labor markets have structural causes, with inflexible regulatory frameworks and

institutions (and the educational system) rendering an adaptation to structural change in the economy impossible; in times of increasing internationalization, this is a hindrance to further progress (Biffel, 1994).

In section 2, the development of employment and unemployment in the decade up to 1995 is compared with that in the decade after EU accession. Next comes an outline of how unemployment has developed in Austria, followed by a comparison with the EU average. Then, the section discusses how the employment rate, working time and labor volume have developed. Section 3 shows the development of real wages, nominal wages and unit labor costs. Section 4 deals with labor market flexibility in response to macroeconomic shocks. Finally, section 5 is dedicated to a more detailed discussion of labor market policy, structural problems of the labor market and labor market reform.

### 2 Employment and Unemployment

Assessing labor market developments will always involve a close look into the development of employment and unemployment. The following analysis draws on frequent comparisons of the decade before EU accession (the "reference decade," ranging from 1985 to 1994) and the decade after accession (the "EU decade," spanning the period

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from 1995 to 2004). Naturally, comparisons of this type are always disputable: It is a deliberate decision to take ten years as a period, but in view of the ten-year anniversary this basically suggests itself. The reference decade was characterized mainly by the long phase of growth, which was carried by the expansion following the recession at the beginning of the 1980s and was disrupted by a short period of recession only (1992/93). The EU decade has seen both a short recession (1995/96) and a sustained period of slow economic growth from 2001 to 2003.

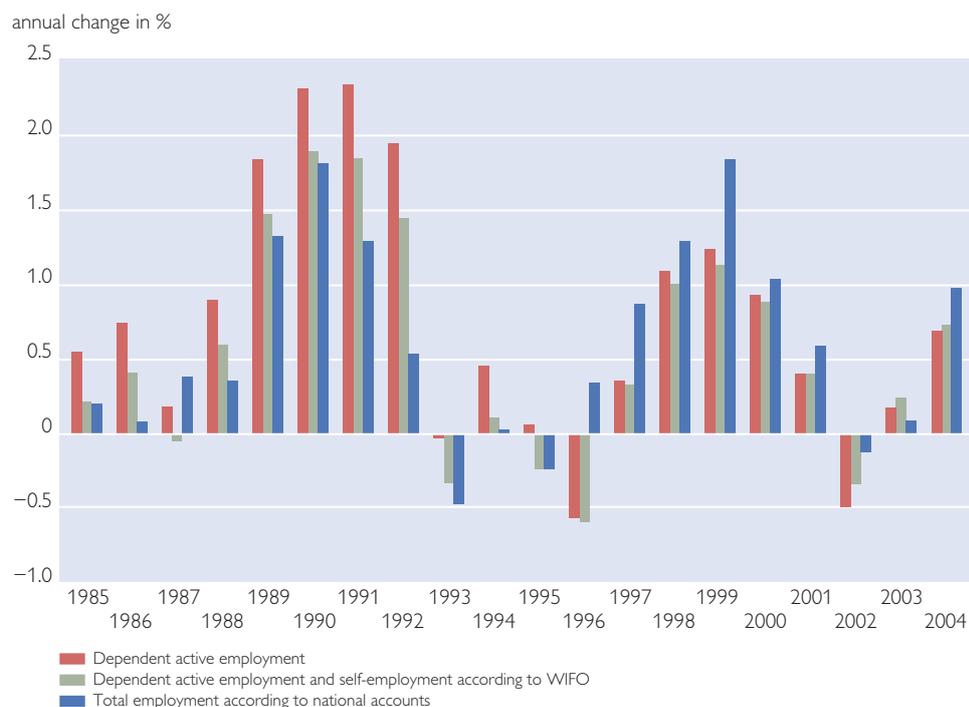
### 2.1 Subdued Growth of Dependent Employment, but No Reduction of Total Employment Growth

Based on different indicators, chart 1 shows the development of employment growth since 1985. Table 1 com-

pares the reference decade with the EU decade. It is evident from the first time series, which represents employment growth according to the Main Association of Austrian Social Security Institutions, that the average growth rate was higher in the reference decade: Employment growth in the EU decade equaled 0.4%, which is considerably lower than in the reference decade (1.1%). Measured against another indicator, which combines the number of jobs with that of self-employed persons (computed by the Austrian Institute of Economic Research, WIFO), the difference between the two decades is somewhat smaller (0.8% versus 0.4%). This is due to the number of self-employed persons which declined until the mid-1990s and has since then uptrended again. The greater weight of self-employment is reflected in the increasing importance of business

Chart 1

#### Employment Growth in Austria



Source: WIFO Economic Data Bases, Statistics Austria.

Table 1

Average Annual Employment Growth as Shown by Different Indicators		
%	1985–1994	1995–2004
Dependent active employment (regular dependent employment not including parental leave and military service)	1.1	0.4
Dependent active employment and self-employment according to WIFO	0.8	0.4
Total employment according to national accounts	0.6	0.7
Total employment according to European Union Labour Force Survey <sup>1)</sup>	x	0.4

Source: WIFO, European Commission (2004a).  
<sup>1)</sup> 1995–2003.

start-ups as well: Between 1995 and 2004, their number more than doubled, rising from approximately 14,200 to 29,700.<sup>2</sup> Table 1 shows that, based on household surveys,<sup>3</sup> employment growth between 1995 and 2003 came to 0.4%.

Finally, growth of total employment according to national accounts, which amounted to an average value of 0.7%, has even been slightly faster than the increase during the reference decade (0.6%). Employment according to national accounts is probably the most comprehensive indicator of labor input. On the one hand, the difference

between this row and dependent employment is due to the turnaround in the number of self-employed persons. On the other, this measure contains also nonstandard employment relationships, such as those of part-time workers below a certain earnings level, which is another factor producing different growth rates.<sup>4</sup> It should be emphasized that all these measures have not been adjusted for working time, which is a particular problem with employment according to national accounts, since for instance regular and nonstandard employment are weighted equally here.

<sup>2</sup> Austrian Economic Chambers (2004), *Wirtschaftsblatt*, March 30, 2005.

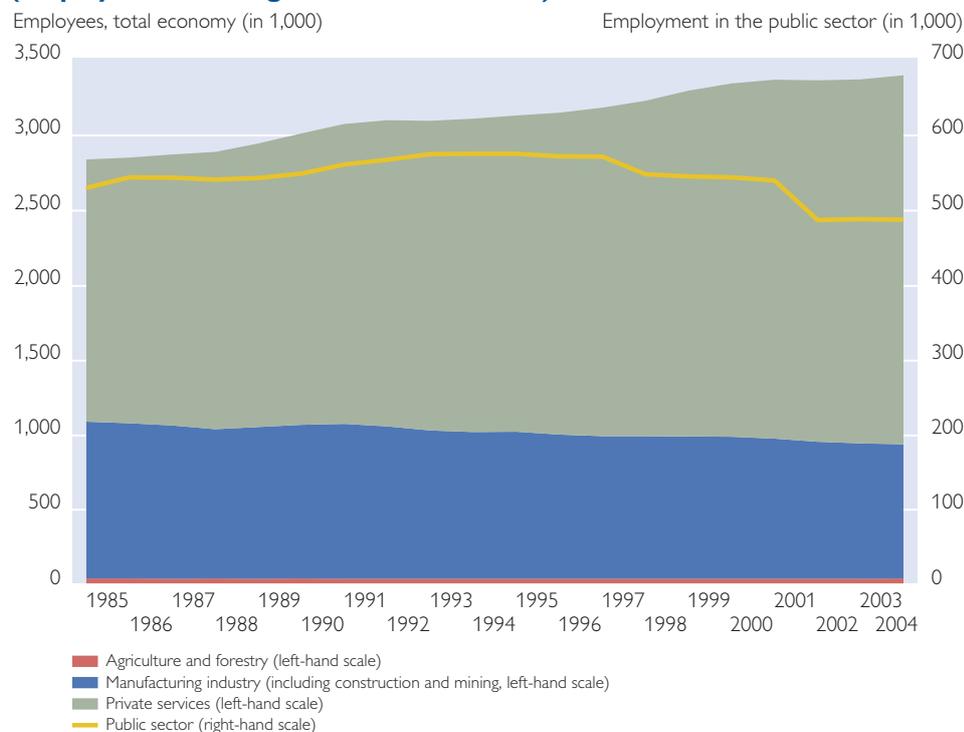
<sup>3</sup> Hawlik (2005) gives an overview of the definition and statistical sources of different employment aggregates.

<sup>4</sup> See Walterskirchen (2004).

Chart 2

### Employment by Sectors and Public Sector Employment

(employees according to national accounts)



Source: AMECO database, Statistics Austria.

### 2.2 Growth of Employment in Private Services, Decline in Public Sector Employment

An analysis of the individual sectors (chart 2) reveals that growth in the tertiary industry continued into the EU decade, while the manufacturing industry saw a sustained decrease in employment in absolute terms. Over the past ten years, public sector employment, a driving force behind aggregate employment growth between the early 1970s and the middle of the 1990s, declined as well (OECD Economic Survey of Austria, 1997).

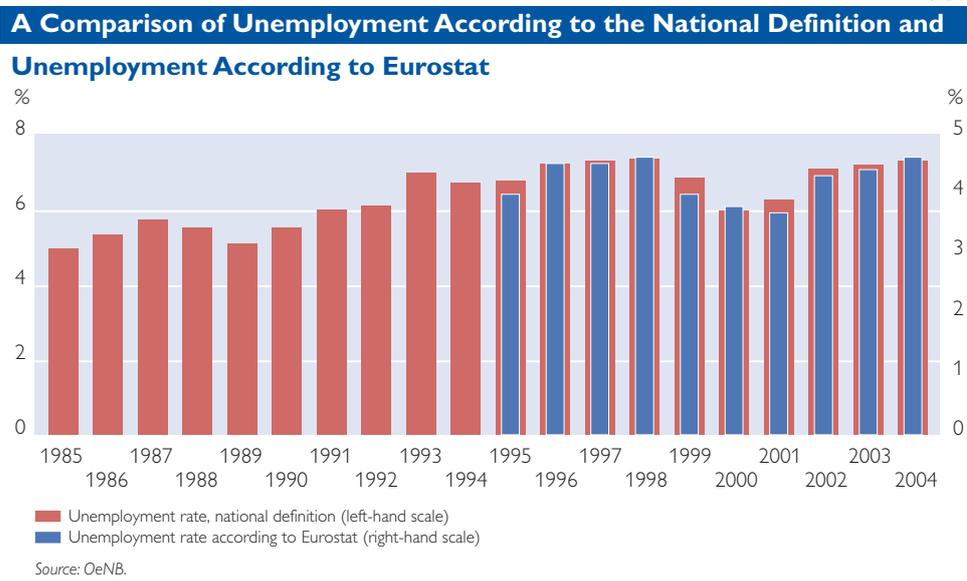
### 2.3 Unemployment

In absolute terms, the number of unemployed was higher in the EU decade than in the decade before EU accession: Between 1985 and 1994, the average number of unemployed persons

equaled 174,000, which contrasts with 225,000 since EU accession. The relatively slower growth of dependent employment caused the unemployment rate (national definition) to climb significantly: In the reference decade, the latter stood at 5.6%, mounting to about 6.7% in the EU decade.

Chart 3 captures both the development of the annual unemployment rate (national definition) since 1985 and that of the unemployment rate according to Eurostat since 1995. The latter has risen from 3.8% to 4.5% today. Both unemployment measures decreased considerably between 1999 and 2001 before increasing significantly in 2002; since then, they have been climbing at a modest pace. Judging from the right half of the chart, structural unemployment seems to have edged up not at all or only slightly during the EU decade, which

Chart 3



means that fluctuations were mainly ascribable to cyclical factors.

#### 2.4 Total, Long-term and Youth Unemployment below the EU Average

Before its accession to the EU, Austria had a relatively low unemployment rate by international standards, which is still the case today: In the year of accession, average EU-15 unemployment ran to 10.5%. Although it has fallen significantly until 2004, at 8.0%, the EU-15 rate continues to be considerably higher than that of Austria. The increase in unemployment started at a much lower level in Austria compared with the majority of European countries. Owing to the permanently low rate, the share of long-term unemployed persons has invariably remained small; accordingly, it was lower in 2003<sup>5</sup> than in the year of accession. Long-term unemployment

comes to only half the amount of the EU average; the situation is similar in youth unemployment. Aside from cyclical fluctuations, the latter has remained largely unchanged and is still considerably lower than the EU average (chart 4).

#### 2.5 Employment: European Employment Strategy and Lisbon Targets

The European Employment Strategy (EES) was adopted at the Luxembourg Jobs Summit in November 1997; it was meant to better coordinate national employment policies with a view to achieving full employment and a high quality of jobs by means of Employment Guidelines and National Action Plans.<sup>6</sup> The EES soon evolved into a broader economic policy program called Lisbon Strategy. In 2000, the EU set itself the goal of better utilizing the potential labor resources available. Therefore, it defined an overall

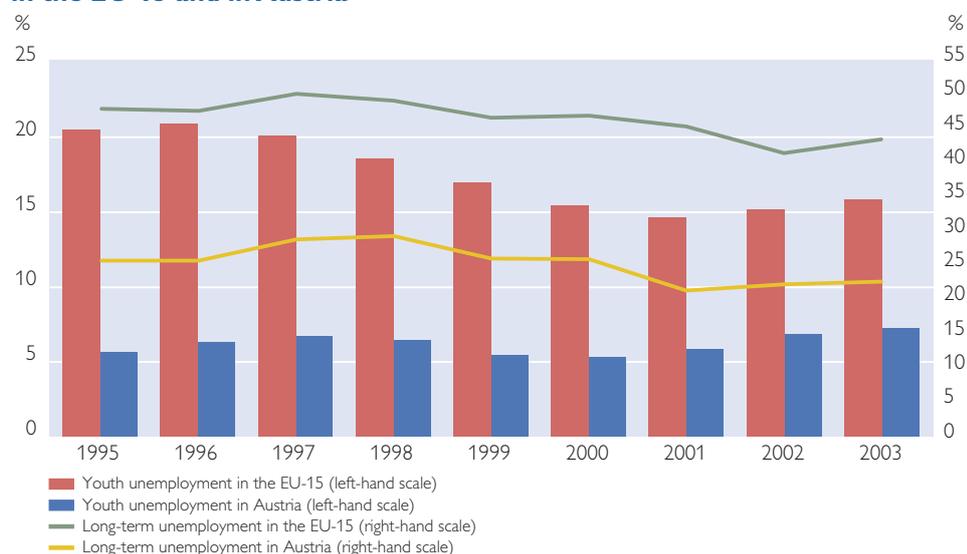
<sup>5</sup> According to figures published by the Austrian Public Employment Service (AMS), long-term unemployment rose slightly in 2004. Relevant figures for the EU-15 are not yet available.

<sup>6</sup> For details on the EES and Austria's contributions in this respect, see Federal Ministry of Economics and Labour (2004). For a critical analysis, see Schweighofer (2003).

Chart 4

**Long-term Unemployment<sup>1)</sup> and Youth Unemployment<sup>2)</sup>**

**in the EU-15 and in Austria**



Source: OECD, European Commission (2004a).

<sup>1)</sup> Share of long-term unemployment persons as a percentage of total unemployment.

<sup>2)</sup> Rate of unemployment among persons aged between 15 and 24.

employment target (70% by 2010), which was later complemented by targets for the employment of women and older people.<sup>7</sup> Table 2 provides an overview of the current situation and progress toward these objectives since 1995 and 1999, respectively. Austria has almost achieved the overall employment target of 70%;<sup>8</sup> employment has, however, risen only slightly since the accession to the EU. Furthermore, Biffel (2002) points out that Austria's remarkable total employment rate is, inter alia, attributable to the high rate of young people (aged between 15 and 24) in employment. This, in turn, is a result of the important role apprenticeship training plays.

In terms of female employment, Austria's rate lies above the target of 60%. Here, Austria has seen significant

growth of more than 3 percentage points since both 1995 and 1999. In this respect, the situation in Austria is similar to that in the entire euro area, where an uptrend in the employment of women is observable (Genre and Gómez-Salvador, 2002). Austria's total and women's employment rates are each above the EU average, whereas the participation of older people in the labor market falls well short of the employment targets and stands substantially below the EU average. The discrepancy between target and actual rates amounts to almost 20 percentage points, more than double the amount of the EU average. Austria's low rate of employment of older people is probably traceable to the trend toward early retirement.

<sup>7</sup> At the European Council of March 2005, the Lisbon Strategy was relaunched to refocus on growth and employment in Europe.

<sup>8</sup> Yet, the results of the Austrian microcensus and the labor force survey 2004 already available indicate that, due to improvements in the survey method used, the employment rate will be revised downward by 1 or 2 percentage points.

Table 2

Employment Rates in Austria in 2003 vis-à-vis the Lisbon Targets					
Employment rate	EU-15	Austria	Discrepancy between target (2010) and actual rates	Overall change 1995 to 2003	Overall change 1999 to 2003
	%		Percentage points		
Total	64.3	69.2	0.8 (70%)	0.4	0.6
Women	56.0	62.8	> (60%)	3.9	3.2
Older workers (between the ages of 55 and 64)	41.7		19.6 (50%)	0.7	0.7

Source: European Commission (2004a).

## 2.6 Working Time and Volume of Work

Increased employment rates do not automatically go hand in hand with higher labor input, since the underlying labor force surveys only refer to the number of people in the labor market regardless of their working hours. Between 1990 and 2002, the actual working time per employed person decreased slightly on the back of growing part-time work. Hours per full-timer, by contrast, even rose (OECD,

2004). Between 1995 and 2003, the percentage of part-time employment advanced from 12.5% to more than 20.2%. The European Commission also publishes for each country a total employment rate in full-time equivalents. According to these figures for Austria, this measure has hardly changed since EU accession, which since 1996 has steadily amounted to between 63% and 64% (63.1% in 2003). Most part-timers are women (OECD, 2004).

Table 3

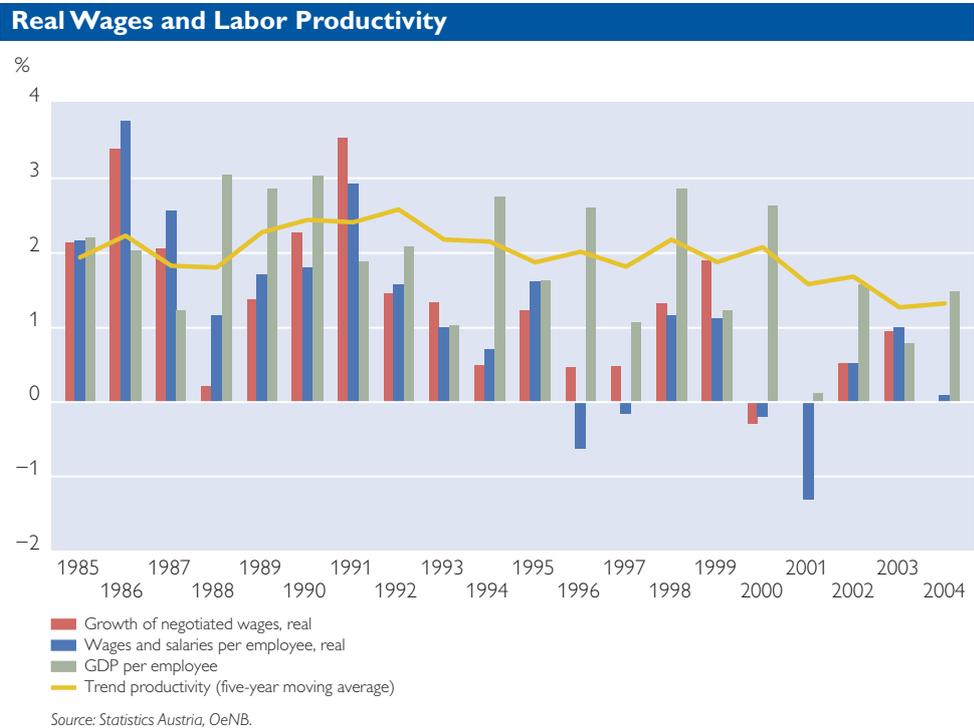
Indicators for Wages, Salaries and Income				
average annual change	1985 to 1994	1995 to 2004	Difference in percentage points	
	%			
Negotiated wages, nominal	4.6	2.4		-2.3
Negotiated wages, real <sup>1)</sup>	1.8	0.7		-1.2
Wages and salaries per employee, nominal	4.8	2.0		-2.7
Wages and salaries per employee, real <sup>2)</sup>	2.0	0.3		-1.6
Labor productivity (GDP per employee)	2.2	1.6		-0.6
Unit labor costs, nominal <sup>2)</sup>	2.5	0.4		-2.1

Source: OeNB.

<sup>1)</sup> Deflated by the growth of the consumer price index (CPI).

<sup>2)</sup> Growth of wages and salaries per employee (nominal) minus growth of labor productivity.

Chart 5



### 3 Development of Wages and Salaries

#### 3.1 Slower Growth of Real Wages

In terms of negotiated wages, real wages increased by about 1.8% per year in the reference decade and by 0.7% since EU accession. The average annual growth of wages and salaries per employee (according to national accounts) was 2.0% between 1985 and 1994 and 0.3% since EU accession (chart 5 and table 3). In chart 5, annual growth rates of labor productivity (GDP per employee) and trend productivity (five-year moving average) are shown as additional time series. Growth of labor productivity has slowed down to some extent, but at the same time real wage gains have clearly fallen behind the development of labor productivity since 1995.

#### 3.2 Monetary Union-Induced Wage Moderation and Enhanced Unit Labor Cost Position in Relative Terms

Aside from growth of nominal wages, table 3 also shows the rate of growth of unit labor costs. In comparison with the reference decade, the latter contracted considerably from 2.5% to 0.4%. The lower rate of unit labor cost growth has made an important contribution to price stability and is sometimes interpreted as “wage moderation” exercised by those involved collective bargaining in the run-up to Stage Three of Economic and Monetary Union (EMU). Hofer and Pichelmann (2002) show that wage pressures in the euro area (measured by means of a refined real wage gap indicator<sup>9</sup> decreased markedly from

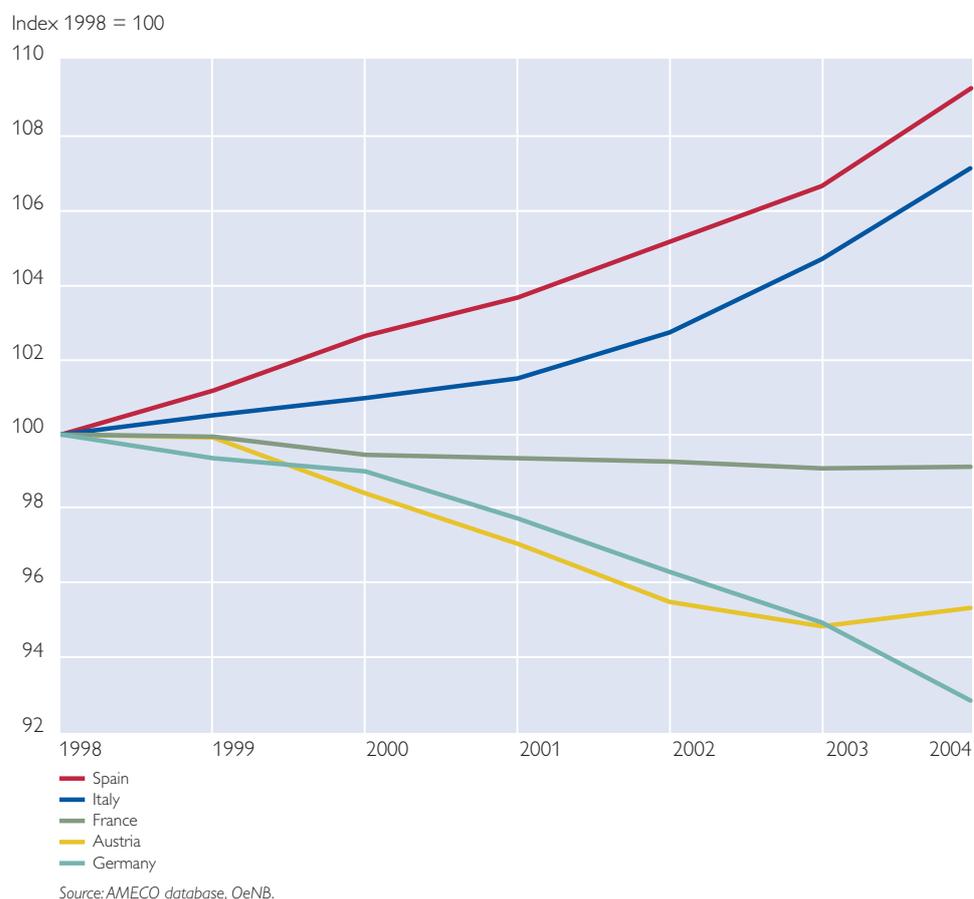
<sup>9</sup> The real wage gap denotes the difference between the development of real wages and productivity growth.

the mid-1990s to 2001. The latest figures on wage developments indicate that the above-mentioned wage moderation has continued (except for the period between 2001 and 2003 when cyclical factors triggered an increase in unit labor costs). Over the decade since accession, Austria's unit labor cost position in relative terms

improved considerably (Pollan, 2004; European Commission, 2004b). Taking unit labor costs as a measure of price competitiveness, we find that Austria's real effective exchange rate – like Germany's – improved in comparison with most EU Member States since the start of monetary union in 1999 (chart 6).

Chart 6

### Relative Unit Labor Costs in Selected Euro Area Countries



#### 4 Macroeconomic Labor Market Flexibility

Since the potential of exchange rate adjustments disappeared when Austria entered into monetary union, the flex-

ibility of labor markets has played an essential role. Labor market flexibility in this context encompasses several aspects, such as flexibility of labor demand and of labor costs as well as

supply-side mobility of workers, e. g. the willingness of employees to change their residence or accept jobs that are outside their home region.

#### 4.1 Macroeconomic Real Wage

##### Flexibility and Output Sensitivity of the Austrian Economy Still High

A high degree of wage flexibility may prevent adverse shocks from causing significant fluctuations in employment and thus driving up unemployment. According to older studies, the Austrian economy has a high degree of short- and long-term real wage flexibility, which is only of minor consequence for employment (Hofer et al., 2001). This high sensitivity of overall wage fluctuations is thought to be attributable to the Austrian social partnership-based system of wage negotiations (Pichelmann and Hofer, 1999), which is regarded as quite centralized and coordinated (OECD, 2004). More recent simulations by the European Commission (2003b) confirm that wages in Austria have been highly sensitive to macroeconomic shocks in the more recent past as well, while the output of the Austrian economy has hardly responded to them.

#### 4.2 Growing Micro Dynamics

Aside from the aggregate level, the response of employment has also been examined at the level of individual businesses since the early 1990s. The figures for Austria presented by Stiglbauer et al. (2003) point to a continuous increase in annual job reallocation (the sum of jobs created and jobs destroyed) between 1985 and 1998. Yet, in a comparison drawing on standardized data, Gómez-Salvador et al. (2004) state that in Austria the micro dynamics measured in this way is low relative to the other countries studied (after controlling for firm characteris-

tics, etc.). This is true in particular for job creation. The outcome of another study indicates that the stability of jobs declined slightly between 1993 and 2002 (Huber et al., 2004).

#### 4.3 Regional Mobility of Employees

##### Has Risen Slightly, Employment of Foreign Labor on the Increase

By international standards, interregional mobility of European labor is low. During the 1980s and 1990s, less than 1% of the European population decided to have a change of residence to another region (gross mobility). Regional mobility in Austria seems to be average. According to Eurostat figures on regional migration, which were analyzed by Huber (2004), gross mobility increased somewhat between 1995 and 1999 from 0.89% to 0.93%; in other words, it was higher than in Southern Europe and, at the same time, lower than in countries with a particularly high degree of mobility (for instance, Scandinavian countries, the Netherlands and the United Kingdom).

Austria has been attracting more and more foreigners. The largest growth of foreign employment took place in the decade before EU accession: In 1984, almost 139,000 foreigners were employed in Austria, whereas ten years later this number had more than doubled. In the decade after EU accession, employment of foreigners continued to grow, albeit at a slower pace. According to the Main Association of Austrian Social Security Institutions, in 2004, close to 362,000 foreigners held jobs in Austria, which corresponds to an increase in foreign labor by approximately 24% over the past decade. Moreover, demographic data show that net migration to Austria has risen during this period of time (Eurostat, 2004).

When the EU was enlarged in May 2004, most of the EU-15 Member States (including Austria) did not want to open up their labor markets for workers from the acceding countries. Thus, transitional periods were agreed upon that may be extended to up to seven years. In the light of the rather low income levels in Central and Eastern European countries, employees' representatives feared that the influx of labor from these countries could both reduce wages and push up the rate of unemployment. Labor with a low level of qualification might be hit hardest. On the other hand, it is doubtful whether even more foreign labor will try to enter the Austrian labor market, for the degree of regional mobility of employees from the new Member States is relatively low (Huber, 2005).

## **5 Economic Policy: Challenges and Need for Action**

Against the background of the permanently high rate of unemployment in Europe, the issue of structural labor market reform has become more and more the center of attention (Biffl, 1994; ECB, 2000). Kubin and Rosner (2001) underline that measures aiming at the regulation of the labor supply had prevented unemployment from increasing faster until the middle of the 1990s, but are no longer acceptable in today's environment. The OECD Jobs Strategy of 1994 provided a substantial impetus for the implementation of structural reform. The 1997 OECD Economic Survey contains a couple of specific recommendations;<sup>10</sup> the Economic

Surveys published since then have produced an overview of progress made toward these recommendations from an OECD perspective. The EU, too, has more and more often called on the Member States to launch structural reform. The report published by the Employment Taskforce (2003) states that in Austria there is a need for action in the following fields: Promoting the mobility of employees and more flexible employment relationships, reforming the tax and social benefit systems for low earners as regards incentives to work, reducing early retirement and creating incentives for businesses to employ older people, increasing the rate of employment of women and creating incentives for lifelong learning. The EU's 2000 Broad Economic Policy Guidelines identified a need for reform in particular regarding the low effective retirement age and the effects of incentives within the tax and social benefit systems (European Commission, 2004c). The following subsections deal with issues that have recurred in the discussion on reform over the past ten years and outline economic policymakers' reaction to them.

### **5.1 Structural Wage Rigidities by Sectors and Age Groups**

Although the above-mentioned high degree of aggregate wage flexibility is generally acknowledged, many experts point to existing wage rigidities capable of hampering adjustments in the labor market. This applies to sectoral, job-specific and regional wage differentiation as well as age-specific differences in wage levels.

<sup>10</sup> The following proposed measures of reform, which have an indirect influence on the labor market, are not dealt with here: reform of the educational system, development and dissemination of technological know-how, subsidies for business start-ups as well as competition policy in product markets.

Since the data available on job-specific differentiation are insufficient, the discussion concentrates on sectoral differences in wage levels. As regards the 1980s and early 1990s, Hofer et al. (2001) state that the sectoral wage structure in relative terms (measured against industry-specific bonuses) hardly changed. Sectoral wage differentiation (measured against the variation coefficient) has hardly changed since the early 1990s either (Guger and Marterbauer, 2004). Likewise, the degree of regional wage differentiation in Austria seems to be low (European Commission, 2003a).

The OECD criticizes uniform wage changes, which it says are caused by Austria's quite centralized system of wage negotiations, and calls for opening clauses which enable businesses to deviate from pay rises laid down in collective agreements. Given the large number of collective agreements, which are in part broken down by sectors, occupational groups and regions, Austria seems to have some potential for a high degree of wage differentiation. Distribution options designed to facilitate this were introduced in some collective agreements in the late 1990s, but they have rarely been used.

Furthermore, the Austrian wage structure – in particular among salaried employees and civil servants – is characterized by a steep age income profile (Bauer and Lamei, 2003), which is brought about by automatic increments laid down in many collective agreements. This is probably one

of the reasons why older people face considerable difficulties in getting or keeping a job in the Austrian labor market (Hofer et al., 2001).

## 5.2 Making Better Use of the Potential Labor Supply

As early as 1995, the OECD Economic Survey pointed to the relatively low rate of employment of women and the extremely low rate of employment of older people. These two issues have remained key challenges for Austria's economic policymakers.

### 5.2.1 Raising the Rate of Employment of Older People

Since the late 1970s, more and more measures have been taken to facilitate people's access to retirement (early retirement pensions, which are mainly invalidity pensions and retirement due to long insurance).<sup>11</sup> In view of demographic factors and Austria's public finances, this is not sustainable. Stricter rules for gaining access to early retirement were already established in the middle of the 1990s. By adopting the pension reforms of 2000 and 2003, policymakers decided to gradually adapt the early retirement age to the statutory retirement age; this is meant to limit the number of early retirement pensions and thus to bring the effective retirement age in line with the statutory one. At the same time, it should be ensured that people do not increasingly resort to substitutes for early retirement (such as old-age part-time employment schemes or invalidity

<sup>11</sup> Between 1972 and 1987, men's average retirement age decreased from more than 62 years to less than 58. In 2003, it corresponded to about 59 years (Main Association of Austrian Social Security Institutions, 2005). According to Kubin and Rosner (2001), earlier generations of employees were not in a position to make frequent use of early retirement provisions due to long insurance because of war and captivity. Later generations of employees were more likely to benefit from these types of pensions, which has added to the reduction of the effective retirement age. Lutz and Walterskirchen (2004) note that until recently the trend toward early retirement continued both in the public and private sectors.

pensions), which would counteract the effects produced by the reform measures.

### **5.2.2 Promoting the Employment of Women**

Another approach is to increase the rate of employment of women, i.e. to better integrate them into the labor market. Although its female employment is higher than the EU average, Austria could still learn from the Scandinavian countries or the United Kingdom, because these countries boast women's employment rates of 70% or higher. One reason for the lower rate of employment of women in Austria is their lower statutory retirement age (60 versus 65), the increase of which was agreed upon in 1992 in order to bring it gradually closer to that of men between 2024 and 2033 (Guger and Mayrhuber, 2004). Another reason is the interruption of women's professional careers for child rearing. Support for families in Austria, which is quite generous by international standards, may worsen women's job prospects. The introduction of the "Kindergeld" childcare benefit in 2002 and the related extension both of the range of beneficiaries and the benefit period are likely to cause more women to withdraw from the labor market temporarily, thereby reducing their chances of re-entering the labor market (Lutz, 2003; OECD Economic Survey, 2003.) On the other hand, the amount of earnings allowed without loss of benefits was raised as well, which may in turn have positive effects on employment. Actually, the number of women on parental leave has risen by about 50,000 between the beginning of 2002 and 2005, while the number of women employed has increased by 30,000. The provision of

childcare facilities and the elimination of differences in wage levels between men and women are crucial to driving up the rate of employment of women (Kubin and Rosner, 2001; Employment Taskforce, 2003).

### **5.3 Liberalizing Employment and Working Time**

If employment can adapt to temporary and permanent changes in aggregate demand more easily, the flexibility of the labor market will, by extension, increase and new jobs and innovative ideas will be more likely to emerge. Issues of employment protection fall into this category. Nonstandard employment relationships are closely related to this, since they provide a greater degree of flexibility than regular employment contracts.

#### **5.3.1 Reforming Employment Protection**

Employment protection comprises several aspects under labor law, such as periods of notice, appeals against dismissal before a labor court and possibilities of establishing fixed-term employment relationships. Applied economic research tries to translate these aspects into Employment Protection Indices. The 1997 OECD Economic Survey shows that Austria ranks among those European countries which have the highest degree of employment protection. According to more recent rankings (OECD, 2004), Austria's position is somewhat different, which reflects both measures for greater flexibility and the methodological difficulties of aggregate indices of this type. Anyway, when striving for more flexibility, social security has to be maintained (Employment Taskforce, 2003; OECD, 2004). An essential contribution to this effect is the new severance pay scheme

of 2002; it separates the amount to which the employee is entitled from job tenure.

### 5.3.2 “More Flexible” Types of Employment Gain Importance

Apart from regular employment, non-standard employment relationships have gained importance. So-called marginal employment,<sup>12</sup> which refers to employment that is subject to a limited degree of compulsory social insurance, is a case in point; it is applicable only if the monthly earnings do not exceed a certain limit (currently about EUR 323). The legal basis for such employment relationships has been in existence since 1955; reliable official data on employment became, however, available only in 1995. At that time, the number of marginal jobs stood at some 136,000 and has since risen to approximately 223,000. The increase after EU accession has therefore probably not been higher than in the decade before (Fink et al., 2001). Marginal employment is particularly common in some services sectors (trade, tourism, business support services).

Part of the higher degree of flexibility is also traceable to the greater number of fixed-term employment relationships. These encompass “ordinary” fixed-term employment, temping and seasonal work. According to the OECD (2002), employment relationships of this type increased in Austria between 1995 and 2000, while the number of open-ended contracts declined. In 2003, 7.4% of Austrian labor had fixed-term employment relationships. This figure is below the aver-

age in the EU-15 of 12.8% (European Commission, 2004a). In line with figures published by the Federal Ministry of Economics and Labour (BMWA), the number of temps has significantly grown, mounting from almost 18,000 in 1997 to 44,000 in 2004.

### 5.3.3 Are More Flexible Working Time Arrangements Necessary?

The 1997 OECD Economic Survey recommended providing for more flexible working time arrangements. Since then, working time legislation has been liberalized, which is the basis for collective bargaining agreements. Moreover, employers' representatives have recently pushed for higher working time flexibility (extending daily working time, increasing periods of averaging working time for the purpose of preventing overtime). Employees' representatives counter that the existing regulations provide for enough flexibility.<sup>13</sup> Only a short time ago,<sup>14</sup> the stakeholders agreed not to discuss this issue at the statutory level, but – in a decentralized format – at the level of collective agreements.

## 5.4 Reform of the Unemployment Insurance System

As in many other OECD countries, the question of how to organize the provision of unemployment benefits and job placement services is being discussed as one issue of reform. Reform measures in the tax and social benefit systems for the purpose of creating better incentives to work are closely related to this.

<sup>12</sup> Other types of nonstandard employment comprise contract self-employment, contract work and a group of self-employed called “new self-employed” (see Fink et al., 2001 or Schönbauer and Laburda, 2003, in particular for problems arising in this context).

<sup>13</sup> For a summary of the discussion on working time in Austria, see Stiglbauer (2004).

<sup>14</sup> At the end of February 2005, the social partners participated in a “working time summit” which was held at the invitation of the Federal Minister of Economics and Labour.

#### 5.4.1 Unemployment Benefits and

##### Creation of Incentives to Work

The level of unemployment benefits and the benefit period may be determining factors of how long a person remains jobless. At the beginning of 2001, a reform of the unemployment benefit system established a uniform net replacement rate of 55% (for sole earners; an average rate by international standards). Furthermore, policymakers lengthened the qualifying period of employment which is necessary for being entitled to unemployment benefits again. For low earners and long-term unemployed persons incentives to work are unattractive because the level of marginal effective tax rates is sometimes high (OECD Economic Survey, 2003).<sup>15</sup>

#### 5.4.2 Reform of the Job Placement

##### Service

The former employment service has undergone a step-by-step reform process. In 1994, it was taken out of the federal system (and the Austrian Public Employment Service, AMS, was created). Seven years later, further reform measures were adopted for the financing of the AMS and a better coordination of passive and active support for job seekers (2001 OECD Economic Survey). At the end of 2003, the Austrian social partners submitted a proposal for reforming the rules regarding the acceptability of job offers, which provided for the weakening of the right to be employed in the occupation for which one has trained ("Berufsschutz") and the right to be employed in one's home region ("Regionalschutz"); it entered into force in early 2005.

## 6 Summary

It is not easy to find an answer to the question asked in the title – whether the domestic labor market has changed in the wake of Austria's accession to the EU and monetary union. It is, however, clear that it has been subject to further change and has followed trends which had been in sight even before EU accession. After all, they had been brought about by the increasing internationalization of the Austrian economy.

Depending on the indicator in question, employment growth over the past ten years has been lower than in the decade before or remained virtually unchanged. The unemployment rate, though higher than in the decade before, has hardly changed since EU accession. The rates of total, long-term and youth unemployment are still low in an international comparison. The employment rate relevant to the Lisbon Strategy has risen only slightly during the EU decade. In the run-up to monetary union, wages and salaries were characterized by wage moderation, which resulted in a modest increase in unit labor costs and consequently lowered inflation as targeted; yet, it also held real income growth in check. The Austrian economy still seems to benefit from a high degree of aggregate real wage flexibility, which is one of the reasons why macroeconomic shocks entail only slight fluctuations in output and employment. Signs pointing to higher flexibility are increasing micro dynamics, a higher mobility of employees and the attraction of foreign labor, which is still growing.

International organizations, such as the EU and the OECD, suggest that

<sup>15</sup> For further details, see for instance the article on long-term unemployment in Aiginger and Kramer (2003).

Austria should undertake structural labor market reform. Many of these suggestions were already presented when Austria joined the EU. Making better use of the potential labor supply (by increasing the rates of employment of women and older people), eliminat-

ing wage rigidities, liberalizing employment and working time as well as improving job placement and incentives to work remain to be the key challenges. Although there has been some progress in these areas, further reform measures seem to be necessary.

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