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SLIGHT DECLINE OF THE SOCIAL EXPENDITURE/GDP RATIO

AUSTRIA'S SOCIAL EXPENDITURE IN 1996

After rising sharply in the early 1990s in response to increased unemployment, additional family benefits and the introduction of long-term care benefits, the social expenditure/GDP ratio leveled off in 1995 and began to decline in 1996 as a consequence of budget consolidation measures taking effect in spite of weak economic growth.

When Austria joined the European Union, its method to collect data on social expenditure was adapted to the ESSPROS (European System of Integrated Social Protection Statistics) approach developed by Eurostat. The ESSPROS method allows representing social spending and its financing on the basis of a definition and structure that is the same for all EU countries[1]. According to this system, social expenditure includes public and private benefits from social redistribution to "relieve the social burdens which come to affect private households and individual persons as a result of a number of risks or needs", provided that "this intervention is not remunerated and does not take place within the framework of individual agreements".

1996 SOCIAL EXPENDITURE/GDP RATIO 29.5 PERCENT

According to the EU's established methodology, Austria's social expenditures totaled ATS 714 billion in 1996, equivalent to 29.5 percent of GDP. After stabilizing at 29.7 percent in the two previous years, the ratio declined by 0.2 percentage point in 1996[2].

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[1] For a discussion of the method see Guger, A., Steiner, H., "Austria's Social Expenditure in 1995", Austrian Economic Quarterly, 1997, 2(3), pp. 169-182.

[2] *Guger – Steiner* (1997) reported 29.4 percent and 29.5 percent for 1994 and 1995, respectively. In view of the revision of GDP figures, the social expenditure/GDP ratio has since been amended to 20.7 percent for both years.

Table 1: Social expenditures

	Billion ATS	Year-to-year percentage changes At current prices	As a percentage of GDP
1980	270	.	27.1
1985	375	+1.9	27.8
1990	485	+3.0	26.7
1991	525	+5.0	27.0
1992	569	+4.2	27.6
1993	615	+4.3	29.0
1994	665	+4.9	29.7
1995	694	+2.1	29.7
1996	714	+1.0	29.5

Source: ESSPROS Social Expenditure Database, Federal Ministry of Labor, Health and Social Affairs.

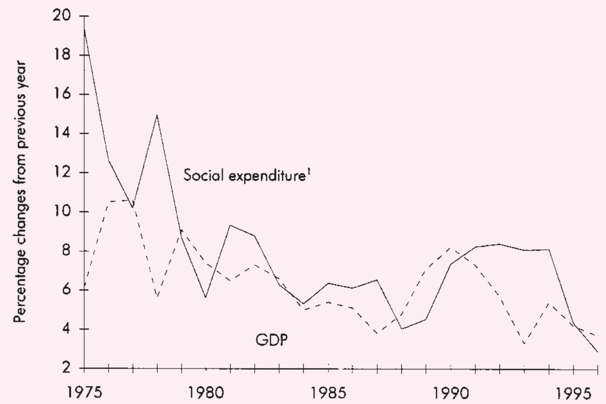
In spite of weaker economic growth and increased unemployment, the social expenditure/GDP ratio has been stabilizing since 1994. In real terms, annual social spending, which had risen by 4 to 5 percent in the early 1990s, grew by just 2.1 percent in 1995 and 1.0 percent in 1996.

Developments in social security expenditure are affected by a structural and a cyclical component. The creation of new social programs and changes in the eligibility criteria and entitlements or in the financing of existing systems have structural effects which are detached from economic developments. At the same time, expenditures and revenues of social systems are closely linked to the business cycle: social expenditure behaves anti-cyclically – a slack economy and rising unemployment swell the flood of claims on the unemployment and pension insurance systems while revenues are shrinking. This has an important "automatic" stabilizing effect on the business cycle, as social budgets stimulate overall demand in a recession but curb it in a boom period.

After rising rapidly in the high-growth decades as a result of both cyclical variations and reforms of the social security system, the social expenditure/GDP ratio remained basically stable throughout the 1980s: apparently the result of economic belt-tightening and budgetary considerations combined with a change in the political scene and ideological thinking.

The rise in the social expenditure/GDP ratio in the early 1980s is entirely attributable to two causes: unemployment figures doubled and old-age pension figures exploded during that period. From 1980 to 1985, the number of recipients of old-age pensions grew by 25 percent, and the number of persons receiving early retirement or invalidity pensions climbed by more than 50 percent. Old-age pensions, disability benefits and unemployment benefits saw their collective share of GDP rise by 2.2 percentage points; during the same time, the costs of family and health care benefits grew at a much slower pace than the GDP.

Figure 1: Social expenditure over the business cycle



Source: Federal Ministry of Labor, Health and Social Affairs, WIFO. – [1] New estimate as of 1990.

Social expenditures experienced a 3 percent real annual growth rate in the second half of the 1980s, significantly more than the 1.9 percent real annual growth rate registered during the first half of the decade. But with GDP growing even more rapidly in the latter half of the decade, the social expenditure/GDP ratio actually declined by almost 1 percentage point, from 27.8 percent in 1985 to 26.7 percent in 1990.

SHARP INCREASE OF EXPENDITURE FOR UNEMPLOYMENT, INVALIDITY AND FAMILY BENEFITS IN THE EARLY 1990S

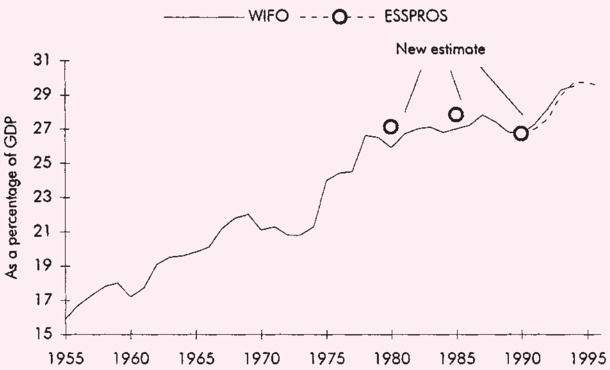
The sharpest increase in the social expenditure/GDP ratio since its explosive growth in the mid 1970s occurred in the early 1990s. Apart from greater spending on unemployment benefits, early retirement pensions and insolvencies that reflected the labor market conditions of the period, family benefits themselves were extended and a long-term care benefit introduced at federal level.

In 1996, about half of the social expenditure was spent on benefits for old-age pensioners and surviving dependents, one quarter on health care benefits, one seventh on unemployment and disability benefits to people of working age, and one tenth on family benefits.

Altogether, outlays for social benefits rose by 36.5 percent between 1991 and 1996 (excluding intergovernmental transfers), while the total payroll, which provides the basis for contributions, grew by only 20.4 percent over the same period.

By far the sharpest increase was recorded by unemployment benefits (+61.5 percent). Their share of benefit expenditures rose from 5.1 percent in 1991 to 6.1 percent in

Figure 2: The social expenditure/GDP ratio



Source: ESSPROS Social Database, Federal Ministry of Labor, Health and Social Affairs; WIFO.

1996. The deterioration of the labor market also explains the increase in invalidity pensions paid to people of working age (+55.5 percent) which drove up their share from 7.1 to 8.1 percent. The disproportionate growth of family benefits (+43.4 percent) is primarily the result of policies that granted a second parental leave year, introduced tax credits for children and augmented family allowances.

MORE BENEFITS FOR FAMILIES AND LONG-TERM CARE SERVICES

Between 1991 and 1993, the social expenditure/GDP ratio rose by 2.0 percentage points, from 27.0 to 29.0 percent. The boom years of 1988-1991 were followed by a recession which carried a substantial increase in unemployment in its wake: from 5.8 percent in 1991 to 6.8 percent in 1993. As a consequence, expenditure on unemployment benefits rose by 40.2 percent in that period, outlays on unemployment assistance increased by 21.8 percent, and payments from the bankruptcy contingency fund shot up by 202.0 percent.

Next to the economic downswing it was the introduction of new or higher benefits which caused the growth in the social expenditure/GDP ratio in the early 1990s. When a second year of parental leave was introduced, expenditure on this item rose from ATS 4.2 billion in 1991 to ATS 9.5 billion in 1993. The new federal long-term care act of July 1993 caused new expenses (ATS 8.7 billion in 1993), as did the increase of family benefits (1992) and the tax credits for children (1993).

In spite of a temporary strengthening of the economy, the social expenditure/GDP ratio still rose to 29.7 percent in 1994, as no relief was in sight with regard to unemployment figures, payments from the insolvency contingency fund continued to go up and the long-term care benefit, introduced in mid 1993, made itself fully felt in the annual budget.

AUSTERITY PACKAGES CHECKED THE SOCIAL EXPENDITURE/GDP RATIO IN 1996

With new or extended benefits for families and long-term care in place, and following efforts by the government to consolidate the budget, a brake was put on the growth of social spending by way of cutting family benefits and curbing the growth of expenditure for unemployment. The 1995 austerity package cut family allowances by ATS 100 per month, introduced a recipient's contribution of 10 percent for school textbooks and transport, reduced the supplement to parental leave benefit and tightened eligibility requirements for this supplement and the family supplement for the unemployed. As a consequence, the social expenditure/GDP ratio remained stable in 1995 in spite of the weakening economy, and began to decline at last in 1996.

Changes in benefit categories varied considerably, both in comparison to the previous year and when looking at the

Table 2: Social outlays according to social risks

	1991		1993		1995		1996		1991-1996
	Billion ATS	Percentage shares	Billion ATS	Percentage shares	Billion ATS	Percentage shares	Billion ATS	Percentage shares	Percentage changes
Age	195	38.5	224	38.0	253	38.0	263	38.0	+34.9
Surviving dependents	59	11.6	65	11.0	71	10.7	71	10.3	+20.3
Sickness[1]	129	25.4	149	25.3	167	25.1	174	25.1	+34.9
Family	53	10.5	67	11.3	76	11.4	76	11.0	+43.4
Disability	36	7.1	41	6.9	52	7.8	56	8.1	+55.5
Unemployment	26	5.1	33	5.6	37	5.5	42	6.1	+61.5
Others[2]	9	1.8	11	1.9	10	1.5	10	1.4	+ 1.1
Total[3]	507	100.0	590	100.0	666	100.0	692	100.0	+36.5

Source: ESSPROS Social Expenditure Database, Federal Ministry of Labor, Health and Social Affairs. Benefit expenditure only, i.e., excluding transfers between providing agencies, administration costs and other outlays. – [1] Own calculations. – [2] Including social assistance payments, housing assistance, exemption from charges, etc. – [3] The total of expenditures by categories is lower than total social outlays because expenses such as administrative costs are not included in the breakdown by categories.

Table 3: Social expenditure by benefit categories

	1991	1993	1995	1996	1991-1993	1993-1995	1995-1996	1991-1996
	Million ATS				Percentage changes			
Statutory pension insurance	179,648	204,117	230,595	242,955	+ 13.6	+ 13.0	+ 5.4	+ 35.2
Unemployment insurance	25,690	35,982	38,361	39,975	+ 40.0	+ 6.6	+ 4.2	+ 55.6
Bankruptcy contingency fund	1,137	3,434	4,726	5,148	+202.0	+ 37.6	+ 8.9	+352.8
Family assistance fund	33,328	39,417	36,037	35,129	+ 18.3	– 8.6	– 2.5	+ 5.4
Federal long-term care benefit[1]		8,774	18,981	18,185			– 4.2	
Kindergartens	5,339	6,843	7,807	8,237	+ 2.8	+ 14.1	+ 5.5	+ 54.3
Social spending by the Länder	11,502	15,919	20,205	22,319	+ 38.4	+ 26.9	+ 10.5	+ 94.0

Source: ESSPROS Social Expenditure Database, Federal Ministry of Labor, Health and Social Affairs. – Payments to beneficiaries (i.e., excluding intergovernmental transfers). – [1] Federal long-term care benefit was introduced on 1 July 1993.

general development in the 1990s – the result of the interplay of economic and demographic effects and of statutory changes in eligibility criteria and in the level and duration of benefits.

In 1996, the state spent more on statutory old-age pensions, unemployment, the bankruptcy contingency fund and kindergartens than in the previous year, whereas expenditures by the family assistance fund and for federal long-term care benefits were shrunk.

Above-average increases over the previous year were recorded for the following benefits:

- invalidity pensions, including early retirement pensions due to reduced working capacity (+16.1 percent);
- early retirement pensions due to long insurance years (+7.7 percent);
- early retirement pensions due to unemployment (+7.8 percent);
- unemployment benefit and unemployment assistance (+6.5 percent);
- payments from the bankruptcy contingency fund (+8.9 percent);
- child birth benefits (+15 percent).

Expenditure decreased in 1996 for the following benefits:

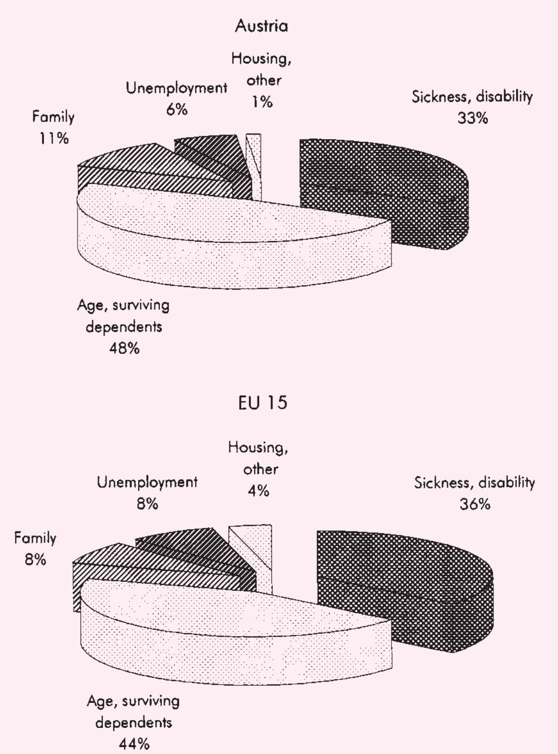
- family allowances (–3.4 percent);
- parental leave benefit (–2.7 percent);
- supplementary retirement benefits (–2.0 percent);
- long-term care benefits payable by the Länder (–3.4 percent).

AUSTRIA'S 1995 SOCIAL EXPENDITURE/ GDP RATIO SLIGHTLY ABOVE THE EU AVERAGE

At 29.7 percent, Austria's 1995 social expenditure/GDP ratio was slightly above the EU average of 28.4 percent, and in the middle of countries of comparable economic and social structures. From 1980 to 1995, Austria enjoyed a period of above-average economic growth, so that the rise in social spending (+3 percent on average per year in real terms between 1980 and 1995) was not fully reflected in the social expenditure/GDP ratio: the latter rose by 2.6 percent between 1980 and 1995, as compared to the EU average of 4.3 percent (which is mainly accounted for by the need of southern European countries to accelerate their social spending).

Within the EU, the highest spending levels in terms of economic performance are reached by the Scandinavian countries: Sweden (35.6 percent), Denmark (34.3 percent) and Finland (32.8 percent). The social expenditure

Figure 3: Composition of social expenditures



Source: ESSPROS Social Database, Federal Ministry of Labor, Health and Social Affairs.

Table 4: Social expenditures in international comparison

1995

	As a percentage of GDP
Sweden	35.6
Denmark	34.3
Finland	32.8
Netherlands	31.4
France	30.6
Belgium	29.7
Austria	29.7
Germany	29.4
Ø EU 15	28.4
U.K.	27.7
Luxembourg	25.3
Italy	24.7
Spain	21.9
Greece	21.2
Portugal	20.9
Ireland	19.9

Source: Eurostat; ESSPROS Social Expenditure Database, Federal Ministry of Labor, Health and Social Affairs.

ratio of the Netherlands and France also exceed Austria's, while Belgium ranks equal and Germany, at 29.4 percent, has a marginally lower social expenditure/GDP ratio. The U.K. is ¾ percentage point below the EU average, whereas the southern European countries have distinctly lower ratios.

Within the EU countries, the social expenditure/GDP ratio peaked in 1993 both as an average and in the majority of member states and has since been declining. In Austria it was only in 1996 that social spending at last grew at a slower pace than the nominal GDP.

Significant differences exist between Austria and the EU average with regard to the structure of social expenditure. The comparatively small role which unemployment benefits play in Austria is explained by the country's relatively low rate of unemployment, by the limited funds assigned to labor market programs, and by the fact that older people among the unemployed most often opt for old-age pension schemes rather than unemployment benefits. This tendency also explains why pensions represent a disproportionately large part of the country's social expenditures (with the high cost of civil servant pensions an additional factor not to be neglected). The relatively high level of family benefits (including tax credits for dependent children) and parental-leave provisions explains the greater role played by family benefits in Austria. The "other" cate-

Slight Decline of the Social Expenditure/GDP Ratio Austria's Social Expenditure in 1996 – Summary

After shooting up in the early 1990s, due to additional benefits such as the second year of parental leave, tax credits for children and the long-term care benefit, and leveling off at 29.7 percent in 1994 and 1995, the social expenditure/GDP ratio began to shrink at last, to 29.5 percent, in 1996, thanks to the effect of the first austerity package and in the face of a weakening economy and growing unemployment.

As defined by the European System of Integrated Social Protection Statistics (ESSPROS), social outlays in Austria totaled AS 714 billion in 1996, equivalent to 29.5 percent of its gross domestic product, and down from 29.7 percent in 1994 and 1995 in spite of the slump and high unemployment rates.

During the 1980s, changes in the social expenditure/GDP ratio reflected mainly cyclical variations: it rose throughout the period of sluggish growth until 1987, but fell back below the 1980 level when the economy recovered. Structural grounds, i.e., the introduction and improvement of benefit levels, such as the second year of parental leave, improved eligibility criteria for women's pensions, tax credits for children and the long-term care benefit, caused the social expenditure/GDP ratio to shoot up again in 1991 to 1994.

In spite of the subsequent cyclical downswing, the ratio leveled off in 1995 and actually declined in 1996 as a consequence of the first austerity package. In view of the economic upswing and ongoing efforts at further consolidation, the trend is likely to continue in 1997 and 1998.

In 1991 to 1996, social spending grew by altogether 36.5 percent. Above-average growth rates were registered for unemployment benefits (+61.5 percent), invalidity benefits (+55.5 percent) and family benefits (+43.4 percent).

The scope of social expenditures in Austria is similar to that of other European countries of comparable economic and social structures. As a proportion of GDP, Austria's 1995 ratio was slightly above the EU average of 28.4 percent which was depressed by the meager level of social spending in the southern European countries.

The structural composition of social outlays in Austria differs markedly from the EU average insofar as old age pensions claim a much larger share (Austria 48 percent, EU 44 percent) whereas the share of spending on unemployment (6 percent and 8 percent, respectively) and on health care and invalidity (33 percent versus 36 percent) are distinctly lower in Austria.

gory includes various social assistance benefits, which are of less importance in Austria and which are largely integrated in the pension and unemployment schemes (i.e., the compensatory supplement to bring pensions up to subsistence level and unemployment assistance to those who are no longer eligible for unemployment benefit).

CONCLUSION

As defined by the ESSPROS method, social spending in Austria totaled ATS 714 billion in 1996, equivalent to 29.5 percent of its GDP. After hovering at 29.7 percent in 1994 and 1995, the social expenditure/GDP ratio flattened in spite of a weak economy and rising unemployment.

During the 1980s, the social expenditure/GDP ratio had remained relatively stable, affected only by cyclical variations: it rose through the period of sluggish growth until 1987, but fell back with the subsequent recovery, eventually even below the 1980 level.

Driven by new, cost-intensive improvements, such as the second year of parental leave, an improvement of pension entitlements for women, tax credits for children and the long-term care benefit, the ratio rose again between 1991 and 1994.

Although the economy slowed down again after 1994, the social expenditure/GDP ratio remained stable in 1995 and declined in 1996, reflecting the impact of measures within the first austerity package. In view of the ongoing recovery and reinforced efforts to consolidate public budgets, the trend is likely to continue into 1997 and 1998.

Between 1991 and 1996, social spending rose by altogether 36.5 percent. Above-average expenditure increases were recorded for unemployment benefits (+61.5 percent), invalidity benefits (+55.5 percent) and family benefits (43.4 percent).

In terms of scope, Austrian social spending is approximately equal to that of European states of comparable social and economic structures. As a proportion of GDP, it was slightly above the EU average of 28.4 percent in 1995, which is depressed by the very low level of social spending afforded by the southern European countries.

The structural composition of social expenditures in Austria differs remarkably from the EU average insofar as old age pensions claim a much larger share (Austria 48 percent, EU 44 percent) whereas spending on unemployment (6 percent and 8 percent, respectively) and on health care and invalidity (33 percent versus 36 percent) is distinctly lower in Austria.