

AUSTRIA

Rank: 30

Regional Rank: 16 of 41

Austria's economy is 70 percent free, according to our 2008 assessment, which makes it the world's 30th freest economy. Its score remains essentially unchanged from last year. Austria is ranked 16th freest among the 41 countries in the European region, putting it well above the regional average.

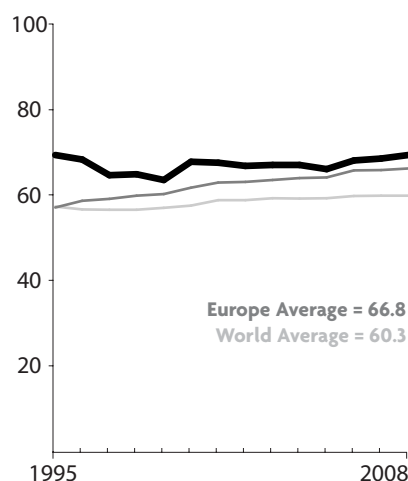
Austria rates above the world average in seven freedoms but far below it in two. It has world-class property protections and clean government. As a member of the European Union, its tariff is standardized at a low rate, and inflation is relatively stable for the euro currency. Starting a business takes a relatively short time. Foreign investors are not subject to particularly stringent requirements.

Austria maintains very high personal income tax rates to support a significant welfare state. Its government size score is some 40 percentage points worse than the average. Commercial regulations have been reduced slightly, although labor laws remain rigid. Hiring and firing employees is difficult, as is true almost everywhere else in the EU, and labor market inflexibility hurts overall competitiveness.

BACKGROUND: Over the past decade, Austria's government has relinquished control of formerly nationalized oil, gas, steel, and engineering companies and has deregulated telecommunications and electricity. From 2000–2007, People's Party Chancellor Wolfgang Schüssel accelerated market reform and significantly limited government intervention in the economy. A major tax reform simplifying both wage and income taxes was enacted in May 2004. In 2005, corporate tax rates were reduced by nearly a third to 25 percent, giving Austria one of Western Europe's lowest corporate rates. Austria's primary trading partners are other EU member states, which account for more than 80 percent of imports and exports.

How Do We Measure Economic Freedom? See Chapter 4 (page 39) for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

The economy is 70% free



QUICK FACTS

Population: 8.2 million

GDP (PPP): \$277.5 billion

2.0% growth in 2005

1.6% 5-yr. comp. ann. growth

\$33,699 per capita

Unemployment: 5.2%

Inflation (CPI): 2.1%

FDI (net flow): −\$374.0 million

Official Development Assistance:

Multilateral: None

Bilateral: None

External Debt: \$594.3 billion

Exports: \$171.2 billion

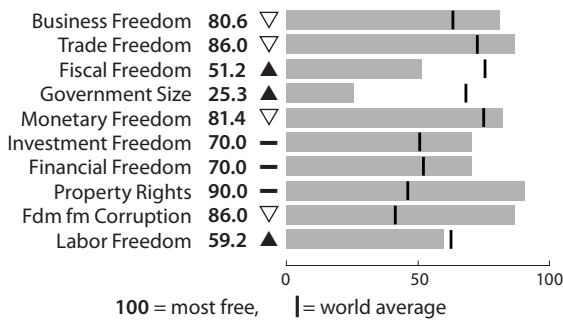
Primarily machinery and equipment, motor vehicles and parts, paper and paperboard, metal goods, chemicals, iron and steel, textiles, foodstuffs

Imports: \$162.9 billion

Primarily machinery and equipment, motor vehicles, chemicals, metal goods, oil and oil products, foodstuffs

2005 data unless otherwise noted.

AUSTRIA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 80.6%

The overall freedom to start, operate, and close a business is relatively well protected by Austria's national regulatory environment. Starting a business takes an average of 28 days, compared to the world average of 43 days. Obtaining a business license involves less than the global average of 19 procedures, and closing a business is easy. The government has moved to streamline its complex and time-consuming regulatory environment.

TRADE FREEDOM — 86%

Austria's trade policy is the same as those of other members of the European Union. The common EU weighted average tariff rate was 2 percent in 2005. Non-tariff barriers reflected in EU and Austrian policy include agricultural and manufacturing subsidies, import restrictions for some goods and services, market access restrictions in some service sectors, non-transparent and restrictive regulations and standards, and inconsistent customs administration across EU members. Consequently, an additional 10 percentage points is deducted from Austria's trade freedom score.

FISCAL FREEDOM — 51.2%

Austria has a very high income tax rate and a low corporate tax rate. The top income tax rate is 50 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT), an advertising tax, and a tax on insurance contracts. In the most recent year, overall tax revenue as a percentage of GDP remained a very high 41.9 percent.

GOVERNMENT SIZE — 25.3%

Total government expenditures, including consumption and transfer payments, are very high. In 2004, government spending equaled 49.9 percent of GDP. With a limited deficit, Austria's government finances are better than those in some other euro zone economies.

MONETARY FREEDOM — 81.4%

Austria is a member of the euro zone. From 2004 to 2006, its weighted average annual rate of inflation was 1.8 percent. Relatively stable prices explain most of the monetary freedom score. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also subsidizes rail transportation and operates some state-owned firms, utilities, and services. An additional

10 percentage points is deducted from Austria's monetary freedom score to account for these policies.

INVESTMENT FREEDOM — 70%

There are no formal sectoral or geographic restrictions on foreign investment. The law grants foreign and domestic capital equal treatment. Foreign investment is forbidden in arms, explosives, and industries in which the state has a monopoly (such as casinos, printing of banknotes, and minting of coins). In 2006, the state partially privatized the postal service, following its earlier partial liberalization of telecommunications. Restrictions exist for non-residents in the auditing and legal professions, transportation, and electric power generation. Investment is subject to strict environmental restrictions. There are no controls or requirements on current transfers, access to foreign exchange, or repatriation of profits. Real estate transactions are subject to approval by local authorities.

FINANCIAL FREEDOM — 70%

Austria's financial system is subject to limited government intervention. An independent supervisory body oversees retirement funds, insurance, securities, and banking (where oversight is also performed by the central bank). Banks offer the full range of services, and the erosion of barriers has led to consolidation. Markets set interest rates, and foreign banks operate freely. The largest bank is a unit of Germany's Hypo-Vereinsbank. In March 2006, the government intervened to support Austria's fourth-largest bank, Bawag PSK, after it almost collapsed from a speculation debacle in a politically charged financial scandal. Tax incentives have been adopted to promote equity investment through pension funds. Financial regulations are transparent and consistent with international norms. The stock exchange, privatized in 1999 and modest in size, has performed consistently better than those of other industrialized countries in recent years. Additional capital is readily available from elsewhere in Europe.

PROPERTY RIGHTS — 90%

Private property is very secure. Contractual agreements are secure, and the protection of private property and intellectual property is well established and effective. There is a long-standing tradition of respect for the rule of law, and the judiciary is independent.

FREEDOM FROM CORRUPTION — 86%

Corruption is perceived as minimal. Austria ranks 11th out of 163 countries in Transparency International's Corruption Perceptions Index for 2006. Any person who bribes either an Austrian or foreign government official is subject to criminal penalties.

LABOR FREEDOM — 59.2%

The labor market operates under inflexible employment regulations that could hinder employment and productivity growth. The non-salary cost of employing a worker is high, and dismissing a redundant employee is costly. The cost of fringe benefits per employee still remains one of the highest in the EU.