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Policy Forum: Tackling Inequality

Ladies and Gentlemen,

First of all I want to thank the OECD for the invitation and for organising this very important meeting on tackling inequality. I'm very grateful, and I'm honoured to be able to address you all today.

My remarks fall into two parts. The first part deals with income distribution and the role of social systems. In the second part I'll try to give you an idea about Austria's efforts to overcome the economic crisis and to tackle income disparity.

It is very positive that income distribution is a key part of social-political analyses by the OECD. These studies have shown that income disparity has grown significantly in the last 30 years. This is not only causing discontent in large parts of the population, it is also an increasing danger to social cohesion, and it creates more pressure on social spending.

Past experience tells us that economic growth alone is not enough to reduce poverty. If economic growth results in increasing disparity between incomes, a significant part of the population will miss out on the promises of globalisation and technological progress.

Moreover, I believe that increasing income inequality has contributed to the financial crisis with its terrible effects on the real economy and on national budgets. Income disparity leads to more and more interventions by the welfare state, trying to maintain social cohesion. In addition, social security systems that are largely funded by income-related contributions suffer from lower or stagnating wages and become harder to sustain.

Growing income inequality is often seen as a necessary consequence of globalisation. However, recent OECD analyses show that the opposite is true. The situation differs in different member states: generally, those countries with effective welfare systems not only have lower income disparity but have also experienced more successful economic development. Such economic success requires investment in education, social infrastructure and social benefits.

How does Austria handle the challenge of growing income disparity? Despite difficult general conditions, social partnership still plays an important role in Austria. For more than 90% of employees, wages are collectively agreed, with the aim of creating a productivity-oriented

wage policy. Although in Austria - like in other countries - wages are becoming a smaller and smaller part of national income, this development is a lot less drastic compared to other OECD countries. The number of people classified as “working poor” is far lower in Austria. This is due to an effective system of social partnership, less income disparity, a high rate of economic participation and the high standard of labour rights.

In accordance with the flexicurity model, Austria has a balanced approach towards employer flexibility, on the one hand, and a high level of labour rights, on the other. Unlike other countries, Austria has not encouraged the formation of a low-wage sector. On the contrary – a few days ago the Austrian Parliament passed a law to fight wage dumping even more effectively.

It is true that Austria, too, has experienced a moderate rise in market income disparity. But taking into account the mitigating effect of social benefits, there has hardly been any increase in household income inequality. This illustrates the important function of social benefits. Lower benefits would lead to far more dramatic income inequality, as the vast majority of people profiting from these benefits have low household incomes.

While repairing our budget in the wake of the financial crisis, we were very careful not to burden low-income benefit recipients. Minimum income benefit schemes were not cut back. Rather, minimum pensions, low unemployment benefits and social assistance benefits were increased. We did not think it would be fair to additionally burden people who suffered most from the effects of the crisis.

40% of Austria's budgetary consolidation effort is focused on revenues, 60% on spending. However, social benefits are not disproportionately affected by spending cuts - all policy areas are affected equally. On the revenue side, those taxes will be raised that have a regulatory effect, such as the taxes on tobacco and on petrol. Taxes on wealth will also be increased, in particular taxes on capital gains.

In the past there were tendencies in Austria – as in most other countries – to reduce the taxation of wealth and property. Looking back, this was clearly not the right way to go, not only from a moral, but also from an economic point of view. This development will definitely have to be reversed.

I want to thank the OECD once again for focusing on the issue of income inequality. And I hope that this topic will play an even more prominent part in the political agenda in future.

Thank you very much.