

# CHILDHOOD SOCIO-ECONOMIC DISADVANTAGE IN AUSTRIA: A SNAPSHOT OF KEY CHALLENGES

OECD PAPERS ON WELL-BEING AND  
INEQUALITIES  
November 2023 N°19

CHILD WELL-BEING POLICY PAPER



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## Child Well-being Policy Papers

This paper sheds light on childhood socio-economic disadvantage in Austria from a comparative perspective. It sketches the breadth and depth of child poverty and material deprivation in Austria today, and discusses the potential longer-run economic costs of childhood disadvantage once disadvantaged children reach adulthood. It also discusses key policy challenges for Austria to tackle childhood socio-economic disadvantage. This paper contributes to inform the decisions to be taken with regard to the implementation of the European guarantee for children, which aims to stop the transmission of poverty and social exclusion across generations.

# Acknowledgements

This paper was prepared by the OECD Centre on Well Being, Inclusion, Sustainability and Equal opportunity (WISE Centre). It was developed under the leadership of Romina Boarini (Director, OECD WISE Centre). The paper was written by Chris Clarke and Olivier Thévenon. Anne-Lise Faron prepared the paper for publication, and Martine Zaïda provided valuable support and advice on communication and publication.

The authors would like to thank Georg Reibmayr and Christopher Singhuber (Federal Ministry of Social Affairs, Health, Care and Consumer Protection, Austria), Sebastien Turban (OECD Economic Department), Willem Adema, Jonas Fluchtmann (OECD Directorate for Employment, Labour and Social Affairs), Romina Boarini, Nora Brüning (OECD WISE Centre) for valuable comments on an earlier version of the paper.

The OECD gratefully acknowledges the financial support provided by Austria for the preparation of this paper.

# Abstract

In Europe, the introduction of the Council Recommendation establishing a European Child Guarantee has helped put concerns relating to childhood disadvantages higher up on the policy agenda. Structured around ensuring effective access to a series of key child services, the ultimate goal of the European Child Guarantee is to promote opportunities for children from disadvantaged backgrounds and help stop the transmission of poverty and social exclusion across generations. But as European countries move forward with their plans for implementation, it is important to understand what child disadvantage looks like, as well as the potential lifelong effects it can have on children's lives. This paper explores childhood socio-economic disadvantage in Austria from a comparative perspective. It sketches the breadth and depth of child poverty and material deprivation in Austria today, and discusses the potential longer-run economic costs of childhood disadvantage once disadvantaged children reach adulthood, based on findings from Clarke et al. (2022<sup>[1]</sup>). It also discusses key policy challenges Austria will need to consider to tackle childhood socio-economic disadvantage.

# Résumé

En Europe, la recommandation du Conseil Européen établissant une garantie européenne pour l'enfant cherche à faire remonter les questions relatives aux désavantages vécus dans l'enfance dans l'agenda politique des pays. Cette garantie a pour objectif ultime de promouvoir les opportunités pour les enfants issus de milieux défavorisés et de contribuer à stopper la transmission de la pauvreté et de l'exclusion sociale d'une génération à l'autre, et elle est structurée pour cela autour de la garantie d'un accès effectif à une série de services clés pour les enfants. Pour que les pays puissent avancer dans la mise en œuvre de cette garantie, il est important de comprendre à quoi ressemblent les désavantages subis par les enfants, ainsi que les effets potentiels qu'ils peuvent avoir, et ce tout au long de leur vie. Ce document explore les désavantages socio-économiques des enfants en Autriche d'un point de vue comparatif. Il explore l'étendue de la pauvreté et de la privation matérielle des enfants en Autriche aujourd'hui, et examine les pénalités économiques à plus long terme liés aux désavantages socio-économiques connus dans l'enfance, sur la base des estimations présentées dans Clarke et al. (2022<sup>[1]</sup>). Il aborde également les principaux défis politiques que doit relever l'Autriche pour lutter contre les désavantages socio-économiques des enfants.

# Table of contents

OECD Papers on Well-being and Inequalities	1
Acknowledgements	2
Abstract	3
Résumé	4
1 Introduction	7
2 Childhood socio-economic disadvantage	12
2.1 Child income poverty	12
2.2 Child material deprivation	13
2.3 Children with parents with limited educational attainment	19
2.4 Multiple and overlapping child socio-economic disadvantage	20
3 How socio-economic disadvantage affects children's access to key service areas	22
3.1 Early childhood education and care	22
3.2 Health services	26
3.3 Housing quality	28
4 The economic costs of childhood socio-economic disadvantage	31
4.1 The labour market and health penalties associated with childhood socio-economic disadvantage	31
4.2 The monetary value of the labour market and health penalties associated with childhood socio-economic disadvantage	37
4.3 The public finance impact of childhood socio-economic disadvantage	39
5 Main policy challenges	42
References	49
<b>FIGURES</b>	
Figure 1. In Austria, 13% of children grow up in relative income poverty	13
Figure 2. Austria performs well on child material deprivation	14
Figure 3. Austria does particularly well in ensuring children have access to nutrition and clothing	15

## 6 | CHILDHOOD SOCIO-ECONOMIC DISADVANTAGE IN AUSTRIA

Figure 4. Both child social activity deprivation and child leisure activity deprivation have fallen in Austria in recent years	16
Figure 5. In Austria, as in many European OECD countries, there is considerable (though not total) overlap between child income poverty and child material deprivation	17
Figure 6. Children in Austria are comparatively unlikely to be living with low educated parents	20
Figure 7. In Austria, 5% of children are income poor or materially deprived and living with low educated parents	21
Figure 8. In Austria, inequalities in ECEC participation are comparatively very small	23
Figure 9. In Austria, one in four income-poor children live in households reporting an unmet need for childcare	26
Figure 10. Austria has the lowest share of children experiencing unmet health care needs in Europe	27
Figure 11. Regardless of background, very few children in Austria have parent-reported “bad” or “very bad” health	28
Figure 12. In Austria, 5% of children are experiencing severe housing deprivation – a similar rate to the OECD average	29
Figure 13. Unlike in many other European OECD countries, children’s exposure to housing deprivation is not strongly shaped by income in Austria	30
Figure 14. In Austria, employed men and women from the most disadvantaged childhoods earn 23% and 15% less each year than their counterparts with more “average” childhoods	35
Figure 15. Compared to other European countries, the health penalties associated with childhood disadvantage are relatively large in Austria, especially for men	36
Figure 16. In Austria, historic childhood disadvantage costs the equivalent of 3.6% of GDP in lost employment, earnings and health – about average for European OECD countries	38
Figure 17. In Austria, the total budgetary cost of childhood disadvantage is worth the equivalent of just over 1% of GDP	41

### BOXES

Box 1. What do we mean by socio-economic disadvantage in childhood?	8
Box 2. Summary of main policy challenges for tackling child socio-economic disadvantage in Austria	11
Box 3. How is child poverty measured at European level?	17
Box 4. Child-raising allowance (Kinderbetreuungsgeld) in Austria	24
Box 5. How <i>The economic costs of childhood socio-economic disadvantage in European OECD countries</i> explores associations between childhood disadvantage and later health and labour market outcomes	32
Box 6. How <i>The economic costs of childhood socio-economic disadvantage in European OECD countries</i> monetises the health and labour market penalties associated with childhood disadvantage	39
Box 7. How <i>The economic costs of childhood socio-economic disadvantage in European OECD countries</i> explores the public finance impact of childhood disadvantage	40
Box 8. Public transfers for families with children in Austria	43
Box 9. Funding of early childhood education and care services in Austria	46

# 1 Introduction

Growing up in socio-economic disadvantage has important and wide-ranging effects on children's lives. Children from disadvantaged families (see Box 1) often fall behind in skills development, for instance (Clarke and Thévenon, 2022<sup>[2]</sup>). These children frequently do worse in school, and often leave education with poorer knowledge and skills than their more advantaged peers. Socio-economic disadvantage also affects children's physical health, their mental health, and their social and emotional development, among other aspects of well-being and development (Clarke and Thévenon, 2022<sup>[2]</sup>). Through no fault of their own, children from disadvantaged backgrounds too often start life on an unequal footing.

These early inequalities matter for children's well-being now, but also have effects that continue to shape their opportunities and outcomes long after they reach adulthood. As our policy paper "The economic costs of childhood socio-economic disadvantage in European OECD countries" (Clarke et al., 2022<sup>[1]</sup>) helps illustrate, early disadvantage often hampers skill development and educational achievement, in turn limiting disadvantaged children's later prospects in the labour market. While there are exceptions, job options are frequently limited for adults who left education with little or no qualifications. Similarly, in part through its effects on childhood health, childhood socio-economic status is an important determinant of later adult health and freedom from activity limitation (Currie et al., 2010<sup>[3]</sup>; Flores and Kalwij, 2014<sup>[4]</sup>; Currie, 2016<sup>[5]</sup>; OECD, 2021<sup>[6]</sup>; Poulton et al., 2002<sup>[7]</sup>; Jackson, 2015<sup>[8]</sup>).

There are several reasons why countries like Austria should worry about the unequal opportunities typically on offer to children from disadvantaged families. Ensuring all children, regardless of background, have full and equal opportunities in life is first and foremost a matter of equity and fairness. None of us control the conditions that we are born into, and differences in outcomes that can be explained by circumstances beyond our control, like our family backgrounds, are widely seen as unjust by citizens in OECD countries (Ciani, 2022<sup>[9]</sup>).

But beyond fairness, there are also other reasons to be concerned. Social cohesion is one. Societies with little hope of economic progression can foster feelings of exclusion and discontent among disadvantaged groups (OECD, 2018<sup>[10]</sup>). Economic prosperity is another. Lower employment and earnings among adults simply because they come from disadvantaged backgrounds represent wasted talent and lost potential output, while weaker health represents lost welfare (McLaughlin and Rank, 2018<sup>[11]</sup>; Duncan, 2019<sup>[12]</sup>; Blanden, Hansen and Machin, 2008<sup>[13]</sup>; Blanden, Hansen and Machin, 2010<sup>[14]</sup>). Public finances likely suffer too, as reduced output means governments may lose out on tax revenues, and lower incomes mean governments may have to pay out more in social benefits to support those affected.

In Europe, the introduction of the European Union's Child Guarantee (European Council, 2021<sup>[15]</sup>) has helped put concerns relating to childhood disadvantages higher up on the policy agenda. Structured around ensuring effective access to a series of key child services, the ultimate goal of the European Child Guarantee is to promote opportunities for children from disadvantaged backgrounds and help stop the transmission of poverty and social exclusion across generations (European Council, 2021<sup>[15]</sup>). But as European countries, including Austria, move forward with their plans for implementation, it is important that we further improve our understanding of what child disadvantage looks like in European countries, as well as the potential lifelong effects it can have on children's lives.



This paper provides a comparative overview of the prevalence and potential economic costs of childhood socio-economic disadvantage in Austria. It sketches the breadth and depth of child socio-economic disadvantage in Austria today, and offers a summary of findings from Clarke et al. (2022<sup>[1]</sup>) on the potential longer-run economic costs of childhood disadvantage once disadvantaged children reach adulthood.

The structure of the paper is as follows. The next section (Section 2) provides an overview of current child socio-economic disadvantage in Austria. Based largely on new data on children’s living conditions from EU SILC 2021<sup>1</sup>, it examines the frequency and patterns of child socio-economic disadvantage in Austria, and how this compares to other European countries. With a view to the EU Child Guarantee, Section 3 explores how socio-economic disadvantage affects children’s access to three key services – early childhood education and care, health services, and good-quality housing. Section 4 focuses on the longer-run economic costs of childhood socio-economic disadvantage, and offers a discussion of how Austria compares to other European countries with regards to the size and GDP-equivalent value of any adult health and labour market penalties associated with childhood socio-economic disadvantage. Finally, Section 5 provides a brief discussion of the main policy challenges in Austria relating to childhood socio-economic disadvantage and its implications for outcomes in later life.

### Box 1. What do we mean by socio-economic disadvantage in childhood?

Child socio-economic status is a broad and multidimensional concept. Often measured using a combination of parental education, parental occupation, and household income or family/household possessions (Clarke and Thévenon, 2022<sup>[2]</sup>), childhood socio-economic status looks to reflect children’s access to important economic and social resources and how this access compares to others around them. Childhood socio-economic disadvantage thus refers to a (relative) lack of access to important resources.

In this paper, child socio-economic disadvantage is measured in two main ways. In Sections 2 and 3, disadvantage is captured through three key indicators: exposure to relative income poverty, exposure to material deprivation, and having parents with at most lower-secondary education. The three indicators are complementary, with each reflecting a different aspect of socio-economic disadvantage.

In Section 4, childhood socio-economic disadvantage is measured with respect to “average” childhood living conditions, using a composite index that measures childhood socio-economic status on a continuous scale. This index builds on retrospective information on living conditions at “around age 14” as reported by adults today in the 2021 European surveys on income and living conditions. The index includes measures of material deprivation and household finances, parental education, and parental activity status. We consider children in the bottom quintile of this index (at country level) to have grown up in socio-economic disadvantage.

The key findings in this paper are as follows:

- The outlook for child socio-economic disadvantage in Austria is mixed: while child income poverty has been rising in Austria since the 2008 financial crisis, and now stands slightly higher than the OECD average, child material deprivation has been falling. Indeed, at just under 8%, the child-specific material deprivation rate in Austria is well below the average for European OECD countries (12%), as in several other major European OECD countries, including France (13%), Italy and

<sup>1</sup> This wave of the EU SILC survey includes information relevant to examining child deprivation. The analysis therefore reflects the pre-COVID situation, as more recent data does not allow the same analysis.

Germany (both 14%). Austria is doing particularly well in ensuring children have access to basic material necessities like nutrition and clothing.

- In Austria, as in most other European OECD countries, there is significant but not full overlap between child income poverty and child material deprivation. In 2021, 4% of children in Austria were experiencing both income poverty and material deprivation – close to the average of European OECD countries. However, a further 4% of children were suffering material deprivation despite not being classified as income poor. The size of this latter group – the non-poor materially deprived – suggests that non-financial support is needed to help families fully tackle child material deprivation.
- In 2021, just under 5% of children in Austria were both income poor or materially deprived and were living with low educated parents – just slightly less than the average for European OECD countries (6%). Also in 2021, just under 8% of children in Austria were living in households with low educated parents – a marker of social disadvantage. This is lower than the European OECD average (11%), and much lower than in some other European OECD countries like Spain (22%) and Italy (24%). These children suffer from economic and social disadvantage and may be in need of enhanced support.
- Part of the reason why socio-economic disadvantage impacts children's development and well-being is that it can restrict their access to important activities and use of key services. Inequalities in childcare participation by household income are small in Austria compared to other EU countries, but this is mostly the result of comparatively low participation among advantaged children, rather than high participation among disadvantaged children. By contrast, coverage rates for children under three vary greatly from one region to another, as a result of the varying regional dynamics of development of early childhood childcare facilities which is the responsibility of Länder and municipalities.
- More could be done to improve access among children from both advantaged and disadvantaged backgrounds. While similar across income groups, overall childcare participation among children under age three is at 29%, below the new Barcelona targets setting an objective of 32% or more children under age 3 being covered by Early Childhood Education and Childcare (ECEC) services by 2030. Regional variations in the coverage of ECEC facilities are large, and only the federal states of Vienna and Burgenland (37% in 2020/21) meet the Barcelona-Target. The average national participation rate is also well below the target of 45% of children under three covered by formal childcare that is set as a desirable target for European Member States by the European Council for countries which have already one third of children under age 3 covered by ECEC services (Council of the European Union, 2022<sup>[16]</sup>). The challenge, therefore, is to substantially improve access for all children, including (but not limited to) the disadvantaged and in the regions falling behind.
- Rates of parent-reported unmet health care needs for a core set of services were the lowest among European countries with available data in 2021, including for children from disadvantaged backgrounds. This suggests that Austria is doing comparatively well at ensuring all children have equal access to key healthcare services regardless of background. However, the COVID-19 pandemic may have triggered care needs which are not reflected in the data reported here.
- Poor quality housing can jeopardise children's physical, psychological, social and emotional well-being outcomes. In 2020, 5% of children in Austria experienced "severe housing deprivation", meaning that their household was both overcrowded and deprived on at least one of a series of housing quality measures. This is a similar share to the average for European OECD countries (5.4%), though contrary to other countries, exposure to housing deprivation is not strongly shaped by income in Austria.
- Austria must continue with efforts to tackle child socio-economic disadvantage. Evidence from Clarke et al. (2022<sup>[11]</sup>) illustrates how in Austria, as in other European OECD countries, experiencing

disadvantage in childhood damages outcomes in later life, with considerable costs for individuals and societies alike.

- For Austria, growing up in socio-economic disadvantage has only a limited impact on the probability of later employment, but considerable effects on later earnings and health. Employed men and women who had the most disadvantaged childhoods earn 23% and 15% less, respectively, than those with more favourable childhoods, in large part because of differences in hourly wages and occupations. They also report worse health, equivalent to the loss of two- to two-and-a-half-week per year in time lived in full health.
- Much of the overall association between childhood social and economic disadvantage and annual earnings runs through mediators like lower education, poorer health and shorter lifetime work experience. Education plays the strongest role: in Austria, lower education accounts for about 25% of the overall earnings penalty for men and for 42% of the overall penalty for women. Health is also an important mediator for men, accounting for about 25% of men's overall earnings penalty.
- These penalties represent important losses for economies. For Austria, the labour market penalties from childhood disadvantage are worth the equivalent of 1.6% of GDP each year, and the health penalties 2.0% of GDP, producing a total cost from childhood disadvantage that stands at the equivalent of 3.6% of GDP.
- These costs also include losses for public finances. Through reduced employment and weaker earnings, that Austria is estimated to lose up to 4.4% in tax revenues from income and social contributions from non-old-age households and paying out up to 1.0% more in social benefits to support those affected. The GDP-equivalent cost associated with forgone tax revenues and social benefit payment for government budgets stands at 1.0% of GDP, on average.
- The penalty experienced in adulthood in employment and health by those who experienced socio-economic disadvantage in childhood is higher than the EU average, while the prevalence of childhood disadvantage – measured either by child income poverty or material deprivation rates – is lower to close to the European average. Helping socio-economically disadvantaged children to catch up with others or to experience upward social mobility is a challenge in Austria.

## Box 2. Summary of main policy challenges for tackling child socio-economic disadvantage in Austria

- Take action to halt and reverse recent increases in child relative income poverty. Possible policy options include measures to promote full-time parental (maternal) employment, and options for better targeting certain income support measures such as family benefits. Greater sharing of care responsibilities between parents can also help mothers stay in employment and contribute to bolster child socio-emotional and cognitive development.<sup>2</sup>
- Further promote access to and the use of high-quality early childhood education and care, particularly among children under three. Possible action areas include tackling supply shortages and inflexible hours and taking action to address regional differences in childcare costs and coverage. One possibility could be to grant greater federal funding to regions that are lagging behind due to their lower wealth or capacity to finance childcare with local taxes, to help them catch up with more advanced regions.
- Address the financial and non-financial barriers to basic services faced by families with materially deprived children. Public financial support for families has increased substantially since 2010 in Austria (Schratzstaller, 2022<sup>[17]</sup>), helping to reduce the gap in living standards between families with children and other households (Bauer et al., 2021<sup>[18]</sup>). Family transfers covers around two-thirds of the cost of children for families with two children, but only 1/3 for single-parent families (BMSGPK, 2021<sup>[19]</sup>). The amount of support is also lower in absolute terms for lowest-income households, mainly because they are unable to benefit fully from the non-refundable family tax credit (Familienbonus Plus) (Fink and Rocha-Akis, 2021<sup>[20]</sup>). Improving the level of support for low-income families and/or single-parent families could make the system of family transfers more equitable and could contribute to reducing child income poverty. Ensuring that all children live in safe and decent housing and have regular leisure time activities are also among the key challenges in Austria.
- Ensuring that growing up in a socio-economically disadvantaged family does not result in less chance of success at school and poorer health, since education and health are not only important in themselves but also as major drivers of later life disadvantage in the labour market in Austria. As pointed out by earlier studies, this requires combating educational inequalities resulting from early tracking of students in the school system, supporting schools in disadvantaged areas, combating early school leaving and supporting the transition of disadvantaged students from school to the labour market through vocational training or youth coaching.
- Better understand how different forms of disadvantage intersect and take steps to complement income and material assistance with relevant family support services for children with educational and other family and/or social needs. The number of children receiving help with education or parenting support via child and youth welfare services is growing, and one challenge is to ensure that such support can be made available to the children who need it across the whole country.

<sup>2</sup> In a systematic review, Diniz et al. (2021<sup>[80]</sup>) highlight the association found in the literature between fathers' involvement in play and direct care with lower prevalence of preschoolers' externalising behaviours, particularly for boys, as well as with greater cognitive ability in children and with better child emotion regulation. Father's involvement in caregiving is also reported to have a positive influence on the number of children and in parent's investments in childcare and education, as well as to moderate child sleep disturbances and maternal stress.

## 2 Childhood socio-economic disadvantage

This section provides a sketch of child socio-economic disadvantage in Austria from a comparative perspective. It covers three different aspects of socio-economic disadvantage. The first two – child income poverty, and child material deprivation – reflect economic and material aspects disadvantage, and the extent to which children are growing up without access to the economic resources needed for good well-being and development. The third – children living with low educated parents – touches more on the social side of socio-economic disadvantage.

### 2.1 Child income poverty

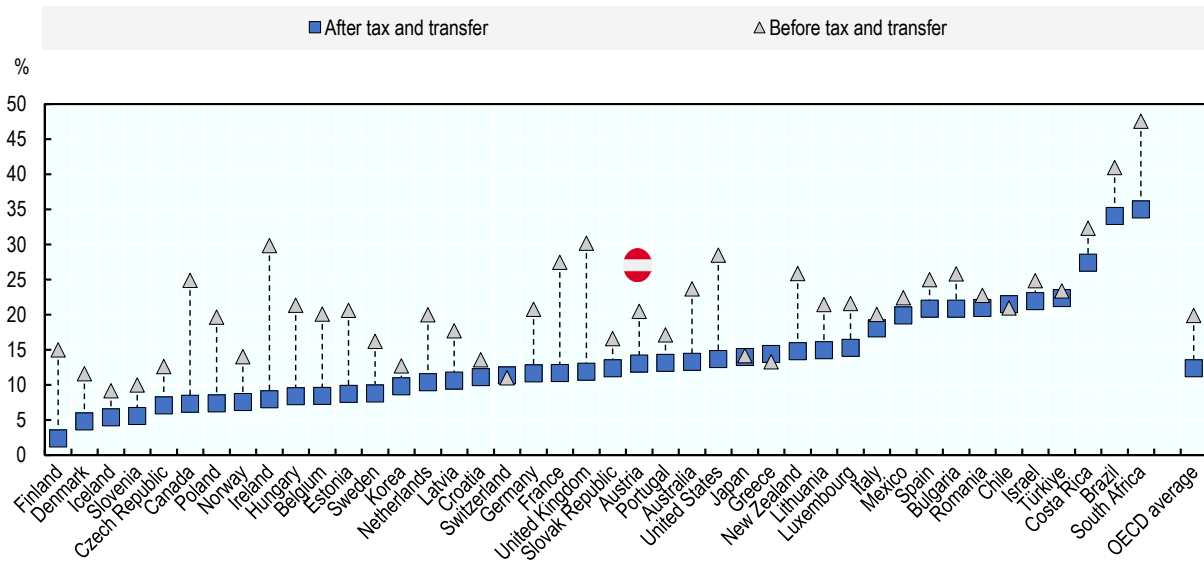
The child income poverty rate is the most commonly used indicator of childhood disadvantage. It measures the proportion of children living in low-income households whose material well-being and development are at risk of being affected by a lack of income. While far from the only factor important for children's well-being (OECD, 2021<sup>[6]</sup>), families on lower incomes are often more restricted in their ability to purchase (high-quality) material goods and services for their children, suffer lower levels of economic security, and experience higher levels of family stress. All can have significant implications for their children's well-being and development (OECD, 2021<sup>[6]</sup>).

Various measures of income poverty exist, depending on the level of household income that is taken as a threshold to estimate the proportion of people in poverty. The OECD uses a poverty line that is lower than those set by Eurostat, as a way to focus on the very low incomes and on the population for which the lack of income may lead to experiencing material deprivation (see the details of the poverty line calculation in Box 3). As shown in Box 3, the OECD child poverty indicators discussed in the following sections can be taken as a lower bound estimate of child poverty when compared to the other available indicators on children at risk of income poverty or social exclusion, which have a looser definition and a wider target group. The use of OECD's child poverty indicator also allows comparison with OECD non-European countries.

In comparison to other OECD countries, Austria is a mid-range performer on child income poverty (Figure 1). In 2020, 12% of children in Austria were living in relative income poverty after income redistribution. This rate is comparable to the OECD average and neighbouring Germany (12%) and Switzerland (11%), but much higher than the best performers, such as Denmark (5%) and Finland (3%). Moreover, Austria's child income poverty rate has risen slightly in recent years – up from a low of 9% in 2011 (OECD, 2022<sup>[21]</sup>) – with more, rather than fewer, children living in relative income poverty now than a decade ago. By contrast, child poverty fell on average across the OECD from 14% in 2011 to slightly above 12% in 2020.

## Figure 1. In Austria, 13% of children grow up in relative income poverty

Child relative income poverty rates (%), before and after tax and transfer, 0- to 17-year-olds, 2020 or latest available



Note: Data are based on equivalised household income, i.e., income adjusted for household size. The poverty threshold is set at 50% of median income in each country. Children are defined as 0–17-year-olds. Data refer to 2020 except for Brazil (2016), Chile, Iceland and South Africa (2017), Ireland, Italy, Japan and Poland (2018), Austria, Belgium, the Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Israel, Lithuania, Luxembourg, Portugal, the Slovak Republic, Slovenia, Spain, Switzerland, Türkiye, Bulgaria, Croatia and Romania (2019), and Costa Rica and the United States (2021). Unweighted OECD average.

Source: OECD Income Distribution Database, [oe.cd/idd](https://data.oecd.org/inequality/).

Child income poverty rates reflect both the distribution of market income and the effectiveness of public policy efforts in redistributing that income. Figure 1 shows child relative income poverty rates before (grey markers) and after (blue markers) the effects of tax and transfer policies are taken into account, and in doing so provides a summary of the extent to which redistribution reduces child market income poverty. In Austria, child income poverty rates fall by 7.4 percentage points (from 20.5% to 13.0%) after accounting for tax and transfer policies. This is similar to the OECD average (7.5 percentage points, from 19.9% to 12.4%) but smaller than in some other countries with similar child market income poverty rates, such as the Netherlands (9.6 percentage points, from 20.0% to 10.4%), Belgium (11.6 percentage points, from 20.1% to 8.5%), and Hungary (13.0 percentage point, from 21.4% to 8.4%). While not a poor performer, there remains room for Austria to do more in using tax and transfer policies to reduce child relative income poverty (see section 5).

## 2.2 Child material deprivation

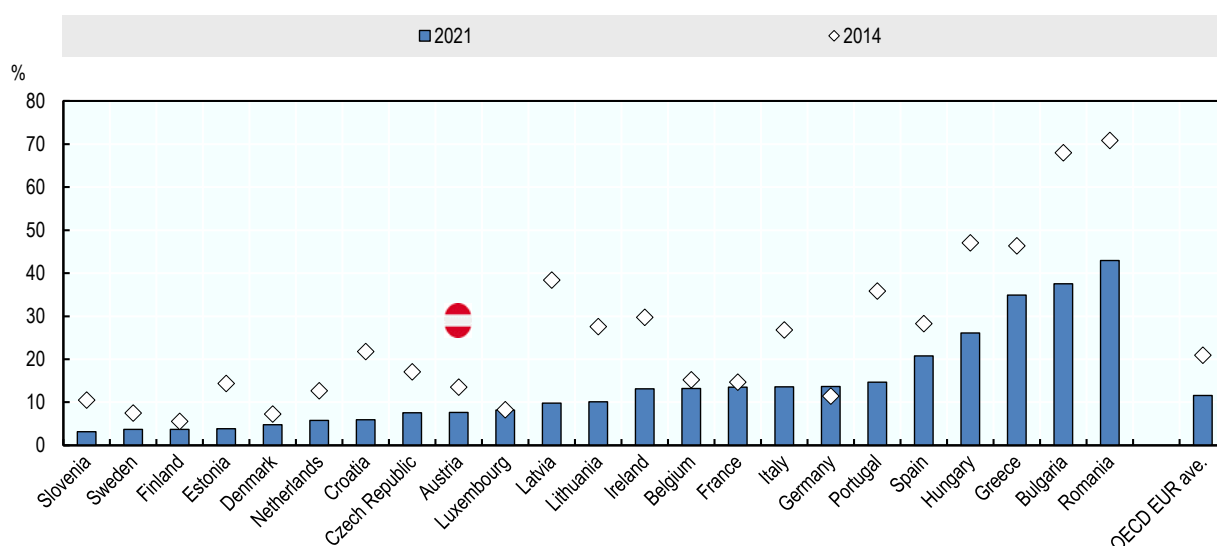
Child material deprivation is a multidimensional concept covering children's access to a range of goods and activities important for their well-being and development (OECD, 2021<sup>[6]</sup>). This includes children's access to basic necessities like healthy nutrition and appropriate clothing and footwear, as well as, for children today, a range of other goods and activities – like social and leisure activities – that allow them to learn and develop and to engage and participate in modern society (OECD, 2021<sup>[6]</sup>). Capturing material deprivation is not always straightforward, in part because of its multidimensional nature. One modern measure is the EU's children-specific material deprivation indicator – a summary indicator developed by

Guio et al. (2018<sup>[22]</sup>) for the EU and reflecting children who suffer from the enforced lack<sup>3</sup> of at least 3 items out of a list of 17 items, including items relating to nutrition, clothing, social activities, leisure activities, and household-level items such as an internet connection at home and access to a car for private use.

The child material deprivation rate – that is, the share of children lacking access to goods and activities that are typical in their society – is often used in combination with income poverty to capture children’s living standards and material well-being. While often strongly shaped by household income (Thévenon et al., 2018<sup>[23]</sup>), exposure to material deprivation does not always overlap perfectly with exposure to income poverty: not all income-poor children experience material deprivation, and not all children who experience material deprivation are income poor. Indeed, as shown later in this section, in many European OECD countries a considerable share of children experiences material deprivation despite not being considered “income poor”. This suggests that children’s experience of deprivation is not necessarily caused by a lack of income; it may be linked to insufficient use of existing services and material support, or to insufficient provision and availability of such support.

## Figure 2. Austria performs well on child material deprivation

Percentage of children experiencing child specific material deprivation, 1- to 15-year-olds, European countries, 2014 and 2021



Note: “Child specific material deprivation” is defined and measured in line with the Eurostat definition. Under the Eurostat definition, a child is classified as experiencing “child-specific material deprivation” if they suffer from an enforced lack of at least three of 17 items, including items relating to food and nutrition, clothing and footwear, social activities, leisure activities, and household-level items such as an internet connection at home and access to a car for private use. The information used here is collected in *ad hoc* survey modules with comparable data on child-specific material deprivation implemented in 2014 and 2021.

Source: OECD Secretariat calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2014 and 2021 (preliminary release).

Child material deprivation, measured by the child-specific material deprivation indicator, is relatively low in Austria in comparison to other OECD European countries (Figure 2). In 2021, under 8% of children in Austria were classified by the indicator as experiencing child-specific material deprivation. This is higher than the rates seen in the top performers like Slovenia (3%), Sweden and Finland (both 4%), but lower than the average for European OECD countries (12%), as well as several other major European OECD

<sup>3</sup> EU-SILC questions distinguish between a “simple” lack of an item (people who do not possess/ have access to the item) and an “enforced” lack of an item (people would like to possess/ have access to an item but cannot afford it).

countries, including France (13%), Italy and Germany (both 14%). Similar to many other European OECD countries, Austria made significant progress in reducing the rate of child material deprivation since 2014 – the most recent previous data point – when 13.5% of children were classified as suffering child-specific material deprivation.

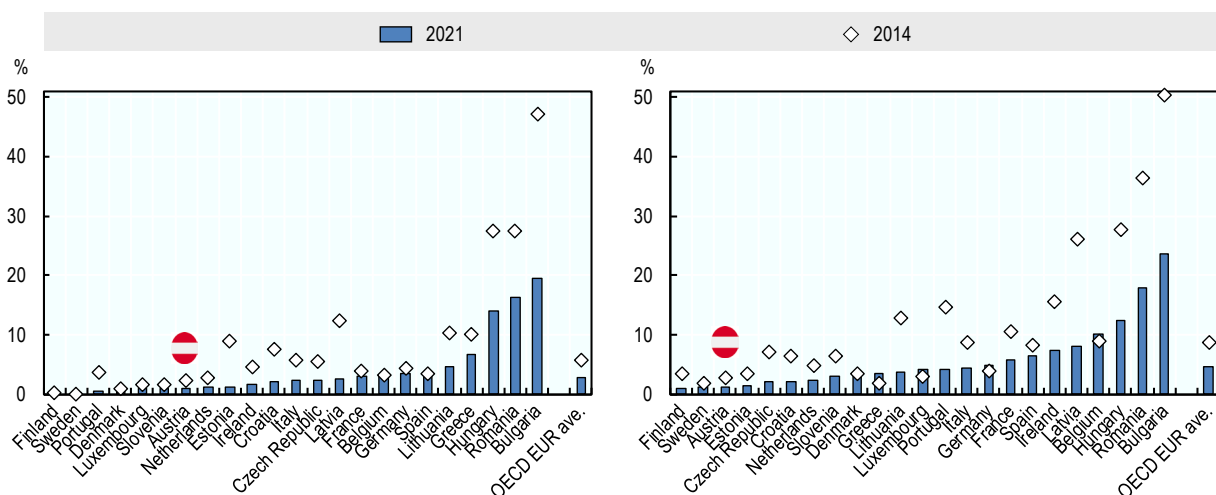
Drilling down to deprivation in specific areas, one area where Austria performs particularly well is in ensuring children have access to the basic necessities like nutrition and clothing. In 2021, just 1% of children in Austria were experiencing food deprivation – defined as living in a household where at least one child does not have either fruits and vegetables at least once a day, or a meal with meat, chicken or fish (or vegetarian equivalent) at least once a day (Figure 3; Panel A). Similarly, only 1% of children were experiencing clothing deprivation – defined as living in a household where at least one child does not have either some new clothes or to two pairs of properly fitting shoes (Figure 3; Panel B). In both cases, these rates are among the lowest in Europe, and well below average for European OECD countries (3% and 5%, respectively). They are also lower than in 2014, when 2% and 3% of children in Austria were experiencing food and clothing deprivation, respectively.

### Figure 3. Austria does particularly well in ensuring children have access to nutrition and clothing

Percentage of children experiencing “enforced” food deprivation and “enforced” clothing deprivation, 1- to 15-year-olds, European countries, 2014 and 2021

Panel A: Food deprivation

Panel B: Clothing deprivation



Note: Data in Panel A refer to the percent of 1- to 15-year-olds that live in households where at least one child (age 1 to 15) does not have either fruits and vegetables at least once a day or one meal with meat, chicken or fish (or vegetarian equivalent) at least once a day because the household cannot afford it, and in Panel B to the percent of 1- to 15-year-olds in households where at least one child (1- to 15-year-olds) does not have either some new (not second-hand) clothes or to two pairs of properly fitting shoes (including a pair of all-weather shoes) because the household cannot afford it. “Enforced” deprivation refers to children living in households where at least one child is lacking at least one item because the household reports that they cannot afford it/them, only.

Source: OECD Secretariat calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2014 and 2021 (preliminary release).

Like many European OECD countries, Austria has also made good progress since the mid-2010s in ensuring children can access basic social and leisure activities. In 2021, in Austria, 2% of children experienced social activity deprivation – defined as living in a household where at least one child does not invite friends round to play and eat from time to time or have celebrations on special occasions (Figure 4; Panel A) – and 13% experienced leisure activity deprivation – defined as living in a household where at least one child does not take part in a regular leisure activity or go on holiday away from home at least one



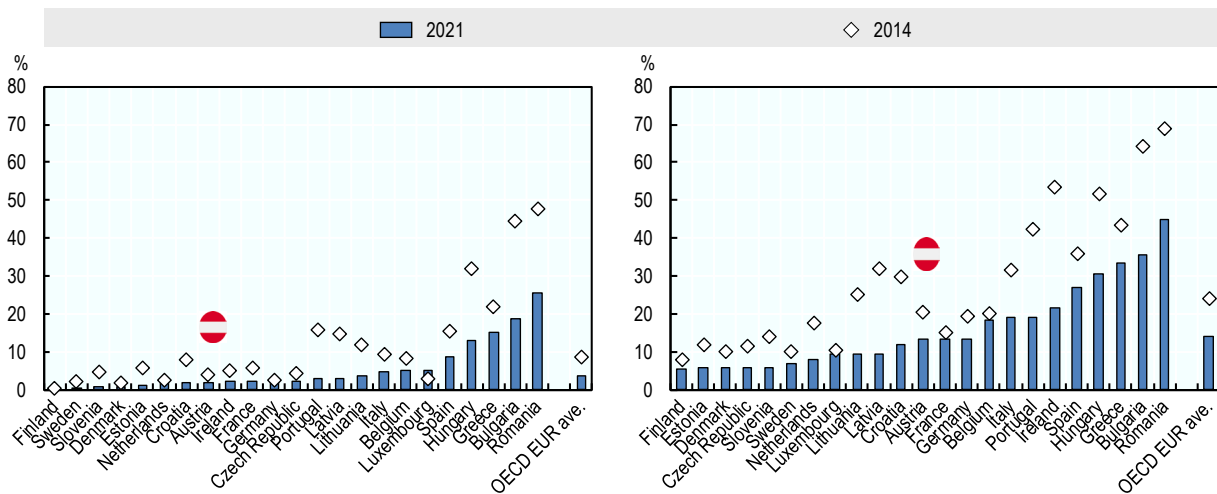
week per year (Figure 4; Panel B). These rates are down from 4% and 20% in 2014, respectively. Austria's child social activity deprivation rates in particular are now low in comparison to other European OECD countries; child leisure activity deprivation rates, while lower now than in the past, remain similar to the European OECD average<sup>4</sup>.

**Figure 4. Both child social activity deprivation and child leisure activity deprivation have fallen in Austria in recent years**

Percentage of children experiencing “enforced” social activity deprivation and “enforced” leisure activity deprivation, 1- to 15-year-olds, European countries, 2014 and 2021

Panel A: Social activity deprivation

Panel B: Leisure activity deprivation



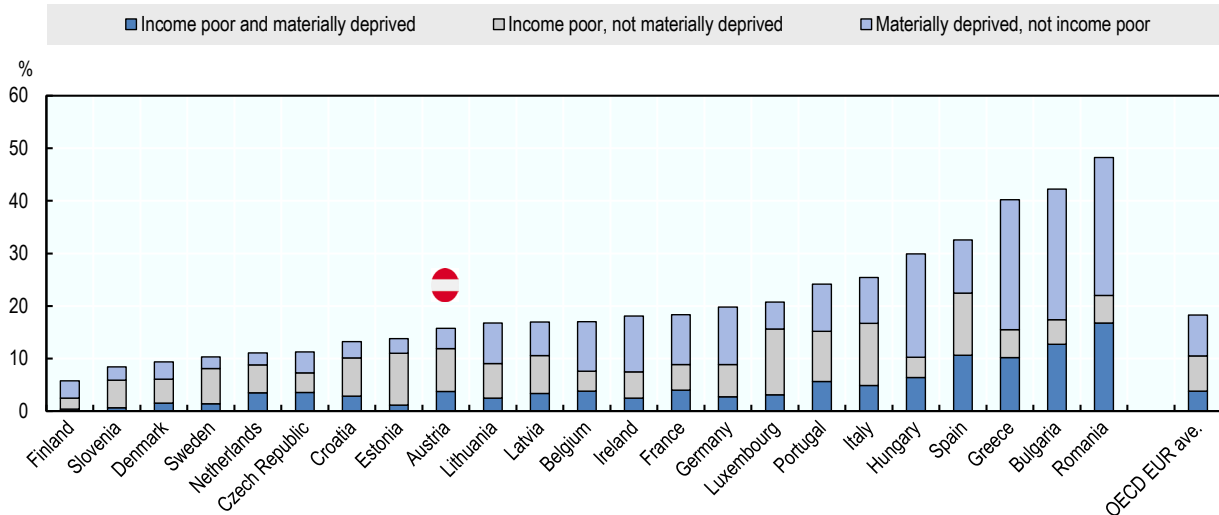
Note: Data in Panel A refer to the percent of 1- to 15-year-olds in households where at least one child does not invite friends round to play and eat from time to time or have celebrations on special occasions, because the household cannot afford it, and in Panel B to the percent of 1- to 15-year-olds in households where at least one child does not take part in a regular leisure activity or go on holiday away from home at least one week per year, because the household cannot afford it. “Enforced” deprivation refers to children living in households where at least one child is lacking at least one item because the household reports that they cannot afford it/them, only.  
 Source: OECD Secretariat calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2014 and 2021 (preliminary release)

Not surprisingly, in Austria as in most other European OECD countries, there is a significant (though far from total) overlap between child material deprivation and child income poverty. Figure 5 shows the percentage of children experiencing income poverty, material deprivation (as measured by the EU’s child-specific material deprivation summary indicator), or both. In 2021, 4% of children in Austria were experiencing both material deprivation and income poverty – a similar rate to the average for European OECD countries (4%). However, a further 8% of children were income poor but not classified as materially deprived, while 4% were suffering material deprivation despite not being classified as income poor. The size of this latter group – the non-poor materially deprived – suggests that in Austria, as in many European OECD countries, combating income poverty is important but potentially not sufficient for fully tackling child material deprivation.

<sup>4</sup> The inflation caused by Russia’s war of aggression against Ukraine is increasingly exposing households to the risk of material deprivation. In Austria, for example, 10.6% of households could not afford to keep dwelling warm in the first quarter of 2023, compared with 6.1% in the first quarter of 2022; 9.5% eat a main meal every other day, compared with 7.6% at the start of 2022 (Statistics Austria, 2023<sup>[79]</sup>).

### Figure 5. In Austria, as in many European OECD countries, there is considerable (though not total) overlap between child income poverty and child material deprivation

Percentage of children experiencing relative income poverty and/or child specific material deprivation, 1- to 15-year-olds, European countries, 2021



Note: “Income poverty” refers to children (1- to 15-year-olds) with equivalised household disposable incomes (i.e., an income after taxes and transfers, adjusted for household size) below the poverty threshold (50% of median disposable income). “Child specific material deprivation” is defined and measured in line with the Eurostat definition. Under the Eurostat definition, a child is classified as experiencing “child-specific material deprivation” if they suffer from an enforced lack of at least three of 17 items, including items relating to food and nutrition, clothing and footwear, social activities, leisure activities, and household-level items such as an internet connection at home and access to a car for private use.

Source: OECD Secretariat calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2021 (preliminary release).

#### Box 3. How is child poverty measured at European level?

Tackling child poverty and social exclusion is an objective of EU policies, including the European Child Guarantee. However, there is no single and formally approved indicator by the Social Protection Committee to measure the prevalence of child poverty and exclusion, and a few different indicators, developed by Eurostat, exist to measure child poverty and the risk of social exclusion for children (European Commission, 2022<sup>[24]</sup>).

##### Income poverty indicators

The income poverty rate is a widely used indicator in OECD countries to measure the proportion of a population that is below a given income threshold within a country with a given distribution of income. The analysis is based on equivalised incomes, where households’ incomes are divided by the square root of the household size in order to reflect the variations in standard of living due to different family size. The choice of one specific threshold is arbitrary but the presentation of results referring to a range of values (40%, 50% and 60% of median income) allows users to benchmark country performance according to their own view. The main threshold used in the OECD framework is 50% of median equivalised household disposable income, notably because it makes it closer to measures of absolute poverty adopted in some countries, such as the United States. By contrast, the threshold at 60% of median equivalised income is used in the indicators used by the European Commission to monitor progress towards the EU objectives for social protection and social inclusion (European Commission,

2022<sup>[24]</sup>). One of the reasons to adopt the 60%- median benchmark is to avoid the poverty estimates to be sensitive to few very low incomes. In addition, the poverty rate is calculated by Eurostat for different age groups, including for individuals below age 18, whereas Figure 5 presents a poverty rate for the population of children under 15 to be consistent with the measure of child material deprivation as explained in the next paragraph.

### **Child material deprivation**

The Child specific material deprivation rate (CSMDR) is another indicator included in the set of indicators proposed by the Social Protection Committee to monitor social inclusion at EU level. This indicator measures the share of children suffering from an enforced lack of at least three of 17 items, including child-specific items relating to food and nutrition, clothing and footwear, social activities, leisure activities, and household-level items such as an internet connection at home and access to a car for private use.<sup>1</sup> The adoption of this indicator in March 2018 follows the work by Guio et al. (2018<sup>[25]</sup>) to develop a valid and reliable indicator. The CSMDR is reflected in Figure 5, where a further distinction is made among materially deprived children between those in income poor families and the non-income poor children.

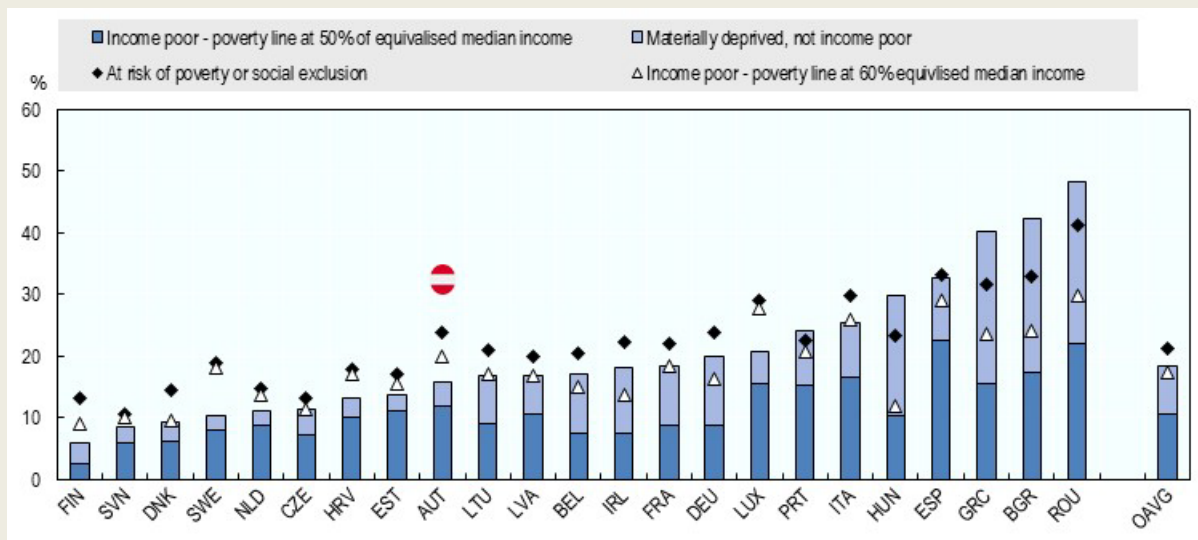
### **Children at risk of poverty and social exclusion**

A broader indicator at the EU level on children “at risk of poverty and social exclusion” ([AROPE](#)) measures the share of children under 18 who are either income poor (with a poverty threshold set at 60% of the media equivalised income), severely materially and socially deprived, or living in a household with a very low work intensity. This indicator is in no way based on information on children’s specific material situation, and instead draws on information that applies to the whole population. It measures the share of children who are living in an income poor household or experiencing severe material deprivation because they lack at least seven items out of the thirteen material and social deprivation household-level items, or live in households where the adults are inactive or worked a working time equal or less than 20% of their total combined work-time potential during the previous year.

This indicator has the advantage of allowing a comparison of risks between different age groups of the population on the same basis. However, it does not take into account the specific deprivations that children may experience in domains essential to their development. It is also possible for a child to be living in an household identified as materially deprived without being personally affected, if households spending for children’s material well-being is prioritised (Cooper and Stewart, 2013<sup>[26]</sup>).

Figure B1 compares the proportions of children categorised as income poor using the 50% and 60% poverty lines; it also compares the proportions of children categorised as ‘at risk of poverty and social exclusion’ and those who are poor and/or materially deprived as reflected in Figure 5.

In general, child poverty rates based on a poverty line of 60 per cent of median equivalised income are significantly higher than estimates using the lower poverty line at 50% of the median equivalised income: +6 percentage points on average in the European OECD countries, and +8 percentage points in Austria. These percentages reflect the extra segment of children live in households with equivalised incomes that are not very low but between 50 and 60% of the median. The rate of children ‘at risk of poverty or social exclusion’ also exceeds, in a majority of countries – including Austria – the total proportion estimated in Figure 5 of the share of children who are income poor or materially deprived, suggesting that a significant proportion of children, while not experiencing poverty or deprivation at present, are nevertheless at risk of falling in such situation due to household exposure to deprivation or the low work intensity of adults within the household.

**Figure B1. Measures of child poverty and material deprivation**

Source: Authors calculation from EU-SILC data and Eurostat indicators of risk of poverty and social exclusion and income poverty. The estimate of the proportion of children “at risk of poverty or social exclusion” (AROPE) is based on a poverty threshold set at 60% of the median equivalised income.

Note:

1) The complete list of items taken into account to measure children’s exposure to material deprivation include information on household’s inability to provide at least one child in the family with: some new clothes; two pairs of shoes; fresh fruits & vegetables daily; meat, chicken, fish daily; suitable books; outdoor leisure equipment; indoor games; leisure activities; to organise celebrations; invite friends; participate in school trips; and go on holiday; it also includes non-child-specific information on whether the household cannot afford to: avoid arrears; have adequate warmth in home; have (access to) a car; replace worn-out furniture; access to Internet.

### 2.3 Children with parents with limited educational attainment

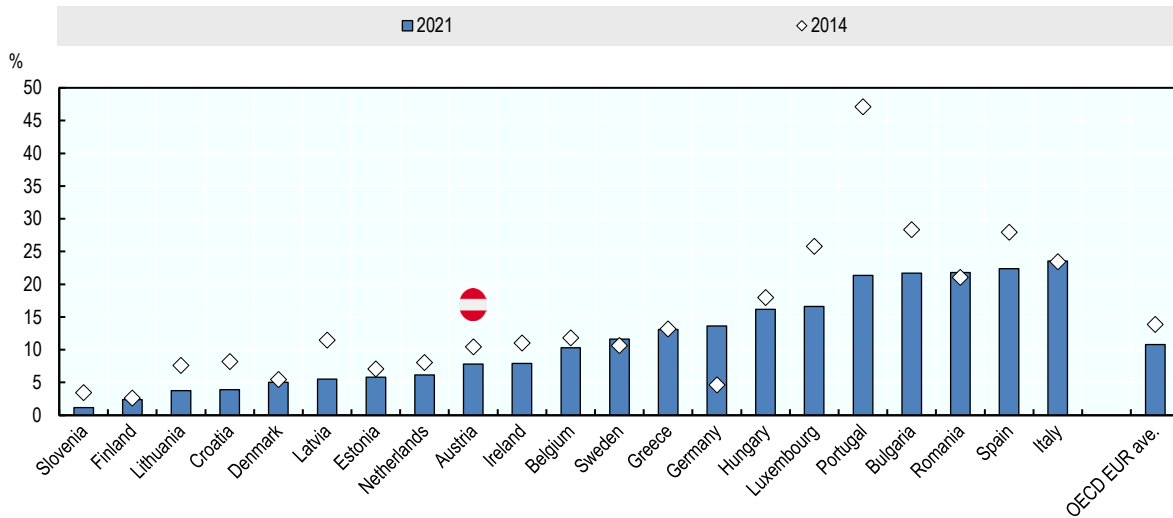
Child socio-economic disadvantage extends beyond just the financial and material aspects. There is also an important social and cultural dimension to childhood disadvantage, linked to differences in family functioning and parenting behaviours (Kalil, 2015<sub>[27]</sub>; Kalil and Ryan, 2020<sub>[28]</sub>). For example, parents in more advantaged families often provide their children with a richer language-stimulating environment by talking more, using different words, using more complex and varied sentence structures, and using a larger proportion of conversation-eliciting questions (Golinkoff et al., 2019<sub>[29]</sub>).

Parental education is commonly used as a proxy to capture differences in the family social environment (Clarke and Thévenon, 2022<sub>[2]</sub>), and has been shown to be a stronger predictor of gaps in early language development than family income (Volodina et al., 2022<sub>[30]</sub>). It is also an important factor in explaining gaps in early primary school achievements (Drager, Schneider and Washbrook, 2022<sub>[31]</sub>).

In comparison to many other European OECD countries, children in Austria are comparatively unlikely to be living with low educated parents. In 2021, just under 8% of children in Austria were living in households with parents with at most lower-secondary education. This is lower than the European OECD average (11%), and much lower than in some other European OECD countries like Spain (22%) and Italy (24%). Like most (but not all) European OECD countries, it is also a decrease relative to 2014, when 10% of children in Austria were living with low educated parents.

### Figure 6. Children in Austria are comparatively unlikely to be living with low educated parents

Percentage of children with low educated parents, 1- to 15-year-olds, European countries, 2014 and 2021



Note: "Low educated parents" refers to highest level of education attained by any parents in the same household corresponding to ISCED 2011 levels 0-2 (below upper secondary education).

Source: OECD Secretariat calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2014 and 2021 (preliminary release).

## 2.4 Multiple and overlapping child socio-economic disadvantage

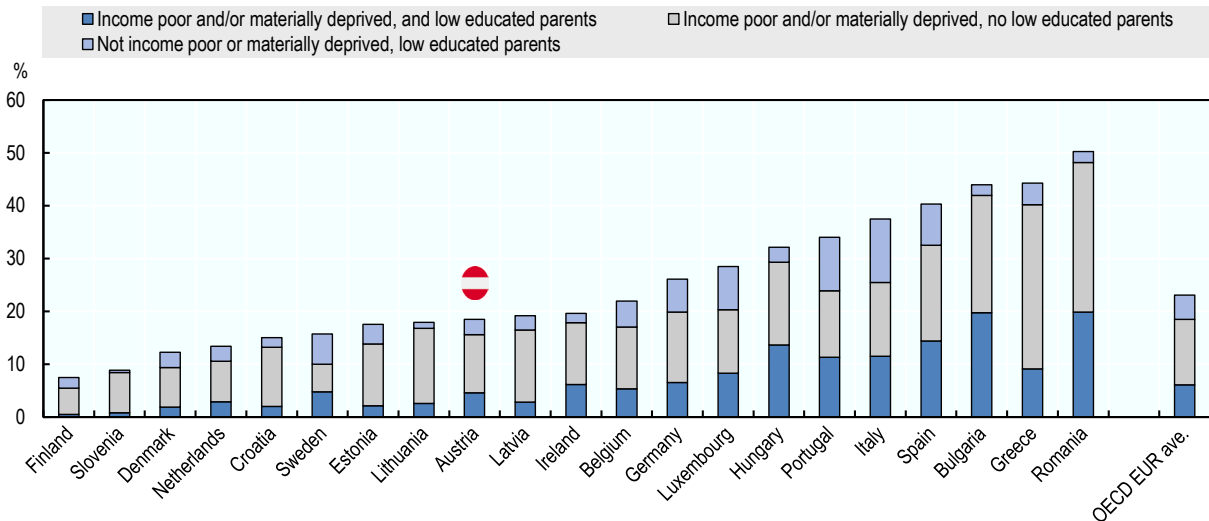
An important question for policy makers looking to tackle child socio-economic disadvantage is to what extent child economic disadvantage coincides with child social or cultural disadvantage. While often correlated, economic disadvantage (like low income) and social or cultural disadvantage (like low parental education) can have important independent effects on child well-being and development (Cooper and Stewart, 2021<sup>[32]</sup>).

Figure 7 illustrates how child material disadvantage sometimes (but not always) coincides with child social and cultural disadvantage. It shows the percentage of children experiencing income poverty and/or child-specific material deprivation only, the percentage living with low educated parents only, and the percentage experiencing both – that is, that are both income poor or materially deprived and that live in households with parents with at most lower-secondary education.

In Austria, as in many other European OECD countries, an important group of children are exposed to both material and social disadvantage simultaneously (Figure 7). In 2021, just under 5% of children in Austria were both income poor or materially deprived and were living with low educated parents – a slightly lower share than the average for European OECD countries (6%). These children, and others like them suffering multiple different forms of disadvantage, may be in need of enhanced support. Reflecting the relatively low share of children living with low educated parents, a much larger group of children in Austria – 11% – are either income poor or materially deprived but not living with low educated parents. 3% are living with low educated parents but are neither income poor nor materially deprived.

### Figure 7. In Austria, 5% of children are income poor or materially deprived and living with low educated parents

Percentage of children experiencing relative income poverty, child specific material deprivation and/or low educated parents, 1- to 15-year-olds, European countries, 2021



Note: “Income poverty” refers to children (1- to 15-year-olds) with equivalised household disposable incomes (i.e., an income after taxes and transfers, adjusted for household size) below the poverty threshold (50% of median disposable income). “Child specific material deprivation” is defined and measured in line with the Eurostat definition. Under the Eurostat definition, a child is classified as experiencing “child-specific material deprivation” if they suffer from an enforced lack of at least three of 17 items, including items relating to food and nutrition, clothing and footwear, social activities, leisure activities, and household-level items such as an internet connection at home and access to a car for private use. “Low educated parents” refers to highest level of education attained by any parents in the same household corresponding to ISCED 2011 levels 0-2 (below upper secondary education).

Source: OECD Secretariat calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2021 (preliminary release).

Overall, the share of children in Austria experiencing any of the three markers of socio-economic disadvantage – income poverty, material deprivation, or having low educated parents – is relatively low in comparison to many other European OECD countries. In 2021, a total of 18% of children in Austria were exposed to at least one of the three. This is a rate higher than the best performers like Denmark (12%), Slovenia (9%), and especially Finland (7%), but lower than the average for European OECD countries (23%), and well below the rates seen in several other major European OECD countries, including Germany (26%), Italy (37%), and Spain (40%).

## 3

## How socio-economic disadvantage affects children's access to key service areas

Part of the reason why socio-economic disadvantage impacts children's development and well-being is that it can restrict their access to important activities and use of key services. As noted above, in the absence of free and accessible provision, disadvantaged families are more often restricted in their ability to purchase activities and services for their children (OECD, 2021<sup>[6]</sup>). Differences in information, education, norms, values and attitudes may also lead to different consumption patterns and service use decisions between disadvantaged parents and their more advantaged counterparts.

The introduction of the European Child Guarantee (European Council, 2021<sup>[15]</sup>) has helped draw attention to the importance of service access for children's well-being. Revolving around six key services (early childhood education and care; education, including school-based activities; at least one healthy meal each school day for free; health care; healthy nutrition; and adequate housing), the Guarantee seeks to ensure that all children, including those from socio-economically disadvantaged backgrounds, have effective access to these services regardless of circumstances (European Council, 2021<sup>[15]</sup>). With one eye on the European Child Guarantee, this section explores how socio-economic disadvantage currently affects children's access to three of these key services – early childhood education and care, health services, and adequate housing – in Austria from a comparative perspective.

### 3.1 Early childhood education and care

Early childhood education and care (ECEC) can play an important role in helping disadvantaged children realise their full potential. Evidence from several OECD countries suggests that some ECEC programs can help foster lasting skill development in disadvantaged children, even if the evidence for more advantaged children is mixed (Shuey and Kankaraš, 2018<sup>[33]</sup>; Duncan et al., 2022<sup>[34]</sup>). Importantly, however, participation among children from disadvantaged backgrounds remains a challenge in many OECD countries, especially for very young children under age three (OECD, 2020<sup>[35]</sup>). In 2019, in European OECD countries, 0- to 2-year-olds from low-income backgrounds were on average about one-third less likely than 0- to 2-year-olds from high income backgrounds to participate in ECEC, with gaps largest in France and Ireland (Figure 8).

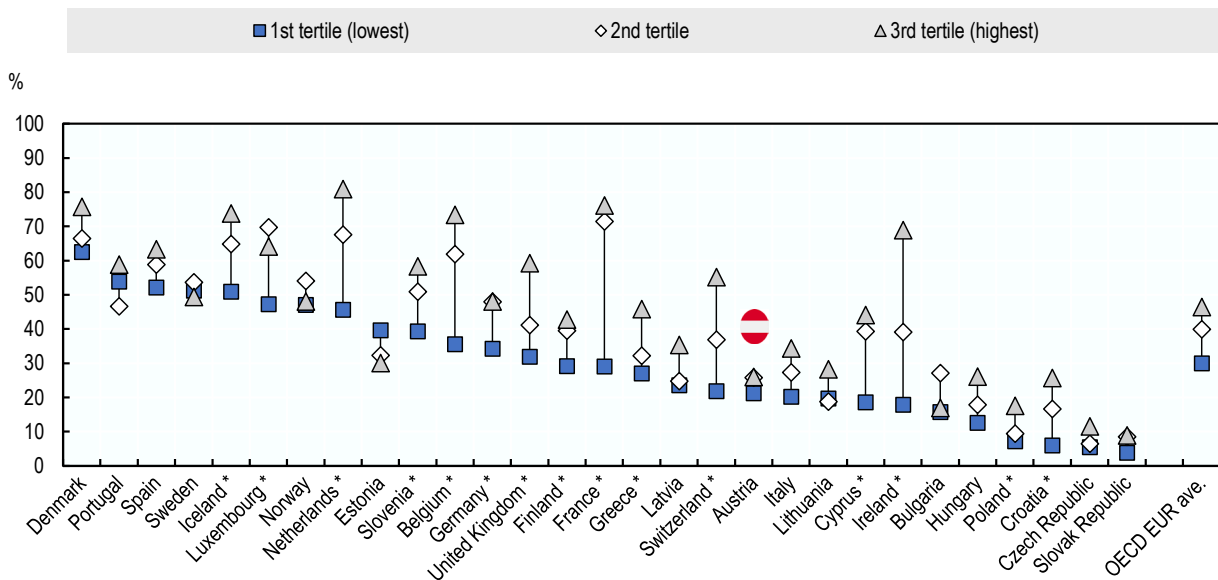
Despite progress in recent years, ECEC participation rates remain comparatively low in Austria, for children from both advantaged and disadvantaged backgrounds alike. Overall participation is particularly low among very young children under age three: while ECEC participation rates for 3- to 5-year-olds in Austria are now slightly above the OECD average (OECD, 2021<sup>[36]</sup>), those for 0- to 2-year-olds remain well below the average for European OECD countries and lag far behind leaders like Denmark, Portugal and Spain (Figure 8). With an average of 29% of children under three years of age enrolled in formal childcare in 2021/22 (Statistics Austria, 2022<sup>[37]</sup>), the participation rate is below the Barcelona's target of 32%

participation by 2030 for Austria, and far below the 45% set as an absolute target for European Member States (Council of the European Union, 2022<sub>[16]</sub>)<sup>5</sup>.

Despite investment in recent years – public spending on ECEC has almost doubled as a share of GDP since 2000 (OECD, 2021<sub>[38]</sub>), geographical disparities in childcare coverage are large. This is a result of the fragmentation of Austria’s ECEC system: administration and funding fall under the responsibility of the nine Austrian provinces (the “*Bundesländer*”), which devolve much of the responsibility to the municipalities. Therefore, the share of below-three year-olds participating in formal childcare is more than two times higher in Vienna (at 44% in 2020/21) than in the provinces of Styria and Upper Austria (at 19% and 20%), respectively (Statistics Austria, 2022<sub>[37]</sub>). Only the federal states of Vienna and Burgenland (37% in 2020/21) meet the Barcelona-Target.

### Figure 8. In Austria, inequalities in ECEC participation are comparatively very small

Participation rates in early childhood education and care, 0- to 2-year-olds, by equivalised disposable income tertile, 2020 or latest available



Note: Data for Iceland, Lithuania and United Kingdom refer to 2018. Data are OECD estimates based on information from EU-SILC. Data refer to children using centre-based services (e.g., nurseries or day care centres and pre-schools, both public and private), organised family day care, and care services provided by (paid) professional childminders, regardless of whether or not the service is registered or ISCED-recognised. Equivalised disposable income tertiles are calculated using the disposable (post tax and transfer) income of the household in which the child lives – equivalised using the square root scale, to account for the effect of family size on the household’s standard of living – and are based on the equivalised disposable incomes of children aged less than or equal to 12. In countries marked with an \*, differences across groups are statistically significant at a 5% level ( $p < 0.05$ ).

Source: OECD Family Database, <https://www.oecd.org/social/family/database.htm>, based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey.

<sup>5</sup> The 2022 council recommendation stipulates that “it is recommended that Member States increase ECEC participation in relation to their respective current participation rates by at least 45%, or until at least reaching a participation rate of 45%, for Member States whose participation rate is between 20% and 33%”. It also states that “The current participation rate shall be calculated as the average participation rate in ECEC of children below the age of three achieved in the years 2017-2021 according to EU-SILC data”. Using the proposed methodology, we obtain a 2030 target of 32% for Austria, on the basis of an average participation rate between 2017 and 2021 of 22% (Eurostat ([ilc\\_caindformal](https://ec.europa.eu/eurostat/tgm/table.do?tab=table))).



Unlike in many other European countries, participation rates in Austria do not differ strongly with parental income: in 2020, 0- to 2-year-olds from low income backgrounds were slightly less than 9 percentage points less likely than their peers from high income backgrounds to participate in ECEC, a far smaller gap than the average for European countries of 16 percentage points (Figure 8). However, this is mostly the result of comparatively low participation among advantaged children, rather than high participation among disadvantaged children. In Austria, for the youngest at least, the challenge is not so much promoting participation in ECEC among children from disadvantaged backgrounds, but rather promoting participation among all children.

There are several explanations for why ECEC participation remains low for very young children in Austria. Part is likely related to Austria's child-raising allowance that is granted to parents taking care of children after childbirth (Box 4). This allowance can be received by parents for up to 426 days after the birth if they opt for an income-related benefit, and up to 1 063 days if they opt for a flat-rate benefit. As a result, the ratio of women receiving childcare benefit per 100 births is high in Austria compared to the proportion of mothers receiving a comparable benefit in other countries (OECD, 2022<sup>[39]</sup>). The decision to take up a childcare allowance and long parental leave may be a choice by parents, but it may also be driven by the lack of childcare service places.

Although the availability of childcare places for young children has globally increased strongly in Austria, there is evidence to suggest that unmet needs may remain due to the lack of places and financial constraints borne by low-income families especially (Figure 9) (Förster and Königs, 2020<sup>[40]</sup>). In 2016, globally 28% of children in income-poor households in Austria had parents reporting unmet needs and not making more use of formal childcare due to lack of affordability (9%) or place availability (7%) (Figure 9).

A majority of parents report no unmet childcare needs, but this partly results from the generous support obtained with the childcare allowance and parental leave entitlements which provide strong incentives for parents to take personally care of young children (Box 4). Besides long payment durations and relatively generous payment levels, recipients of the childcare allowance benefit from significant earnings disregards. Recipients of the flat-rate allowance are entitled to earn up to 60% of previous earnings (if they had any), but a minimum of EUR 16 200 per year; those receiving the typically more generous income-dependent childcare allowance benefit from an earnings disregard of EUR 7 300. Given the limited availability of formal childcare, this makes arrangements attractive in which one of the partners – typically the mother – works part-time or not at all and provides informal day care at home.

#### Box 4. Child-raising allowance (Kinderbetreuungsgeld) in Austria

A child-raising benefit is available to all families who meet the eligibility conditions, whether or not parents take Parental leave (*Elternkarenz*). To be eligible for this allowance, all general eligibility conditions for social benefits need to be fulfilled, including entitlement to and receipt of child benefit (*Familienbeihilfe*) for the child, centre of interests ("Mittelpunkt der Lebensinteressen"<sup>6</sup>) in Austria and legal residency in Austria. Parents can choose between the flexible flat-rate childcare benefit account

<sup>6</sup> A residence registration in Austria and/or Austrian citizenship alone are not sufficient for the assumption of the centre of life in Austria. The term "centre of vital interests" is used in case a person or a household lives in two or more countries to determine where they have the closer personal and economic ties. Ultimately, it depends on which of the places of residence is to be regarded as the more significant for the taxpayer, taking into account the personal and economic relationships. To be eligible to the child-raising allowance, applicants and their children must have the centre of vital interests in Austria. If there is some doubt, a detailed examination of the living situation will be initiated, and the applicants must cooperate in this review and provide the required documents and evidence.

and the income-related childcare benefit (in which case the applicant should fulfil additional employment conditions).

The flexible flat-rate benefit (childcare benefit account) enables parents to distribute an overall sum of about EUR 12 366 in 2022 (if only one parent receives the benefit) or EUR 15 449 (if both parents receive the benefit) over a chosen time span, calculated in days. The flat-rate child-raising allowance (account) can be claimed between 365 and up to 851 days after birth. Parents can take turns in which case the overall period of receipt will be extended (length depending on the selected option). The option with the shortest duration is to switch after 91 days and the one with the longest duration is to switch after 212 days.

If only one parent applies for the childcare benefit, he or she might spend the overall sum across a period from 365 days (at a daily amount of EUR 33.88), up to a maximum of 851 days (at a daily amount of EUR 14.53). If both parents receive and share the childcare benefit (respecting a minimum of 20 per cent non-transferable days of all childcare benefit days requested by parent), the money can be used within a timespan between 456 days (at a daily amount of EUR 33.88) and 1 063 days (at daily amount of EUR 14.53). A parent may additionally earn 60 per cent of the income he or she earned in the calendar year prior to the childbirth, or a maximum of EUR 16 200.

The income-related childcare benefit provides 80 per cent of the net income earned by the parent in the previous six months, for 365 days (if only one parent receives the childcare benefit) and up to 426 days after the birth (if both parents share the childcare benefit). The daily rate is maximum EUR 66 per day (EUR 2 000 per month). Additional income can be earned if the parent works part-time up to a maximum of EUR 7 300 a year.

In case of employed parents, the length of the childcare benefit does not have to correspond to that of parental leave. However, health insurance protection is often linked to the receipt of childcare benefit and may end even if the parent is still on parental leave. If parents share the childcare benefit at a minimum of 40% of the period taken by each parent, then they are entitled to a “partnership bonus” payment of EUR 500. Thus, together they receive a total of EUR 1 000.

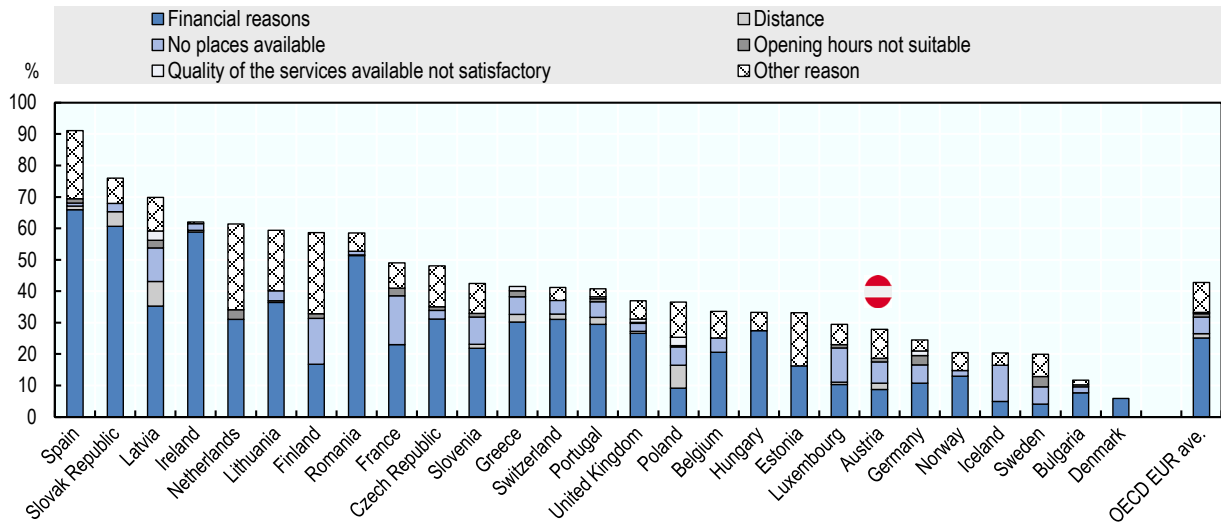
Child-raising allowance is only available for the youngest child. In the case of multiple births (twins), there is a supplement of 50% of the amount of the child-raising allowance for each additional child.

Low-income families receive, under certain conditions, an allowance on top of the child-raising allowance (EUR 6.06/day for maximum 365 days from the application date, regardless of the selected variant). This supplement cannot be claimed in the case of income-related child-raising allowance.

Source: Kinderbetreuungsgeld (oesterreich.gv.at), (OECD, 2023<sup>[41]</sup>) and (Schmidt and Schmidt, 2022<sup>[42]</sup>).

**Figure 9. In Austria, one in four income-poor children live in households reporting an unmet need for childcare**

Percentage of children in income-poor households reporting an unmet need for childcare services, by reason for unmet need, 0- to 12-year-olds, 2016



Note: Data refer to the share of children (0- to 12-year-olds) in income-poor households responding "Yes" when asked whether or not they had an unmet need for (more) formal childcare services, by response when asked for the main reason for not making (more) use of formal childcare services. "Income poor" refers to households with equivalised disposable incomes below 60% of the median. Source: Eurostat database, indicator ILC\_ATS04, <https://ec.europa.eu/eurostat/web/main/data/database>.

### 3.2 Health services

Children’s physical and mental health is central to their well-being (OECD, 2021<sup>[6]</sup>), and effective access to health care services plays an important role in safeguarding children’s health. Most OECD countries, including Austria, have achieved universal (or close to universal) health coverage for a core set of health services, usually including consultations with doctors, tests and examinations, and hospital care (OECD, 2022<sup>[43]</sup>). However, children (and others) may still find their effective access limited for a number of reasons, including costs, waiting times, and geographic distance (OECD, 2022<sup>[43]</sup>).

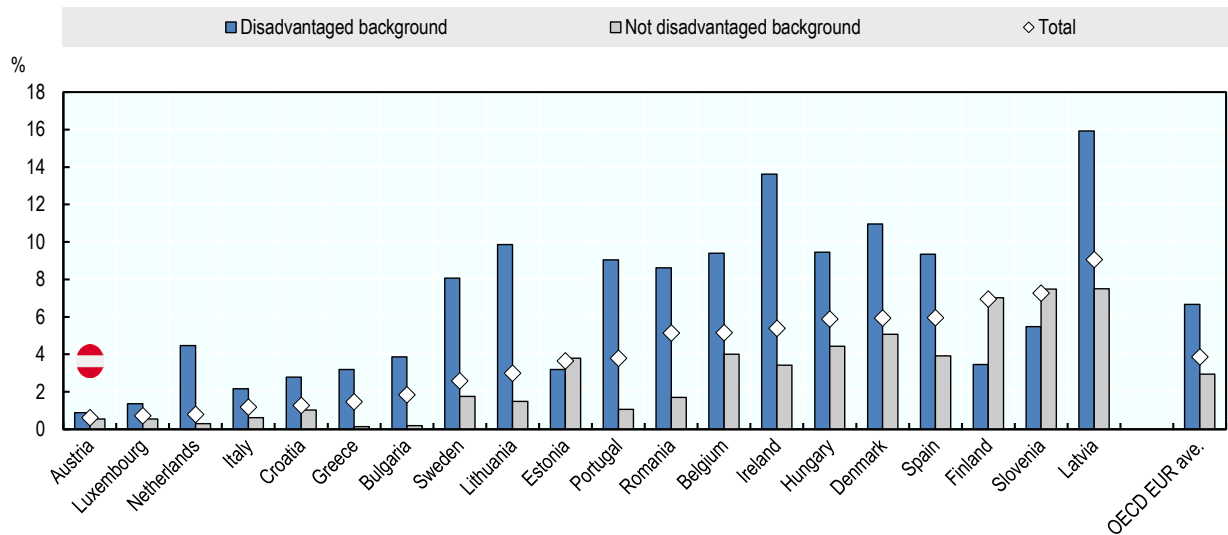
Measures of unmet health care needs provide an indication of the extent to which health care services are accessible and effective in treating medical needs. Figure 10 shows the percentage of children in households reporting at least some unmet need for health (medical or dental) care services for their children. In Austria, very few children are subject to unmet (physical) health care needs: in 2021, less than 1% of children lived in households reporting at least some unmet need for either a medical or dental examination for at least one child. This is well below the average for European OECD countries (4%). Moreover, and unlike most other European countries, there is little difference by socio-economic background in Austria in self-reported unmet health care needs for children: in 2021, just 0.9% of children in Austria with a disadvantaged background – those experiencing income poverty, material deprivation, or with low-educated parents – were subject to unmet needs for health care, compared to an OECD Europe average of 6.7% (Figure 10).

Austria’s strong performance on health care access is reflected in the parent-reported health of children. Figure 11 shows the share of children whose parents report their health as “bad” or “very bad”. In Austria, in 2021, just 0.2% of children were reported by their parents to have “bad” or “very bad” health – the lowest share among European OECD countries. Again, differences by socio-economic background are small relative to other countries: in 2021, 0.7% of disadvantaged children in Austria had parent-reported “bad”

or “very bad”, a share higher than among the rest of the child population (0.1%) but far below the OECD-Europe average for children with a disadvantaged background (1.4%).

### Figure 10. Austria has the lowest share of children experiencing unmet health care needs in Europe

Percentage of children in households reporting unmet needs for health care services for their children, 1- to 15-year-olds, European countries, by socio-economic background, 2021

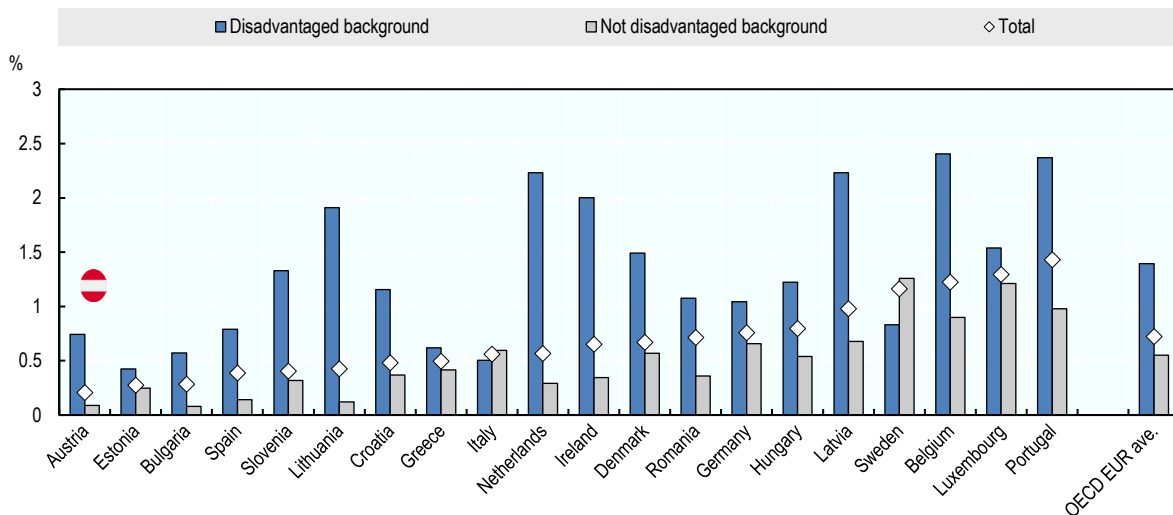


Note: Data refer to the percent of 1- to 15-year-olds in households reporting an unmet need for either a medical or dental examination for at least one child (0- to 15-year-olds) in the household. "Disadvantaged background" refers to children who are experiencing income poverty (equivalised household disposable incomes below 50% of the median), material deprivation (as measured by the EU's child-specific material deprivation measure) or are living with low-educated parents (highest level of education attained by any parents in the same household corresponding to ISCED 2011 levels 0-2).

Source: OECD Secretariat calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2021 (preliminary release).

### Figure 11. Regardless of background, very few children in Austria have parent-reported “bad” or “very bad” health

Percentage of children with parent-reported bad health, 1- to 15-year-olds, European countries, by socio-economic background, 2021



Note: Data refer to the percent of 1- to 15-year-olds whose parents report their health as “bad” or “very bad”. “Disadvantaged background” refers to children who are experiencing income poverty (equivalised household disposable incomes below 50% of the median) or material deprivation (as measured by the EU’s child-specific material deprivation measure) and/or living with low-educated parents (highest level of education attained by any parents in the same household corresponding to ISCED 2011 levels 0-2).

Source: OECD Secretariat calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2021 (preliminary release).

While these measures give important insights on the access to health services for children, they focus on a specific set of health care services (i.e., doctor and dental examinations). Greater differences in access may exist among other types of health care provision, including specialised health care and psychological care. Moreover, these data may not take into account the full effects of the COVID-19 pandemic. The available evidence shows that children and young people have been particularly affected as a result of school closures and the closure of places to play, have leisure and where they can spend time together. Many European countries, including Austria, bolstered psychosocial and mental health support for students in response to the COVID-19 pandemic, typically in primary and secondary schools (OECD, 2022<sup>[43]</sup>). The COVID-19 crisis has also increased the need for children to be supported in adopting healthy behaviours, as shown for example by the surge of overweight and obesity prevalence. In Austria, a survey conducted in March 2021 estimates that 25% of 7-to 10-year-old boys and 27% of girls are overweight or obese, compared to 17 and 24% respectively in September 2019 (Jarnig et al., 2022<sup>[44]</sup>).

### 3.3 Housing quality

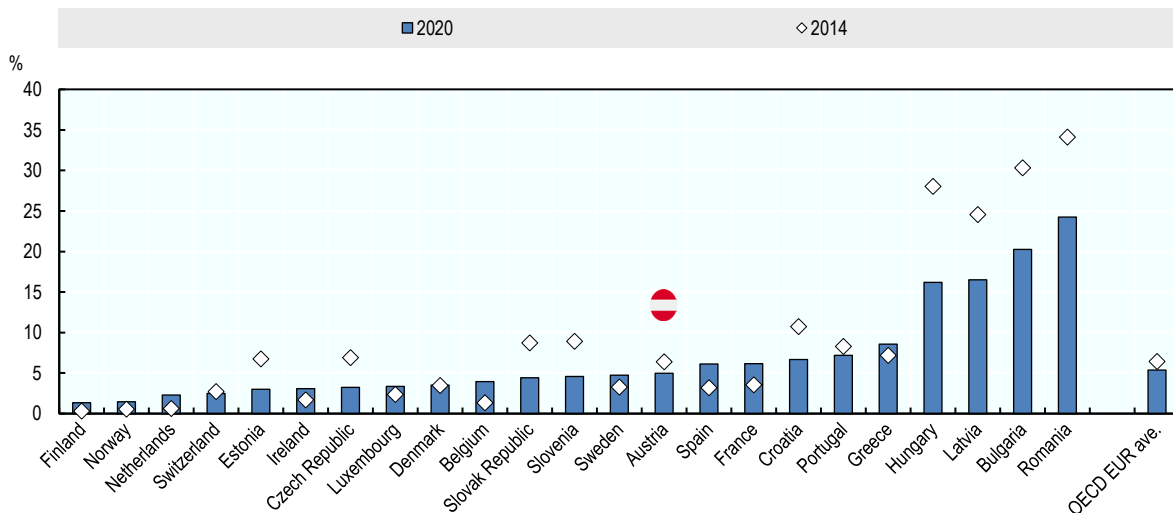
Access to good-quality housing plays an important role in children’s well-being (OECD, 2021<sup>[6]</sup>; Clair, 2019<sup>[45]</sup>). Most immediately, exposure to overcrowded or unsanitary housing conditions can jeopardise children’s physical health, including through infection and respiratory conditions such as asthma (OECD, 2021<sup>[6]</sup>; Beasley, Semprini and Mitchell, 2015<sup>[46]</sup>). But housing quality also matters for several other aspects of children’s well-being and development, including their social and emotional well-being. Children growing up in low-quality housing may be at greater risk of developing emotional and behaviour problems, for example, as well as of experiencing poorer mental health outcomes (OECD, 2021<sup>[6]</sup>). One potential reason

is that poor-quality housing may add to the many stresses experienced by disadvantaged families and children.

In comparison to other European OECD countries, Austria is a moderate performer on housing quality. In 2020, 5.0% of children in Austria were living in households experiencing “severe housing deprivation” – households that are both overcrowded and deprived on at least one of a series of housing quality measures (Figure 12). This is a similar share to the average for European OECD countries (5.4%), but much higher than in top-performing countries such as Finland and Norway (1.3%), and only slightly lower than the rate in Austria in 2014 (6.4%).

**Figure 12. In Austria, 5% of children are experiencing severe housing deprivation – a similar rate to the OECD average**

Percentage of children in households experiencing severe housing deprivation, 1- to 15-year-olds, European countries, 2014 and 2020



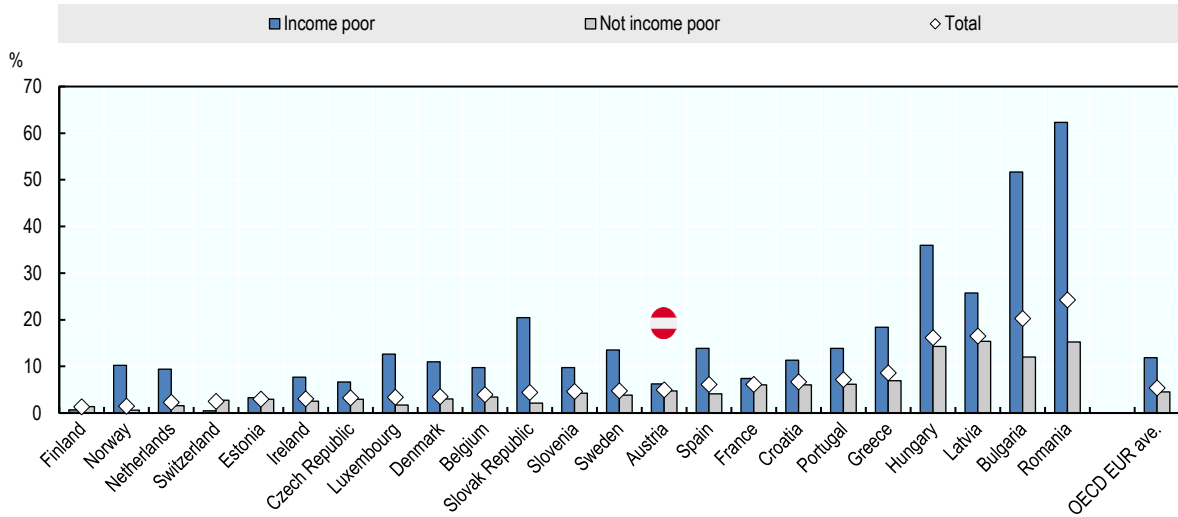
Note: "Severe housing deprivation" is defined and measured in line with the Eurostat definition. Under the Eurostat definition, a household experiencing "severe housing deprivation" is one that is both overcrowded and experiencing one or more of the following: The dwelling has a leaking roof, damp walls, floors or foundation, or rot in window frames or floor; The dwelling has neither a bath nor a shower; The dwelling has no flushing toilet for exclusive use of the household; The dwelling is considered too dark.

Source: OECD Secretariat calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2014 and 2021 (preliminary release).

That said, unlike in many other European OECD countries, exposure to housing deprivation is not strongly shaped by income in Austria (Figure 13). In 2020, 6.3% of income poor children in Austria were living in households experiencing severe housing deprivation – a rate only slightly higher than among non-income poor children (4.8%) and well below the European OECD average for children living in income poverty (11.9%). Housing deprivation rates in Austria are still higher than in the best performers (e.g., Estonia, Switzerland, and especially Finland) among both income poor and non-income poor children; there is scope for Austria to better protect children from poor housing quality. However, as with early childhood education and care, the challenge for Austria is more in improving housing quality for children generally, rather than tackling poor quality housing among the income poor specifically.

**Figure 13. Unlike in many other European OECD countries, children’s exposure to housing deprivation is not strongly shaped by income in Austria**

Percentage of children in households experiencing severe housing deprivation, 1- to 15-year-olds, European countries, by income poverty status, 2020



Note: "Severe housing deprivation" is defined and measured in line with the Eurostat definition. Under the Eurostat definition, a household experiencing "severe housing deprivation" is one that is both overcrowded and experiencing one or more of the following: The dwelling has a leaking roof, damp walls, floors or foundation, or rot in window frames or floor; The dwelling has neither a bath nor a shower; The dwelling has no flushing toilet for exclusive use of the household; The dwelling is considered too dark. "Income poor" refers to children (1- to 15-year-olds) with equivalised household disposable incomes (i.e., an income after taxes and transfers, adjusted for household size) below the poverty threshold (50% of median disposable income).

Source: OECD Secretariat calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2021 (preliminary release).

# 4 The economic costs of childhood socio-economic disadvantage

As touched on in the introduction to this note, early disadvantage often leads to poorer outcomes in later life, including in health and in the labour market, with implications not just for the individuals involved but also for the social and economic prosperity of society as a whole. Limited labour market opportunities for adults from disadvantaged backgrounds represent wasted talent and lost potential output, for instance, with both households (through lost income), employers (through untapped talent), and governments (through lost revenue) potentially suffering. Similarly, weaker health represents lost productivity and welfare.

This begs the question of how large are the costs from childhood disadvantage, and how do they differ across countries? Drawing on methods from the literature on the “costs” of child poverty (Holzer et al., 2008<sup>[47]</sup>; Blanden, Hansen and Machin, 2008<sup>[13]</sup>; Blanden, Hansen and Machin, 2010<sup>[14]</sup>; McLaughlin and Rank, 2018<sup>[11]</sup>), our policy paper “The economic costs of childhood socio-economic disadvantage in European OECD countries” (Clarke et al., 2022<sup>[1]</sup>) explores the extent to which childhood disadvantage is associated with poorer later health and labour market outcomes in European countries, including Austria, and provides estimates of the GDP-equivalent monetary values of these penalties from childhood disadvantage.

This section provides a summary of key findings from Clarke et al. (2022<sup>[1]</sup>), with a particular focus on results for Austria. It is also worth noting that these estimates rely on some important assumptions, including that labour demand is capable of fully absorbing the higher supply stemming from individuals with disadvantaged childhoods, and that this adjustment has no impact on the employment and earnings of other groups. Although this may occur in the long run, in the short term at least it is possible that there may not be sufficient labour market opportunities for all of our “lost employed” to move into. It is also possible that increased earnings for disadvantaged groups could affect the labour market outcomes of other groups (so-called “general equilibrium” effects), especially in cases of labour demand shortages. The estimates presented below therefore reflect the value of the penalties experienced by adults who have had a socio-economically disadvantaged childhood under the current conditions, without considering the constraints that may exist to reach another equilibrium.

## 4.1 The labour market and health penalties associated with childhood socio-economic disadvantage

As the first step in this process, in Clarke et al. (2022<sup>[1]</sup>), we offer comparative estimates of the impact of childhood disadvantage on later adult labour market and health outcomes. Built on retrospective survey data from current adults on their family circumstances and living conditions at around age 14, with childhood socio-economic status measured using a composite Index of Childhood Socio-Economic Status (ICES), we provide country- and gender-specific estimates of associations between childhood socio-economic disadvantage and employment, labour earnings and health in later life (see Box 5). The findings show that in almost all European OECD countries, adults who experienced socio-economic disadvantage



in childhood are less likely to be in work, earn less, and experience weaker health than adults with more “average” childhoods.

Starting with employment, we find that in Austria, unlike most other European OECD countries, growing up in socio-economic disadvantage has only a limited impact on the probability of having been in work in the year prior to interview. We estimate that in Austria in 2018, men and women in the first (bottom) quintile on our Index of Childhood Socio-Economic Status (ICES) (those with the most disadvantaged childhoods) were, respectively, 1 and 2 percentage points less likely to have been employed at all across the year than individuals in the third (middle) quintile, all else equal (see Clarke et al. (2022<sub>[1]</sub>), Figure 2). These effect sizes are smaller than the average for the 24 covered European OECD countries (3 and 6 percentage points, respectively), and far smaller than in some other European OECD countries, like Ireland, Italy and Spain. For men, we do find some evidence to suggest that childhood disadvantage might impact the likelihood of continuous full-time employment, as opposed to the likelihood of *any* employment: in Austria, men in the first (bottom) quintile on the ICSES were 11 percentage points less likely to have been in full-time, full-year employment in 2018 than those in the middle of the ICSES scale (see Clarke et al. (2022<sub>[1]</sub>), Online Annex Table A3.7). This implies some possible causal effect on the chances of finding secure and stable full-time work. For women, we find no significant difference between those in the bottom and middle quintiles on the ICSES in the likelihood of full-time, full-year employment.

**Box 5. How *The economic costs of childhood socio-economic disadvantage in European OECD countries* explores associations between childhood disadvantage and later health and labour market outcomes**

We examine links between childhood disadvantage and adult health and labour market outcomes using a life course approach. We measure childhood socio-economic disadvantage using a composite index (the Index of Childhood Socio-Economic Status, or ICSES) constructed from retrospective information available in the EU SILC 2019 on current adults’ family circumstances and living conditions at around age 14. The index components include measures of material deprivation and household finances, parental education, and parental activity status. We consider those in the bottom quintile within their country on this index to have grown up in socio-economic disadvantage.

At the adult outcome stage, we use three key outcome measures: employment status, annual labour earnings, and self-reported health and activity limitation status. We measure annual labour earnings as the sum of employee cash income and cash benefits from self-employment across the entire income reference year (2018) with *no* adjustment for working hours, second jobs, or periods of non-employment across the year. We do this to avoid selecting out workers in insecure, intermittent, or seasonal employment. In line with our earnings variable, we measure employment status using a dummy variable corresponding to the income reference year (2018) in its entirety, with the variable set to one if the respondent reports working (full-time or part-time) as either an employee or as self-employed in at least one of the twelve reference months. Lastly, we measure self-reported health and activity limitation status using the Health and Activity Limitation Index (HALex) – a composite measure initially developed by the U.S. Centers for Disease Control and Prevention (Erickson, 1998<sub>[48]</sub>) to measure health-related quality of life at population level. The HALex varies between 0 and 1, with 1 denoting a year in full health without limitation and 0 a year lived in a health state viewed as equivalent to death. It can be interpreted as measuring for each respondent the percentage of the relevant survey reference year that is considered to be lived in full health, akin to a quality adjusted life year (QALY).

There are multiple mechanisms through which childhood socio-economic disadvantage may affect later adult outcomes. Education and skill development is perhaps the most widely discussed route, but other factors, including health and patterns of family formation, may play a role too. In Clarke et al. (2022<sub>[1]</sub>),

we look to explore not just the overarching link but also the pathways and mediators through which childhood disadvantage may influence adult outcomes. The included mediator measures include educational attainment (measured by upper-secondary education attainment), lifetime work experience (measured by actual-to-potential lifetime work experience greater than 60%), partner and parent status (measured, respectively, by the presence of a partner and of children in the household) and, for our labour market outcomes, also health and activity limitation status (as measured by the HALex).

We explore associations between childhood disadvantage (measured by the ICSES), our mediators, and our three key outcomes using generalized Structural Equation Modelling (SEM). Estimation for our annual labour earnings and HALex outcome variables is conducted using linear regression, and for our employment status variable using logistic regression. Our primary comparison is between respondents in the first (bottom, or most disadvantaged) and the third (middle) quintile on the ICSES, on the basis that middle quintile respondents are representative of those who experienced “average” childhoods within their given country. We estimate separate two-stage models for men and women and for each of our 27 covered countries.

Source: Clarke et al. (2022<sup>[1]</sup>), “The economic costs of childhood socio-economic disadvantage in European OECD countries”, OECD Papers on Well-being and Inequalities, No. 9, OECD Publishing, Paris, <https://doi.org/10.1787/8c0c66b9-en>.

For earnings, in Austria as elsewhere in Europe, we find that workers growing up in socio-economic disadvantage often earn much less than their peers with more favourable childhoods. We estimate that in Austria in 2018, men and women in the first (bottom) quintile on the ICSES earned, respectively, 23% and 15% less over the year than otherwise similar individuals in the third (middle) quintile on the ICSES (Figure 14). The “earnings penalty” for men in particular is large both in absolute and comparative terms: it is larger than the average for the 24 covered European OECD countries (20%), although still smaller than in some other major European OECD countries, like Italy (25%) and Spain (35%). The penalty for women in Austria (15%) is smaller than the average for the 24 covered European OECD countries (21%).

For men in Austria – though not for women – this earnings penalty results from a combination of lower wages and salaries and reduced working time. As discussed in Box 5, the earnings variable we use in *The economic costs of childhood socio-economic disadvantage in European OECD countries* captures total labour earnings (both employee and self-employment earnings) among individuals who reported working for at least one month during the income reference period (2018). As a result, differences in earnings between individuals in the first and third quintiles on the ICSES may reflect not just differences in occupations and wages but also potential differences in working hours and periods of non-employment. In Austria, for men, we estimate that roughly one-third of the annual earnings penalty associated with childhood disadvantage is attributable to differences in working hours and periods of non-employment, with the earnings gap falling from 23% to 15% once working hours and periods of non-employment are taken into account (see Clarke et al. (2022<sup>[1]</sup>), Figure 4). For women, on the other hand, the earnings penalty from childhood disadvantage remains largely unchanged once hours and periods of non-employment are controlled for, implying that it is driven almost entirely by differences in occupations and wages.

In Austria, as elsewhere in Europe, much of the overall association between childhood socio-economic disadvantage and annual earnings runs indirectly through mediators like education, health and lifetime work experience (Figure 14). Education plays the strongest role: in Austria, reduced education accounts for a 6-percentage point decrease in annual labour earnings for both bottom-ICSES-quintile men (about 25% of the overall earnings penalty for men) and bottom-ICSES-quintile women (about 42% of the overall penalty). In both cases these are slightly larger than the average for European OECD countries (4 and 5 percentage points, respectively). Health is also an important mediator for men, accounting for a 6-percentage point decrease in annual earnings for both bottom-quintile men, and again about 25% of men’s

overall earnings penalty – which is much higher than the 14% of the penalty explained by health on average in European OECD countries.

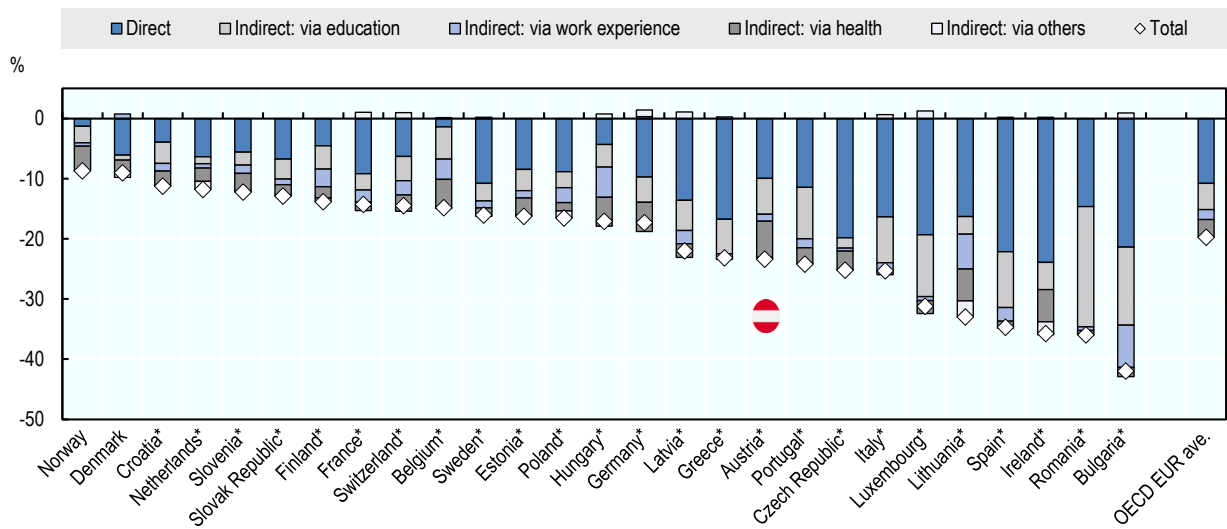
Turning to the effect of childhood socio-economic disadvantage on health in itself, we find that in Austria, as in most other European OECD countries, adults who experienced socio-economic disadvantage in childhood often report poorer health than those with more “average” childhoods (Figure 15). We estimate that for Austria, men and women in the first (bottom) quintile on the ICSES score, respectively, 5 and 4 percentage points lower on our measure of adult health – the Health and Activity Limitation Index, or HALex – than individuals in the third (middle) quintile on the ICSES. This is equivalent to a two- to two-and-a-half-week per year reduction in time lived in full health without limitation. For men, this “health penalty” associated with childhood disadvantage is considerably larger than the average for European OECD countries (3 percentage points). For women, the health penalty is similar to the average (4 percentage points).

Unlike in most of the other covered OECD countries, in Austria, the health penalties associated with childhood social and economic disadvantage seem larger for men than for women (Figure 15). This is inconsistent with existing studies showing that links between childhood socio-economic status and later health are often stronger for women (Flores and Kalwij, 2014<sup>[4]</sup>), as well as studies that find that low (current) socio-economic status often has a particularly damaging effect on women’s (self-reported) health (Roxo, Bambra and Perelman, 2021<sup>[49]</sup>).

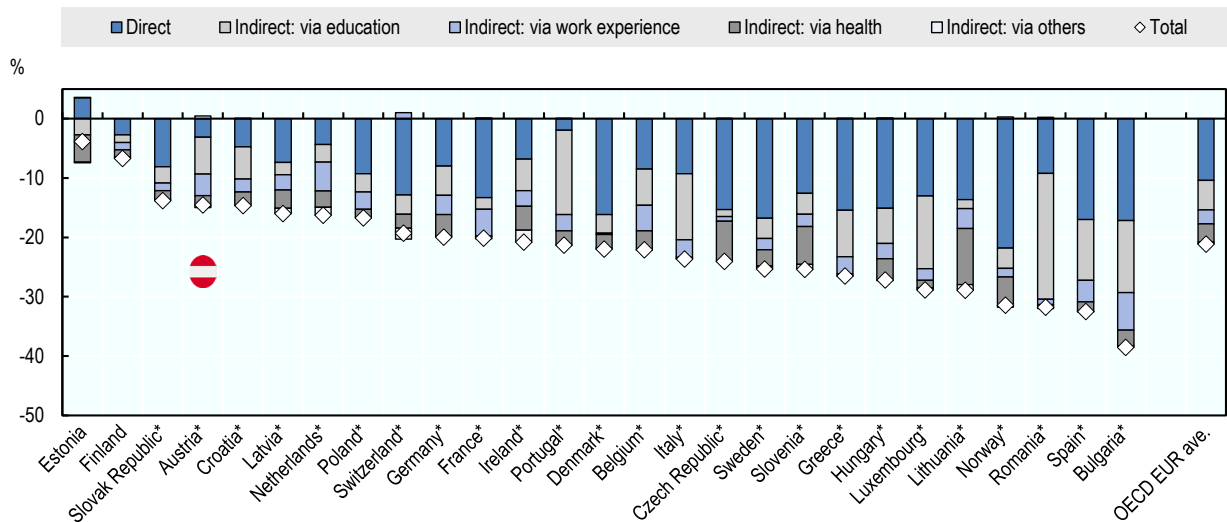
**Figure 14. In Austria, employed men and women from the most disadvantaged childhoods earn 23% and 15% less each year than their counterparts with more "average" childhoods**

Estimated percentage difference in annual labour earnings between employed individuals in the first (bottom) and third (middle) quintiles on the Index of Childhood Socio-Economic Status, by sex and country, with decomposition into direct and indirect associations, 2018

Panel A: Men



Panel A: Women



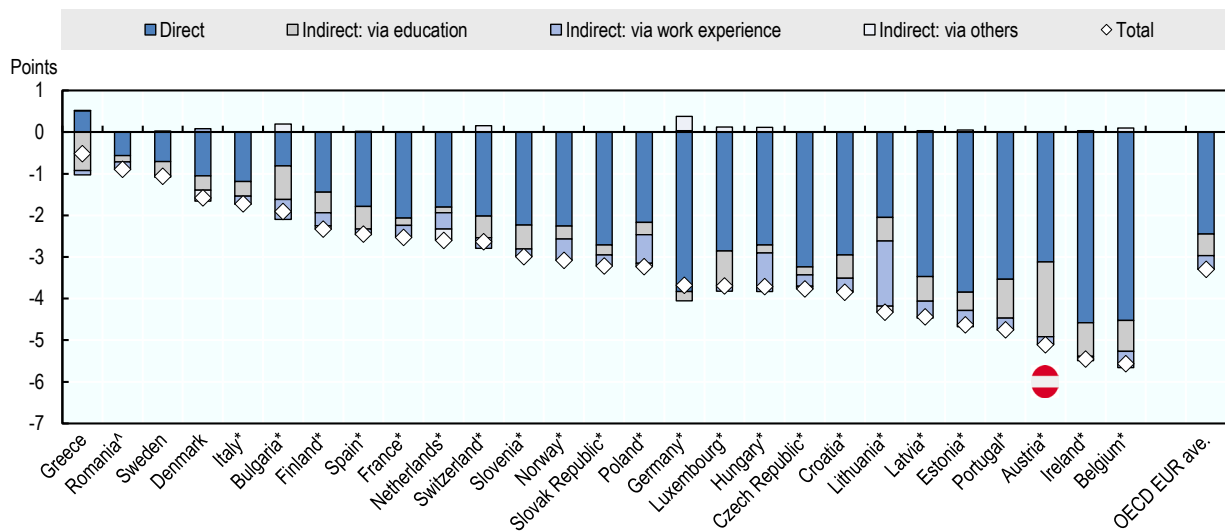
Note: Summary of estimates from country- and sex-specific two-stage GSEM mediation models with five-year age group fixed effects. Results for (log) annual labour earnings are estimated using (weighted) linear regression. Estimates are expressed as  $\exp(b)-1$  (i.e., as percentage differences) for ease of interpretation. In countries marked with an \*, the total association is statistically significant at the 10% level ( $p < 0.1$ ). Significance tests are performed at the mean average values of control variables. "Employed" refers to respondents who report working (full-time or part-time) as either an employee or self-employed as their main activity status in at least one of the twelve months in the income reference period (2018). "Annual labour earnings" refers to the sum of employee cash (or near cash) income and cash benefits or losses from self-employment in the income reference year. Respondents reporting zero or negative earnings are excluded. "Indirect: via others" refers to the sum of the indirect associations via partner status and the presence of at least one child in the household. "OECD EUR ave." refers to the unweighted average across the 24 covered European OECD countries. It excludes Bulgaria, Croatia and Romania. See Clarke et al. (2022<sub>[1]</sub>) for more details.

Source: Clarke et al. (2022<sub>[1]</sub>), based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2019.

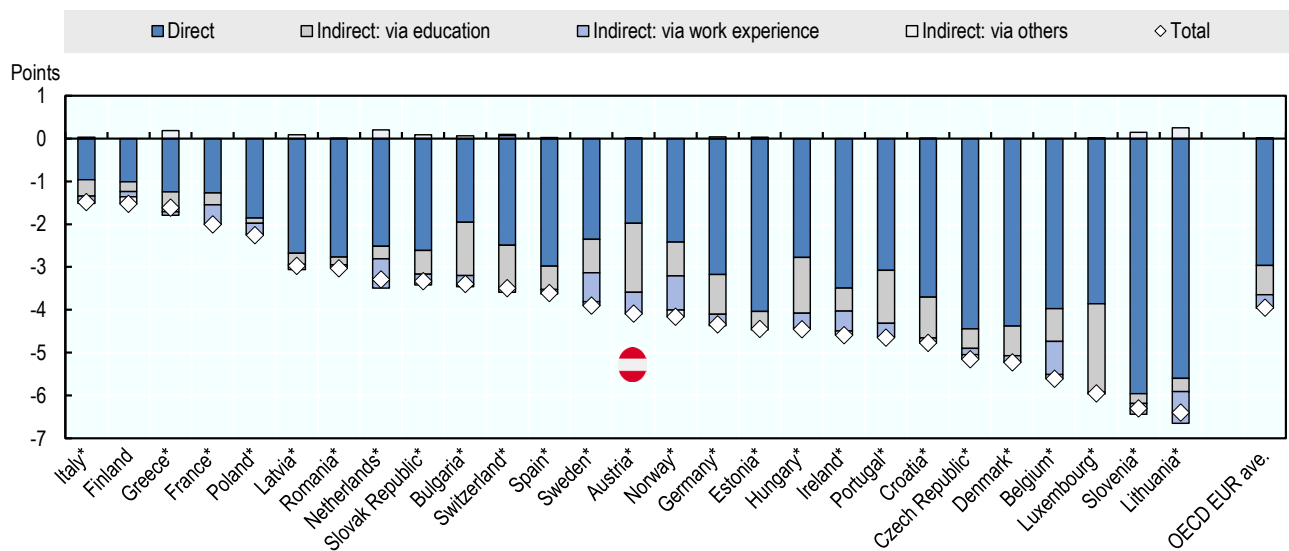
**Figure 15. Compared to other European countries, the health penalties associated with childhood disadvantage are relatively large in Austria, especially for men**

Estimated percentage point difference on the Health and Activity Limitation Index between individuals in the first (bottom) and third (middle) quintiles on the Index of Childhood Socio-Economic Status, by sex and country, with decomposition into direct and indirect associations, 2019.

Panel A: Men



Panel B: Women



Note: Summary of estimates from country- and sex-specific two-stage GSEM mediation models with five-year age group fixed effects. Results for the Health and Activity Limitation Index are estimated using (weighted) linear regression. Estimates are multiplied by 100 to ease interpretation. In countries marked with an \*, the total association is statistically significant at  $p < 0.1$ . Significance tests are performed at the mean average values of control variables. ^: No test available. The Health and Activity Limitation Index is a composite measure of health-related quality of life running from zero to one, with one denoting a year lived in full health without limitation and zero a year of life lived in a health state viewed as equivalent to death. "Indirect: via others" refers to the sum of the indirect associations via partner status and the presence of at least one child in the household. "OECD EUR ave." refers to the unweighted average across the 24 covered European OECD countries. It excludes Bulgaria, Croatia and Romania. See Clarke et al. (2022<sub>11</sub>) for more details.

Source: Clarke et al. (2022<sub>11</sub>) based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2019.

As with the earnings penalty, part of the overall association between childhood social and economic disadvantage and adult health is indirect and runs through mediating factors (Figure 15). For Austria, education plays the largest role: we estimate that disadvantage-driven differences in education accounts for a 2 percentage point decrease in the HALex for both men and women (about 35% and 39% of the overall health penalties associated with childhood disadvantage for men and women respectively). For both, these education-driven effects are larger than the averages for European OECD countries (0.5 and 0.7 percentage points, respectively). However, in Austria as in most of the other covered OECD countries, much of the overall association between childhood social and economic disadvantage and adult health remains “unexplained” by our included mediators. One reason may be that socio-economic living conditions in childhood have a direct influence on child health, which, in addition to other factors that add up throughout the life course, is a significant predictor of adult (and old-age) health (Case, Lubotsky and Paxson, 2002<sup>[50]</sup>; Flores and Wolfe, 2020<sup>[51]</sup>; Pakpahan, Hoffmann and Kröger, 2016<sup>[52]</sup>).

## 4.2 The monetary value of the labour market and health penalties associated with childhood socio-economic disadvantage

In a second step, we take these estimates of the penalties from childhood disadvantage and convert them into GDP-equivalent monetary form. Using monetisation techniques drawn from the research literature on the costs of child income poverty (Box 6), we provide estimates of the country-level cost of childhood disadvantage due to aggregate lost employment, aggregate lost earnings, and aggregate lost health. As shown in Figure 16, these country-level costs are often large.

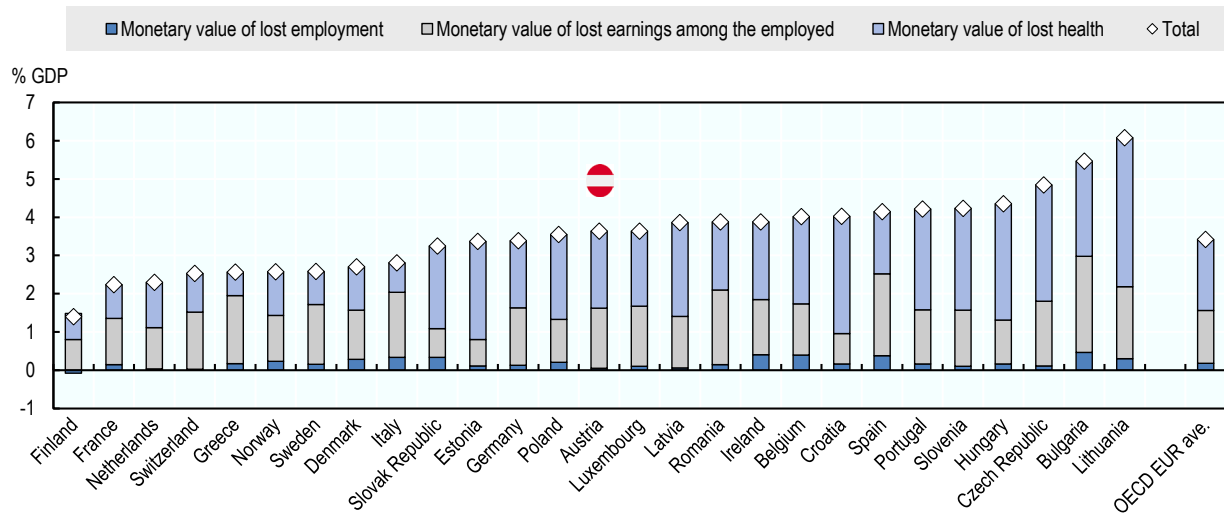
For Austria, we estimate that the labour market penalties attached to childhood socio-economic disadvantage are worth the equivalent of 1.6% of GDP each year, and the health penalties are worth the annual equivalent of 2.0% of GDP (Figure 16). Bringing the two together produces a total cost from childhood disadvantage that stands at the equivalent of 3.6% of GDP; in other words, through weaker health and lower earnings in particular, historic childhood disadvantage is costing Austria the equivalent of 3.6% of GDP or nearly 14 billion Euros, each and every year<sup>7</sup>.

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<sup>7</sup> Details on the calculation of these estimates, with their related absolute are available in Table A13 of the following annex: <https://www.oecd.org/wise/OECD-Cost-Childhood-Socio-Economic-Disadvantage-Online-Annex-Tables.xlsx>.

**Figure 16. In Austria, historic childhood disadvantage costs the equivalent of 3.6% of GDP in lost employment, earnings and health – about average for European OECD countries**

Estimated total monetary value of lost employment, earnings, and health for 25- to 59-year-olds who grew up in relative disadvantage based on the Index of Childhood Socio-Economic Status, % of GDP, by country, 2018-19



Note: "OECD EUR ave." refers to the unweighted average across the 24 covered European OECD countries. It excludes Bulgaria, Croatia and Romania. See Clarke et al. (2022<sub>[1]</sub>) for more details.

Source: Clarke et al. (2022<sub>[1]</sub>) based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2019.

In comparative terms, we find that the costs of childhood disadvantage in Austria are slightly higher than the average for the covered European OECD countries (3.4% of GDP). They are much larger than in the best performers like Finland (1.4% of GDP) – where the penalties for growing up in disadvantage are comparatively small across the board – and France (2.2%) and the Netherlands (2.3%). However, Austria's costs are smaller than in countries like Hungary (4.3% of GDP), the Czech Republic (4.8%), and especially Lithuania (6.1%), where comparatively large health penalties from childhood disadvantage drive high overall costs.

Identifying the factors that drive cross-country differences in the penalties from disadvantage requires further research, but *The economic costs of childhood socio-economic disadvantage in European OECD countries* (Clarke et al., 2022<sub>[1]</sub>) provides a few tentative suggestions. With respect to associations with employment and earnings, we show that the penalties linked to disadvantage are often smaller in countries with lower absolute levels of childhood disadvantage and lower inequality in childhood social and economic resources (see (Clarke et al., 2022<sub>[1]</sub>), section 2.3).

The results reported above suggest that the situation of children with respect to material deprivation is lower than the EU average, although child income poverty rates are somewhat higher. The penalty experienced in adulthood in employment and health by those who experienced socio-economic disadvantage in childhood is, however, higher than the EU average, suggesting that the welfare and education systems in Austria are not yet successful in helping socio-economically disadvantaged children to catch up with others or to experience upward social mobility. Also, the costs of childhood disadvantage in Austria are slightly higher than the average for the covered European OECD countries in a country where income inequality is relatively low in comparison to other countries. This is in contrast to the well-established finding that economic inequality may limit opportunities for people growing up at the bottom end of the socio-economic ladder, implying that earnings mobility and the opportunity for individuals to move outside the earnings class in which they were born are more limited in countries experiencing higher economic inequality (OECD, 2018<sub>[10]</sub>).

The labour market structure and the labour demand for high skills may also play a role in explaining the employment penalty experienced by individuals with a disadvantaged childhood. Globally, it is found that the employment and earnings penalties associated with childhood disadvantage is higher in labour markets dominated by high-skill jobs, which can be due to the fact that the relative disadvantage experienced in childhood hampers children's opportunities to develop the skills needed to find work and build good careers in high-skill labour markets (Clarke et al., 2022<sup>[1]</sup>). Again, Austria is in a median position in terms of the share of high skill employment – at 42% of total employment – with “high-skill employment referring to employment in occupations categorised in ISCO skill levels 3 and 4.

### **Box 6. How *The economic costs of childhood socio-economic disadvantage in European OECD countries* monetises the health and labour market penalties associated with childhood disadvantage**

We estimate the monetary value of any labour market penalties associated with childhood socio-economic disadvantage using an approach that broadly follows Blanden, Hansen, and Machin (2008<sup>[13]</sup>; 2010<sup>[14]</sup>). For any employment penalties, we calculate total lost employment by multiplying the estimated percentage point reduction in employment associated with childhood disadvantage by the 20% of the (25- to 59-year-old) population that we assume grew up in relative disadvantage. We then monetise this lost employment by assuming that had these individuals been in employment, they would have earned at the 25th percentile of their country- and sex-specific earnings distribution. For any earnings penalties, we calculate the value of lost earnings per worker by multiplying the earnings penalty associated with childhood disadvantage by (country- and sex-specific) mean annual labour earnings for workers in the middle (third) quintile on the ICSES. We then aggregate this monetised earnings penalty across all workers who experienced disadvantage in childhood.

For any health penalties associated with childhood disadvantage, we follow an approach broadly in line with Holzer et al. (2008<sup>[47]</sup>). Taking advantage of the fact that our measure of health and activity limitation status (the HALex) is analogous to a quality-adjusted life year, we estimate the monetary value of any health penalties associated with childhood disadvantage by summing the estimated health penalty across the population who experienced childhood disadvantage to arrive at an estimate for total “lost” quality-adjusted life years. We then assign each of these quality-adjusted life years a country-specific monetary value based on Holzer et al.'s estimate of USD (2006) 200 000 for the annualised value of a statistical life year.

Source: Clarke et al. (2022<sup>[1]</sup>), “The economic costs of childhood socio-economic disadvantage in European OECD countries”, OECD Papers on Well-being and Inequalities, No. 9, OECD Publishing, Paris, <https://doi.org/10.1787/8c0c66b9-en>.

## **4.3 The public finance impact of childhood socio-economic disadvantage**

While much of the impact of childhood disadvantage falls on individuals, public finances are likely to suffer too. Reduced employment and earnings potentially mean reduced tax revenues for government, for instance, while additional public support might be needed to help maintain the living standards of those affected.

As an additional linked exercise, in Clarke et al. (2022<sup>[1]</sup>), we also evaluate the public finance impact of childhood disadvantage through its associations with adult employment and earnings and their subsequent effects on government revenues and benefit spending. As outlined in Box 7, we do this with the help of EUROMOD – the European Commission Joint Research Centre's (JRC) tax-benefit microsimulation model



(Joint Research Centre, 2023<sup>[53]</sup>). Not surprisingly given the links between childhood disadvantage and employment and earnings, we find that in many European countries, the effects of childhood disadvantage have a considerable negative potential impact on public budgets.

Starting first with government revenue, we estimate that in Austria, the Government is losing up to 4.4% of total potential income tax and social contribution revenue from non-old-age households because of the impact of childhood disadvantage on employment and earnings (see Figure 18 in Clarke et al. (2022<sup>[11]</sup>)). This is lower than in some other major European countries like Spain (6.7%) and Ireland (7.0%), but higher than the average for the covered countries (3.6%) and much larger than in the best performers, Finland and the Netherlands (both 1.5%).

Lost revenue is only one side of the equation; public budgets may also be hit if the loss of employment and earnings associated with childhood disadvantage leads to increased social benefit receipt among those affected. Based on current (2019) policy rules, we estimate the potential increase in spending on non-pension benefits going to working-age household attributable to childhood disadvantage through its associations with later labour market outcomes (see Figure 19 in Clarke et al. (2022<sup>[11]</sup>)). Here, losses for Austria are smaller than for income taxes: we find that in Austria, increased benefits associated with childhood disadvantage represents just under 1% of total non-pension benefit spending going to working-age households. This is less than the average for the covered European countries (2%), and much less than in Greece (5.6%) and Ireland (6.1%).

**Box 7. How *The economic costs of childhood socio-economic disadvantage in European OECD countries* explores the public finance impact of childhood disadvantage**

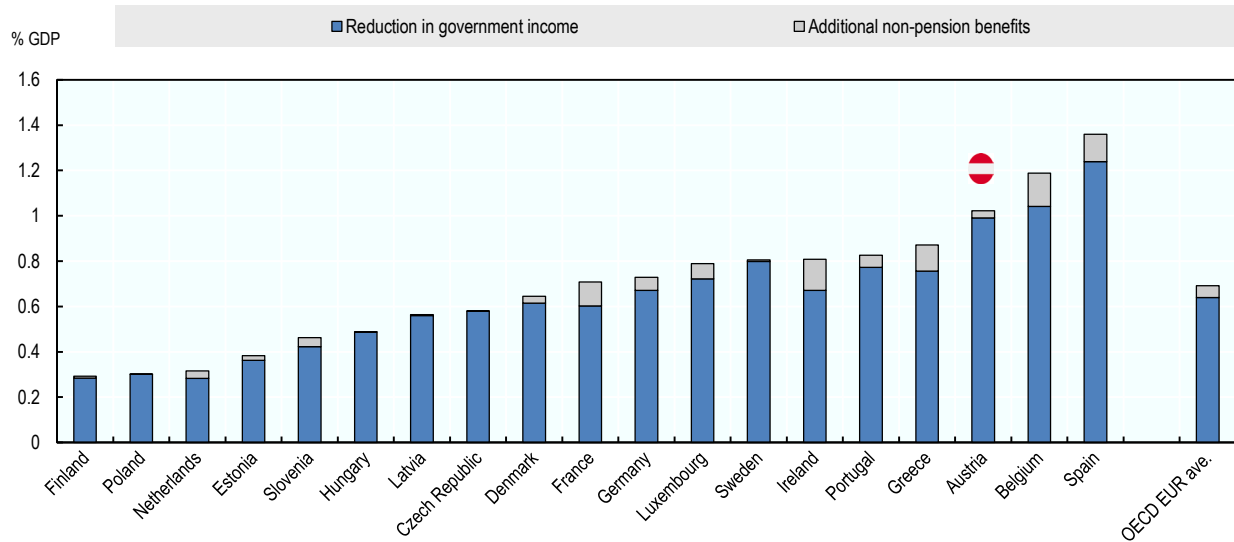
We estimate the public finance impact of childhood disadvantage using the European Commission Joint Research Centre's (JRC) EUROMOD microsimulation model. Building on the estimated labour market penalties attached to childhood disadvantage summarised above, we use EUROMOD to compare current direct tax revenues received from, and non-pension benefit spending going to, working-age household with those that could be achieved in the counterfactual scenario whereby there are no employment and earnings penalties associated with childhood disadvantage. All tax and benefit rules are kept constant in this alternative scenario, with only the employment and earnings statuses (and subsequent household incomes) of those individuals that experienced childhood social and economic disadvantage changed. Since our labour market penalties focus on working-age adults aged 25 to 59, only, our tax and benefit estimates also cover only households with at least one member aged 25 to 59.

Source: Clarke et al. (2022<sup>[11]</sup>), "The economic costs of childhood socio-economic disadvantage in European OECD countries", OECD Papers on Well-being and Inequalities, No. 9, OECD Publishing, Paris, <https://doi.org/10.1787/8c0c66b9-en>.

Converting these percentage losses into GDP-equivalent values (Figure 17), we estimate that the total public finance cost of childhood disadvantage for Austria, through its impact on employment and earnings, stands at just over 1.0% of GDP (2019). The large majority of the costs (0.99% of GDP) runs through lost revenue. In comparative terms, this cost is well above the average for the covered countries (0.6% of GDP), and larger than in all covered countries except for Belgium (1.2% of GDP) and Spain (1.4% of GDP). This result is driven by the high level of income taxation in Austria, so that a lower relative loss in tax revenue in comparison to other countries relates to a bigger amount relative to GDP.

**Figure 17. In Austria, the total budgetary cost of childhood disadvantage is worth the equivalent of just over 1% of GDP**

Estimated monetary value of lost government revenue and increased non-pension social benefit spending attributable to childhood social and economic disadvantage through its association with adult employment and earnings (% of GDP), non-old age households, 2019



Note: "Non-pension benefits" include unemployment benefits, family and education benefits, social assistance and housing benefits, health and disability benefits as defined in (JRC, 2022<sup>[54]</sup>). "Non-old age households" refers to households with at least one member aged 25-59. No estimates available for Bulgaria, Croatia, Italy, Lithuania, Luxembourg, Norway, Romania, the Slovak Republic and Switzerland. "OECD EUR ave." refers to the unweighted average across the 19 European OECD countries with available data. See Clarke et al. (2022<sup>[11]</sup>) for more details. Source: Clarke et al. (2022<sup>[11]</sup>) based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2019 and EUROMOD static microsimulations.

## 5 Main policy challenges

The cost estimates summarised above underline the importance of tackling childhood social and economic disadvantage, in Austria as in other OECD countries. Ensuring all children start life on an equal footing is not only a moral imperative but comes with an economic rationale too. The potential gains from reducing current losses in economic output and reduced health – worth the equivalent of 3.6% of GDP in Austria – are substantial. And this is without accounting for the social and economic costs potentially associated with childhood disadvantage, such as child maltreatment and increased risks of later crime and homelessness.

Taken all together, the findings in this paper underline the importance of reinforcing policy efforts to tackle childhood social and economic disadvantage in Austria as in other developed countries. Addressing childhood disadvantage requires policy action to both prevent its occurrence and to mitigate its consequences throughout the life course (OECD, 2018<sup>[55]</sup>; OECD, 2019<sup>[56]</sup>). Helping families meet children’s basic needs from birth onwards is crucial. This includes supporting families to getting access to decent housing and achieving financial security, as well as providing children with access to basic childcare and health services, as all recommended by the European Child Guarantee (European Council, 2021<sup>[15]</sup>).

In many respects, Austria is heading in the right direction when it comes to tackling child social and economic disadvantage. As shown in section 2, child material deprivation rates have been falling in recent years, with Austria performing particularly well in ensuring children have access to basic material necessities like nutrition and clothing. The share of children growing up with low educated parents is also comparatively low in Austria and has fallen in recent years. Overall, in 2021, the number of children exposed to any of our three main measures of current child socio-economic disadvantage – relative income poverty, child-specific material deprivation, and having low educated parents – was lower in Austria (18%) than in European OECD countries (23%); however this share was more than twice the percentage observed in Finland (7.4%) and Slovenia (8.8%).

There is more that Austria can do to tackle child socio-economic disadvantage. First, the overall share of children exposed to severe housing deprivation in Austria (5.0%) is still relatively high – slightly below than what is observed on average in European OECD countries (5.4%) and has fallen only slightly in recent years. This is despite the fact that, in comparison to other OECD countries, housing costs are relatively low for most Austrian households (OECD, 2022<sup>[57]</sup>), and affordability remains generally good, even if house prices have risen sharply in recent years (OECD, 2021<sup>[58]</sup>). Austria also remains a leader in the provision of social housing – a central element in the policy mix for ensuring good-quality, affordable housing (OECD, 2020<sup>[59]</sup>). In the context of the European Child Guarantee, further in-depth work may be needed to identify where and how Austria can improve to better ensure all children, including the most disadvantaged, have access to quality housing.

In addition, as discussed in section 2, child (relative income) poverty rate of children under age 15 has been rising in Austria in recent years, from 9% in 2011 to 13% in 2019, and it is now higher than the OECD average (12%). Around 8% of children in the same age group are also seen as materially deprived under the Eurostat definition where a child is classified as experiencing “child-specific material deprivation” if they suffer from an enforced lack of at least three of 17 items, including items relating to food and nutrition, clothing and footwear, social activities, leisure activities, and household-level items such as an internet connection at home and access to a car for private use. Nearly 1 in 5 young people under the age of 18

are affected by monetary poverty, with a higher poverty threshold of 60% of median equivalent income. Reversing this trend should be a policy priority.

Previous work by the OECD (Thévenon et al., 2018<sup>[23]</sup>) has shown that one of the most effective and sustainable ways to tackle child poverty is promote better quality and better paid parental employment, particularly employment for mothers. Relatively few mothers with young children are employed and at-work in Austria, with close to one-third absent on leave, and a further third outside the labour force (OECD, 2020<sup>[60]</sup>). If and when they return, a majority work only part-time (OECD, 2020<sup>[60]</sup>). Taking steps to support better-paid, full-time parental employment, especially among mothers, could help address the root cause of child poverty – low family income. Policy options include further promoting the availability of high-quality early childhood education and care to support parents' labour market participation, revisiting the childcare allowance and lengthy parental leave programme and promoting a more equal sharing of care responsibilities between parents, and reconfiguring aspects of the tax system that create only weak financial incentives for second earners to work full-time (Förster and Königs, 2020<sup>[40]</sup>; OECD, 2019<sup>[61]</sup>; 2021<sup>[58]</sup>).

Austria's tax and transfer system, while generally well structured, could also do more to reduce child poverty. Previous work by the OECD has shown that Austria's benefit system provides good general protection against income losses from unemployment, and minimum income supports are more generous than the OECD average (Förster and Königs, 2020<sup>[40]</sup>). Recent measures to reduce tax burdens on low-income workers are also welcome, even if they might not benefit those on the lowest incomes who are often out of work or were already exempt from paying income taxes due to their low income. Recent reforms of the income support system also targeted families with children, in order to reduce the gap in living standards between families with and without children (i.e. to offset the cost of raising children) as well as to support low income families<sup>1</sup>. However, cash transfers are higher for families with high and middle incomes than for low-income families (Box 8), suggesting that the system of income support could be adjusted to protect children and their families more effectively from income poverty.

In addition, an estimation of the share of the estimated cost of children on household living standards compensated by public family cash transfers shows that they cover around two-thirds of the average cost of a child for two-parent families, but only 36% for single-parent families (BMSGPK, 2021<sup>[19]</sup>). Therefore, the amount of income support to help cover the costs of children in single-parent families could be stepped up, as a way to also reduce their much higher exposure to income poverty with around 37% of single-parent families being considered as income poor in 2020, compared with 9% of two-parent families (OECD, 2023<sup>[62]</sup>).

### Box 8. Public transfers for families with children in Austria

In Austria at federal level, one general family allowance exists (Familienbeihilfe), which is a non-contributory benefit, not means-tested and is not taxable, and its amount varies with child ages. The total amount of family allowance increases with every child, and there is a further increase, a multiple child bonus (Mehrkindzuschlag), for the third and each further child if the household taxable income is below the annual limit EUR 55 000 per year. There is also a supplement for families with school-aged children, the school bonus (Schulstartgeld) which is a one-off benefit granted for children between 6 and 15. These benefits complement the childcare benefit (Kinderbetreuungsgeld) that is paid irrespective of the enrolment in care, as explained in Box 4.

Furthermore, a child tax credit (Kinderabsetzbetrag) is granted, which is paid in form of a tax credit together with family allowance and is refundable, i.e. not connected with income tax assessment (also families who pay no taxes receive it as a negative tax).

As of January 2019, a new family tax credit, the Familienbonus Plus, was introduced. This credit reduces the income tax in its real extent up to EUR 1 500 per year and child below age 18 and EUR 500 per year and child up to the age of 24 if the family receives also Familienbeihilfe for this child. However, the credit is non-refundable, which means that non-taxable families do not receive it as a negative tax. Consequently, low-income sole earner and single parent families can receive the “Kindermehrbetrag” which is an additional credit of up to EUR 550 per year. This credit is provided when the paid tax is less than EUR 550 per year.

An evaluation of cash transfers paid to families in 2021 (excluding childcare allowance) estimated that the average total monthly transfers received per child by families with children is EUR 328, with EUR 210 received as family allowance, and EUR 118 received through the tax breaks for families (Fink and Rocha-Akis, 2021<sup>[20]</sup>). On average, single-parent households receive a slightly lower amount of transfers (EUR 321) than two-parent families. Direct benefits – taken here as the sum of family allowance (including child deduction and school start allowance) and the multiple child supplement – are higher for one-parent families (EUR 217 versus EUR 209) while the tax relief for the two-parent households is higher (EUR 119 versus EUR 104). Due to the lower income in single parent households, the combined Familienbonus and the Kindermehrbetrag typically amount to only two thirds of the support two-parent-households receive.

Transfers for families received by households in the bottom fifth of the income distribution are below average – and below the second bottom fifth – and those in the top fifth of income are above average (EUR 298 versus EUR 345 per month). The reason for this difference is that, on the one hand, the lowest income fifth receive a significantly lower amount of the family bonus credit which cannot be fully exhausted with lower incomes and is also non-refundable (i.e. there is no credit for non-taxable households); as a result, the group with the lowest income receives a family bonus of EUR 49 per child per month, the group with the highest income more than twice as much (EUR 114 per child per month). On the other hand, the amount of the family allowance is higher in the top fifth as a result of this group of households comprising older children. In the income groups in between, both direct and indirect family benefits per child are approximately the same.

These transfers can be compared with the estimated impact of the presence of children on families' standard of living, as estimated by Bauer et al. (2021<sup>[18]</sup>). According to the child cost analysis, the average cost of a child in a two-adult household is EUR 494. This is offset by public family transfers for an amount of EUR 328, which represents 66% of the estimated child costs.

Child costs in one-adult households are typically higher than in two-adult households. This is due mainly to the fact that the fixed costs, such as for housing or energy, are distributed among fewer people in smaller households. This increases the costs per person and thus also the child costs (Bauer et al., 2021<sup>[18]</sup>). The average costs per child estimated for one adult household are at EUR 900 and thus is EUR 406 higher than the child costs estimated for a two-adult household. While the child costs for single parents are almost twice as high, the amount of public family transfers are slightly lower at EUR 321. Moreover, for single parents, the average total of family transfers received is at EUR 579, which is only 36% of the average child costs.

Source: OECD (2022) Tax and Benefit Country Description for Austria; (Bauer et al., 2021<sup>[18]</sup>); (Fink and Rocha-Akis, 2021<sup>[20]</sup>).

But tackling child income poverty may not be enough to fully address child economic and material disadvantage. As highlighted in section 2, in Austria as elsewhere in Europe, there is considerable but not total overlap between child income poverty and child material deprivation. Indeed, approximately 4% of children in Austria are suffering material deprivation despite not being classified as income poor. The presence and size of this group of children suggests that the lack of income may not be the only or primary reason why these families report children's unmet needs. Tackling further child material deprivation

therefore requires addressing together the financial and the non-financial barriers that may explain why a non-negligible proportion of children are materially deprived despite not living in an income-poor family. There are a number of non-financial reasons for deprivation regardless of family income status: a lack of support in kind, or a lack of awareness about services and material supports that are available; a lack of trust in the quality of the support or services offered; or a lack of accessibility to services due, for example, to the distance between the home and the service offered. For certain minorities or disadvantaged groups, the use of support or services may be discouraged by the fear of being stigmatised, while for some families with a migrant background, language, legal or cultural norms may act as a barrier to the use of services - childcare services, for example (Pavolini and Van Lancker, 2018<sup>[63]</sup>; Van Lancker and Pavolini, 2023<sup>[64]</sup>),

With respect to access to ECEC services, Austria is doing comparatively well at ensuring equal access across socio-economic groups, but with no more than 20% children under age 3 enrolled in ECEC services, participation rate is comparatively low and the distance to go to reach the Barcelona target for “advanced countries” at 45% of children covered by formal childcare services is still rather long. High quality childcare services benefit the cognitive and health development of disadvantaged children in particular, and thus are an important lever for ensuring all children start school on an equal footing (Duncan et al., 2022<sup>[65]</sup>). Thus, further promoting access to and the use of ECEC in Austria is critical in view of the benefits that it can bring to both disadvantaged children and parental employment.

Access to ECEC services by disadvantaged children has been promoted in Austria with the aim of improving their linguistic, cognitive and social skills (OECD, 2023<sup>[41]</sup>). The principle of providing free access to childcare services for all children at the age of 5 has been introduced by the federal government in September 2010. Day-care is now provided free of charge for at least 4 hours per day for children of this age throughout Austria. However, there is considerable heterogeneity in early childhood policies across federal states since childcare policies heavily depends on federal states and municipalities’ action. For instance, all-day free childcare is provided for children 0-6 years in Vienna and Burgenland, while half-day care for children from age 2,5 to 6 is provided in Lower and Upper Austria, and half-day-care for children from age 4 to 6 in Tyrol (OECD, 2023<sup>[41]</sup>). Moreover, in non-public day-care facilities, fees depend mostly on the family net income (which consists of partners’ incomes, family allowance, etc.), the number of carers for children and the number of siblings. The costs vary considerably because they are defined by private child-care-centres and municipalities. Childcare is subsidised by federal states and communities in order to decrease parents’ fees, but this results in large disparities across territories.

In terms of specific action areas for ECEC, past OECD work has highlighted the need for Austria to tackle supply shortages and inflexible opening hours (Förster and Königs, 2020<sup>[40]</sup>). In this respect, the latest in the series of agreements on ECEC between the federal government and the Länder – which promises, among other things, to extend opening hours and expand supply for children under three (BMBWF, 2023<sup>[66]</sup>) – is a welcome step. Tackling regional differences in childcare services availability and costs for children under age three – as well as addressing shortages in qualified staff – remain important action areas.

The levels of public spending on childcare services by the Länder and municipalities have substantially increased since the mid-2000s, but they still vary widely across regions (Statistics Austria, 2022<sup>[67]</sup>). There are many reasons behind these variations, including the type of childcare (private or public), the number of hours offered, the qualifications of the staff, group sizes, and material equipment. In addition, not all Länder and municipalities give the same priority to the development of childcare, and they do not have the same financial capacity to invest in this development. Blum (2015<sup>[68]</sup>) shows, for example, that the political majorities in the federal states have an influence on whether this development is given priority, and that the staff working on this development are not all familiar with (or supportive of) the national objectives and the Barcelona Targets.

The cost of developing new childcare facilities borne by Länder and municipalities can be an obstacle to the development of formal childcare in less advanced regions which are under financial pressure and may have an interest in giving a priority to parents taking up the child-raising allowance that is financed under the federal budget. The federal government's contribution to the funding of early education and care services through special-purpose grants is an important tool for encouraging development and reducing regional disparities (Box 9). One possible option for this mechanism to play a greater role in reducing regional disparities is to grant higher funding per place to regions with lower financial capacity to sustain this development. For example, in France, a "territorial bonus" is granted for the financing of each place to less affluent regions (HCFEA, 2023<sup>[69]</sup>). This bonus is calculated by taking into account the relative wealth of the regions and whether or not they could raise local taxes – when the level of local tax is below the average level across regions – to finance the development of facilities. The amount of the bonus – which is in addition to the subsidies that apply to all regions – is higher the lower the regions' financial potential and wealth per capita.

More generally, there remains scope for Austria to further increase public investment in childcare. Quality ECEC is unavoidably expensive for governments, and there are few shortcuts available to countries looking to offer quality, affordable ECEC to all parents regardless of circumstance. Despite recent increases, public spending on ECEC in Austria (0.5% of GDP) still comes to less than half that spent in OECD leaders like Denmark (1.3%), France (1.3%), and Sweden (1.6%) (OECD, 2021<sup>[38]</sup>). Furthermore, it is estimated that Austria in 2019 spent an average of USD PPP 5 400 per child under 5 on education and care services, while the OECD average is USD PPP 5 800 and this expenditure reached, for example, USD PPP 9 200 in France and USD PPP 12 100 and USD PPP 11 600 in Sweden and Denmark respectively (OECD, 2023<sup>[70]</sup>).

### Box 9. Funding of early childhood education and care services in Austria

Public funding of early education and care services intend to provide children, regardless of their socio-economic background, with early language support and preparation for primary school, as well as to improve parents' balance between work and family. This latter objective is to be achieved by providing and expanding year-round, all-day childcare in line with needs until the children reach school age. The provision of free half-day kindergarten places for five-year-old children for 20 hours per week was introduced in 2019.

Legislation and enforcement in the field of early childhood education and care (crèches, childcare facilities for infants and toddlers, kindergartens, after-school day care facilities and mixed-age care facilities) are the responsibility of the nine provinces. The number, opening hours and the split of funding between public authorities and parents vary from province to province. The providers of these institutions are mainly municipalities and private associations. Of the total of 9 549 day care facilities for children in the 2020/21 school year, 57% are run by a public provider and 43% by a private provider (Statistics Austria, 2022<sup>[67]</sup>). Whereas almost three quarters (72.5%) of kindergartens are maintained by public regional authorities (federal government, provinces, municipalities), the majority of crèches, toddler care facilities and mixed-age care facilities are privately run. The federal government plays a subordinate role with regard to the state funding of the ECEC sector. In 2019, the federal government spent around EUR 9.7 million on early childhood education, which corresponds to 0.4% of the total state spending on education in the elementary sector. Most of the expenditure is distributed between the provinces (including Vienna) and the municipalities.

Public funding in early childhood education and upbringing is predominantly input-based, with criteria such as personnel and space requirements, group sizes, staff qualifications, but the regulations vary depending on the care institution and the province. In addition, the federal government and the

provinces have decided on earmarked funding, with co-funding by the federal government that is provided through special-purpose grants as laid down in the Financial Equalisation Act (Finanzausgleichsgesetz). A prerequisite for issuing special-purpose grants is the existence of an agreement pursuant to Art. 15a of the Federal Constitutional Law between the federal government and the provinces on the specific use of the special-purpose grants and on their accounting.

Source: Eurydice, Early childhood and school education funding, Austria 2022.

The analysis in section 4 showed that in Austria educational underperformance is one of the important mediators of the significant employment and health 'penalties' experienced by people (particularly men) who have had a socio-economically disadvantaged childhood. Yet, children with greatest needs in this area potentially live in families who are not fully able to provide for the children's educational needs and who may have additional needs regarding parenting and family support (Riding et al., 2021<sup>[71]</sup>; OECD, 2019<sup>[56]</sup>). It is therefore important that children and parents who need it can benefit from the range of support measures (e.g., intensive family care, socio-educational family help, parent training, individual care) that can be offered by child and youth welfare services. In 2021, 27 out of 1 000 children under age 18 (41 726 minors) received support in their families through child and youth welfare services in Austria, and 8.3 out of 1 000 (12 871) were cared for as part of the "full-education" (Volle Erziehung) system<sup>1</sup> (Statistics Austria, 2022<sup>[72]</sup>). It will be important, particularly in the context of the Child Guarantee implementation, to further explore whether the use of these variants reflect differences in children's needs or differences in Federal States' capacities to respond to those needs.

Lastly, ensuring that growing up in a socio-economically disadvantaged family does not result in less chance of success at school is also key since education is not only important in itself but also as one of the main drivers of later life disadvantage in the labour market in Austria. As discussed in detail in previous OECD publications (Förster and Königs, 2020<sup>[73]</sup>; OECD, 2018<sup>[10]</sup>), this requires several actions to be taken to ensure that disadvantaged children get equitable support at school and throughout the transition from school to work, including by:

- Supporting schools in disadvantaged areas in order to ensure they have the material resources and the qualified teachers they need to take care of the education of children with multiple disadvantages and special educational needs. To move further in this direction, the federal government supports the pilot project "100 Schools – 1000 opportunities" which aims to gain a better understanding of how schools are currently dealing with special challenges – in particular, how they deploy and use resources and what this means for school quality (Universität Wien, 2022<sup>[74]</sup>). The participating schools receive additional needs-based support services for a certain period of time. The evidence gathered throughout the implementation of this pilot programme will provide an opportunity to identify measures that work most effectively and to potentially scale up programmes and funding on this basis.
- Limiting the breadth of early tracking of students in the school system which operates with the start of secondary education at the young age of 10 years compared to an OECD average of 14. Early sorting of students into different tracks or schools based on their ability is globally found to be associated with a stronger transmission of advantage or disadvantage across generations and with lower upward social mobility (Förster and Königs, 2020<sup>[73]</sup>; Chetty et al., 2022<sup>[75]</sup>; Chetty, Hendren and Katz, 2016<sup>[76]</sup>). One reason put forward is that early tracking creates obstacles for children from disadvantaged backgrounds to connect with their peers from better-off families, which not only affect their learning but their capacity to make friends and to develop networks that will be part of their future social capital.



Preventing early school leaving and providing early leavers with opportunities to return to school or training, which requires developing early warning systems to identify students at risk of early leaving from education and training, as well as implementing preventive measures and targeted interventions through enhanced educational follow-up, accessible mentoring, and health and social support for young people and their families (OECD, 2022<sup>[77]</sup>). It requires also promoting accessibility of second chance and alternative education and training institutions and providing mechanisms to recognise prior learning of knowledge and skills to help early leavers re-enter education or training. Recent evidence shows that youth's coaching and participation in a range of courses making up the "transition system" (e.g. training courses organised by employment agencies, courses within adult education, or low-threshold projects offered, for example, by factory schools) appears to improve their integration in education or employment (Pessl and Steiner, 2022<sup>[78]</sup>).

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