1987/1988

OECD ECONOMIC SURVEYS

AUSTRIA

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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The Socialist Federal Republic of Yugoslavia takes part in some of the work of the OECD (agreement of 28th October, 1961).

Publié également en français.

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BASIC STATISTICS OF AUSTRIA

THE LAND

Area (thousand km²)	84
Agricultural area (thousand km²), 1987	34
Exploited forest area (thousand km²)	32

Major cities, 1981 census (thousands of inhabitants):

Vienna	1 531
Graz	243
Linz	200
Salzburg	139
Innsbruck	117

THE PEOPLE

Population, 01.01.87 (thousands)	7 555
per km²	90
Net natural increase in population, 1986	−107
Natural increase rate per 1 000 inhabitants, 1986	0.0
Net migration, 1985	8 000
Total employment[1], monthly average 1986	2 780 204
of which:	
in industry[2]	558 822

PRODUCTION

Gross Domestic Product, 1986 (Sch. billion)	1 433
per head (US $)	12 421
Gross fixed investment, 1986:	
per cent of GDP	22
per head (US $)	2 787

Industrial origin of GDP at market prices, 1986 (per cent):

Agriculture	3
Industry	28
Construction	7
Other	62

THE GOVERNMENT

Public consumption, 1986 (per cent of GDP)	19
General government current revenue, 1986 (per cent of GDP)	48
Federal Government debt, end 1986 (per cent of GDP)	43.0

Composition of Federal Parliament, November 1986:

Socialist Party	90
Austrian People's Party	77
Liberal Party	18
Greens	8

Last election: 1986

FOREIGN TRADE

Exports:

Exports of goods and services, 1986 (per cent of GDP)	37

Exports, 1986 (per cent of total merchandise exports):

Food, tobacco, beverages	4
Raw materials and energy	7
Chemicals	9
Machinery and transport equipment	33
Other finished and semi-manufactured products	48

Imports:

Imports of goods and services, 1986 (per cent of GDP)	36

Imports, 1986 (per cent of total merchandise imports):

Food, tobacco, beverages	6
Raw materials and energy	14
Chemicals	10
Machinery and transport equipment	34
Other finished and semi-manufactured products	36

THE CURRENCY

Monetary unit: Schilling

Currency units per US dollar, average of daily figures:

Year 1987	12.64
December 1987	11.51

1. Wage and salary earners.
2. Including administrative personnel.

Note: An international comparison of certain basic statistics is given in an annex table.

This Survey is based on the Secretariat's study prepared for the annual review of Austria by the Economic and Development Review Committee on 1st December 1987.

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After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 17th December 1987.

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The previous survey of Austria was issued on July 1986.

Introduction

Through most of the 1970s and the first half of the 1980s, Austria outstripped the economic performance of most European Member countries: growth of per capita real income was faster, unemployment and inflation were lower, and the external position remained relatively comfortable. The particular Austrian approach to economic management – combining an active fiscal policy with a hard-currency policy and social partnership – appeared able to prevent both domestic and external imbalances from building up to the extent experienced elsewhere. In international fora, including the OECD, the Austrian performance was singled out as an example of macroeconomic policies that succeeded in absorbing and counteracting severe external supply and demand shocks.

In recent years, though, it has become clear that the recovery from the post-OPEC II recession in 1980-82 has lost momentum, with domestic imbalances developing – notably in the form of higher unemployment and rapidly increasing public debt. These developments have prompted the new coalition Government, formed in January 1987, to set new policy priorities, stressing in particular the need to speed up structural adjustment in the business sector – both private and nationalised – and to contain the upward trend in government indebtedness.

The new policy programme presented in early 1987 is being implemented against the background of an unfavourable international environment of relatively sluggish demand. Therefore, real GDP, estimated to have increased by no more than 1 per cent in 1987, may not grow much faster in the next few years, probably entailing growing slack in the labour market. On the other hand, inflation, though picking up, should remain low by both Austrian and international standards and the current external position should remain in broad balance.

Part I of the present Survey reviews the main features of worsening economic trends, which have led to a change of policies. The new policy programme is discussed in Part II, followed by a brief review of developments in 1987, and the presentation of

the Secretariat projections for 1988 and 1989 in Part III. Part IV focuses on the unemployment problem and assesses the possibilities of maintaining a reasonable balance in the labour market in the face of stringent budgetary policies. The main findings of the Survey and some policy considerations are presented in the Conclusions.

I. The background to the new policy orientation

The authorities' perception of an urgent need for reorienting macroeconomic policies did not only result from the disappointing response of the economy to the large terms-of-trade gains in 1986. It was also founded on a wider comprehension of the underlying trend deterioration of aggregate economic performance after the second oil shock in 1979. Until then, and in terms of broad macroeconomic aggregates, Austria had clearly done better than most OECD European economies (Diagram 1, Panel A). But over the last five to six years or so a number of disquieting features have emerged (Diagram 1, Panel B):

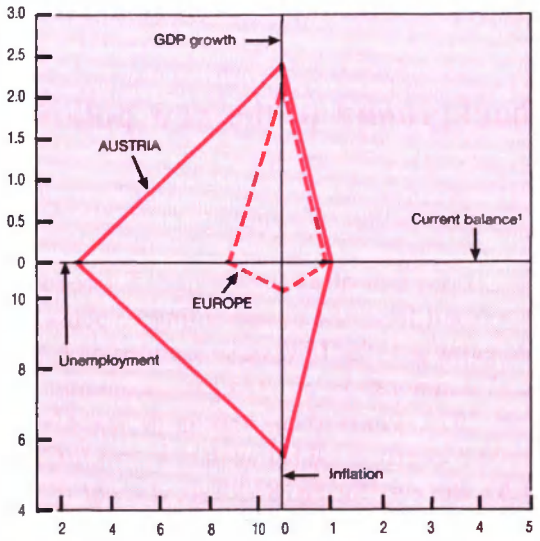
- *Economic growth* has slowed markedly, hampering structural adjustment, while at the same time increasing pressure for subsidies to the business sector;
- *Unemployment* has risen to very high levels by post-war Austrian standards;
- *Government budget deficits* have attained proportions where they severely constrain the use of fiscal policy for counter-cyclical purposes.

Slowing of the growth process

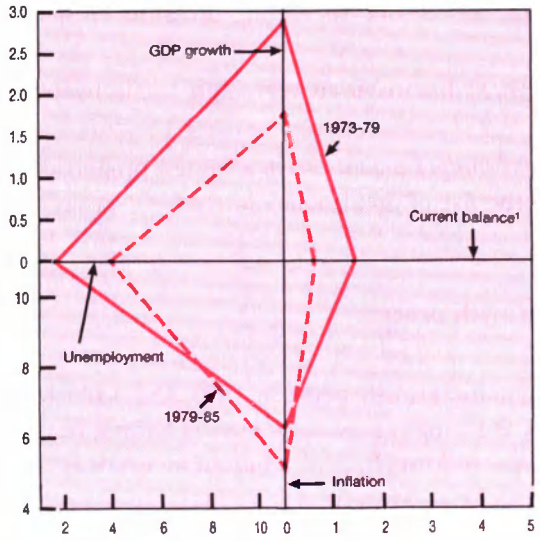
Although economic growth between 1973 and 1986 has on average held up better than in OECD Europe as a whole, Austria has not been spared the experience of a rather dramatic slowdown. Indeed, adjusted for cyclical variations, growth of real GDP has steadily ratcheted down from an annual rate of 6 per cent in the period 1968 to 1973 to 3 per cent between 1973 and 1979, and further to 1¾ per cent in the post-OPEC II period to 1986. As indicated in Part III, the outlook for 1987 and 1988 is for GDP growth of 1 per cent and 1¼ per cent respectively (Diagram 2).

Diagram 1. **RELATIVE ECONOMIC PERFORMANCE**
(Per cent)

Europe-Austria, 1973-85

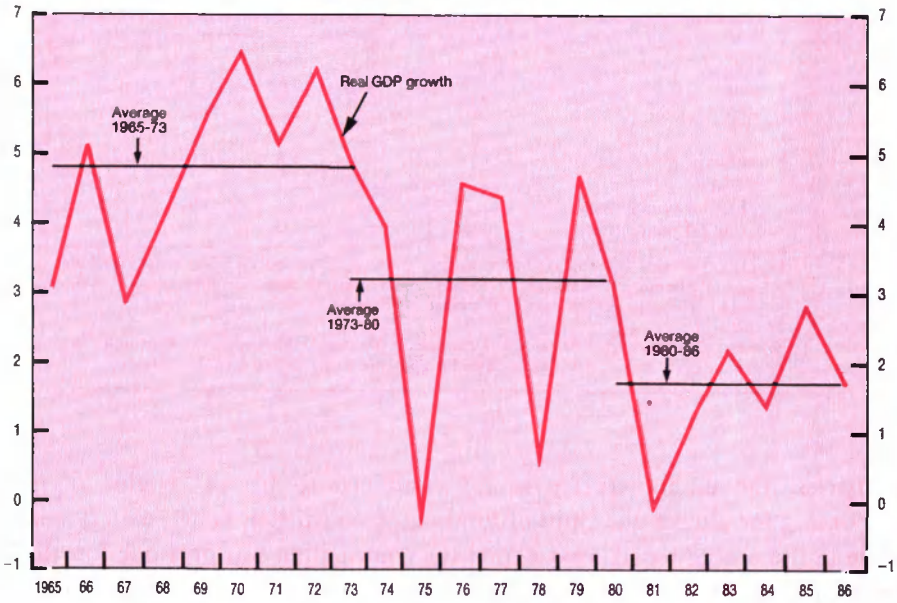


Austria, 1973-79 and 1979-85



1. Per cent of GDP.
Source: OECD.

Diagram 2. **GROWTH OF AGGREGATE OUTPUT**
(Volume, per cent)



Source: OECD, *National Accounts.*

The observed decline in *trend growth* reflects both temporary and more permanent factors. Among the former, higher energy prices have led to substitution of energy by capital and labour as well as accelerated scrapping of energy-intensive equipment. During the process of substitution, the productivity of capital and labour has been reduced, which together with a temporarily high rate of obsolescence, has entailed a once-and-for-all lowering and flattening of the potential output path. Although methods of measuring potential output differ widely, most estimates suggest declines in potential growth from about 4 to 5 per cent per annum in the 1960s to less than 2 per cent in the mid-1980s. The proximate causes of the slowdown in the growth of actual output are identified in Table 1. There was in particular a marked deceleration of the expansion of the business sector's capital stock and of total factor productivity.

The slowing of output growth has been felt unevenly between sub-sectors of the economy (Table 2). Despite the difficulties experienced in many of the nationalised

Table 1. **Business sector output, labour and capital growth**[1]

Average percentage changes at annual rates

	1962-73	1973-79	1979-85
Output	4.5	3.5	1.8
Labour	0.6	0.4	–0.6
Capital stock	3.6[2]	3.6	2.7
Total factor productivity	3.4	2.0	0.9
of which:			
Labour productivity	5.3	3.9	2.2
Capital productivity	–1.0	–1.9	–1.8

1. Output is value added in the business sector (GDP at factor cost excluding value added in general government) at constant 1976 prices; labour is business dependant employment; capital stock excludes government and is at constant 1976 prices.
2. 1964-73.

Sources: Österreichisches Statistischen Zentralamt, *Österreichs Volkseinkommen*, Ministry of Social Affairs, Austrian Institute for Economic Research and OECD estimates.

industries, the manufacturing sector continued to be an "engine of growth" accounting for almost one-third of total output expansion between 1979 and 1985, while in the preceding six-year period the contribution was only one-fourth. Trade and tourism as well as financial services also contributed more-than-proportionally to the post-OPEC II growth performance. In contrast, the declining relative importance of agriculture, electricity and water supply industries and construction became even

Table 2. **Total output growth and sectoral contributions**

Per cent, at constant producer prices

	1980/1973	1986/1980
Total output growth (annual rate)	2.95	1.49
of which:		
Contribution from (percentage points):		
Agriculture	0.16	0.04
Mining	0	–0.01
Manufacturing	0.88	0.54
Electricity, gas, water	0.16	0.04
Construction	0.07	–0.12
Trade and tourism	0.50	0.29
Transport and communications	0.33	0.17
Finance, real estate and business services	0.60	0.43
Community and welfare services	0.12	0.06
Total industries	2.82	1.44
Producers of government services	0.49	0.24
Other	0.25	–

Source: Österreichisches Institut für Wirtschaftsforschung, *Monatsberichte*, various issues.

Table 3. **Contributions of demand components to real GDP growth**

As a per cent of real GDP, annual rates

	1980/1973	1986/1980
Private consumption	1.7	1.0
Government consumption	0.7	0.4
Gross fixed investment	0.4	0.0
of which:		
Construction	0.0	–0.1
Machinery and equipment	0.5	0.1
Final domestic demand	2.7	1.3
Stockbuilding	0.2	0.1
Total domestic demand	2.9	1.4
Exports	2.2	1.3
Imports	2.1	1.2
Foreign balance	0.1	0.1
GDP	3.0	1.5

Source: Österreichisches Institut für Wirtschaftsforschung, *Monatsberichte*, various issues.

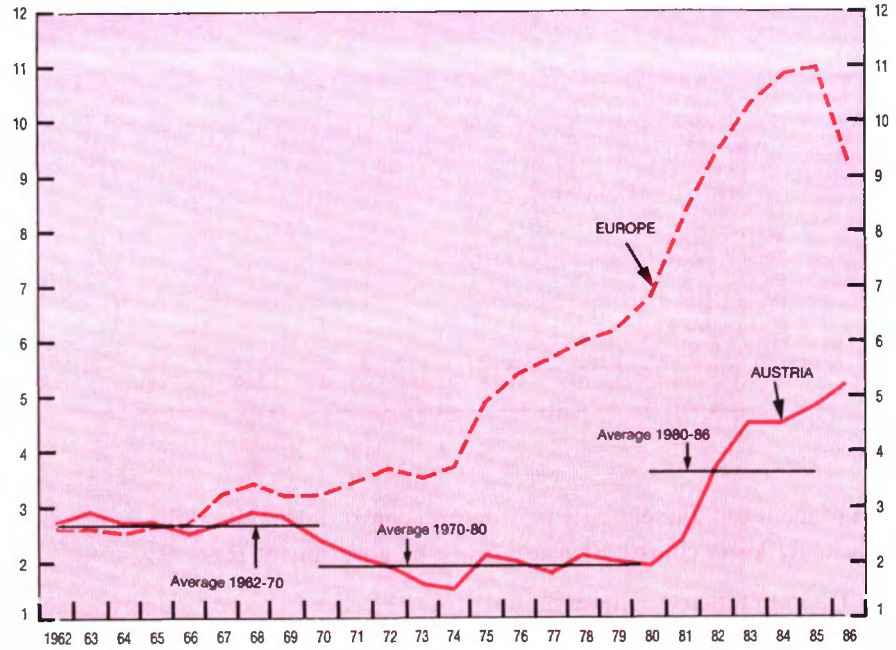
more pronounced. Increasingly tight budget constraints in the 1980s were reflected in a markedly lower contribution to growth by government services.

The counterpart to slower output growth has been a more moderate expansion of domestic demand. The contribution of real net exports was the same – virtually zero – in both periods, with the expansion of both exports and imports losing momentum (Table 3). Among the domestic demand components, it was the moderation of private consumption growth, which, statistically, contributed most to the slower growth of domestic demand. But there was also less buoyancy in public consumption and private investment, notably construction.

Rising unemployment

In a country where the highest priority has traditionally been attached to the maintenance of full employment, a major concern in recent years has been the sharp rise in unemployment. Until 1982, the rate of unemployment moved within a narrow range of 1½ to 2½ per cent of the labour force. However, by late 1987, while still among the lowest in Europe, the level of registered unemployment – 167 000 or 5.2 per cent of the dependent labour force – was five times higher than at the nadir of 1973 and more than three times as high as at the onset of the international recession following the second oil shock (Diagram 3).

Diagram 3. **UNEMPLOYMENT IN AUSTRIA AND EUROPE**
(Per cent)



Source: OECD, *Labour Force Statistics.*

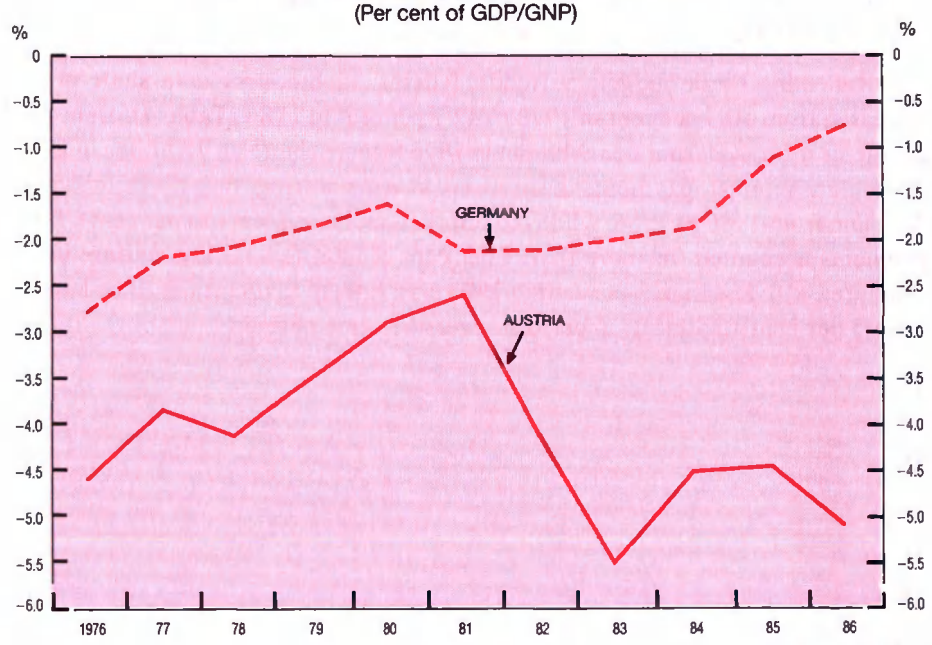
The radical change in the labour market situation, which has occurred despite a slowing of labour force growth, may be attributed to several interacting factors (for a more detailed analysis, see Part IV):

- Cyclical unemployment has increased in the post-OPEC II period in response to the slower expansion of output;
- The use of the traditional "absorbers" of shocks to aggregate employment growth – expansionary fiscal policies and labour hoarding in the nationalised industries – has become increasingly constrained by rising budget deficits in recent years (see Part II);
- Labour costs and labour demand reacted with considerable lags to the progressive loss of profitability between 1977 and 1981. Hence, the shedding of unprofitable capital and labour has been a comparatively recent event in Austria.

Widening budget deficits

Concern about budgetary developments centred around two inter-related issues. In the first place, the growing gap between budget deficits in Austria and Germany was seen as a potential threat to the hard-currency policy over the medium term (Diagram 4). Secondly, the rapidly rising burden of interest payments has begun to crowd out other public expenditure, while holding up – in a prolonged period of high interest rates relative to economic growth – the spectre of economic instability arising from ever-growing debt/GDP ratios. As can be seen from Diagram 4, the federal Government financial balance on an administrative basis[1] improved after the 1975 recession from a deficit of more than 5 per cent of GDP to less than 3 per cent in 1981. However, in the subsequent two years, the deficit as a per cent of GDP widened by more than 2½ percentage points. Given the increasingly greater weight of cyclically-insensitive expenditures, notably interest payments and subsidies to

Diagram 4. **FISCAL BALANCES IN AUSTRIA AND GERMANY CENTRAL GOVERNMENT[1]**
(Per cent of GDP/GNP)



1. Administrative basis.
Source: OECD estimates.

Table 4. **Federal government debt and debt servicing**

	1973	1976	1979	1982	1986
	Schilling billion				
Total debt	56.3	133.8	230.9	341.6	616.9
Debt servicing	9.3	19.8	33.7	50.9	75.7
Interest	3.6	9.0	15.7	25.7	42.1
Repayment	5.7	10.7	18.0	25.2	33.6
	Per cent				
Total debt/GDP ratio	10.4	18.5	25.1	30.0	43.1
Interest payments					
In per cent of federal expenditure	2.7	4.3	5.8	7.4	9.1
In per cent of federal tax revenue	4.9	8.8	11.7	15.7	19.4

Sources: Ministry of Finance, ***Bundesfinanzgesetz***, various issues and OECD Secretariat.

structurally weak sectors, the recovery since 1983 has been insufficient to generate the same improvement of the government's financial position, as was the case after the first oil shock[2]. As a result, the federal government deficit in per cent of GDP has since remained close to the 5 per cent level.

Reflecting these budgetary trends, federal indebtedness, as a share of GDP, increased from 10.3 per cent in 1973 to 42.7 per cent in 1986 (Table 4). Debt service payments increased from Sch 9 billion in 1973 to more than Sch 75 billion in 1986. In particular, interest payments have risen sharply during the 1980s, more than doubling from 1980 to 1986, while redemptions increased less (50 per cent). Interest payments accounted for more than 9 per cent of total federal expenditure in 1986, compared with less than 3 per cent in 1973; as a ratio of tax revenues, they have risen from 5 per cent to almost 20 per cent over the same period.

II. The new economic programme

The need for adjustment

Given the rather weak performance during the 1980s and growing awareness that the traditional Austrian approach to demand management may have become "overstrained", the new coalition Government stressed the need for adjustment in a statement delivered to Parliament in February 1987: "....Adjustments which during the favourable period of the mid-1970s, did not appear so urgent must now be carried out more rapidly if Austria is to retain its position in the forefront of the industrialised world."..."...The upheavals of the 1970s were accompanied worldwide – and with a certain delayed effect in Austria – by a shift in social emphasis" and..."...[in this process] it gradually became increasingly evident that the period of high growth rates could not be prolonged at will."[3]

In the course of 1986, it became clear that the deterioration of the federal finances had reached a point where prospective developments of the debt service alone would greatly reduce the room for fiscal manoeuvre in the future. Moreover, if budgetary trends continued to deviate from developments in Germany, this could jeopardise the hard-currency policy and hence adversely affect growth and employment prospects over the medium term. The unsustainability of recent budgetary developments was clearly illustrated in a set of medium-term (1987 to 1992) scenarios[4]. Extrapolating past trends in government spending and assuming nominal GDP growth of 5 per cent per annum and unchanged interest levels, the consequences for public finance were shown to be highly unpleasant:

- The federal *budget deficit* (before redemptions) would steadily increase from 5 to 9 per cent of GDP;
- The *debt/GDP ratio* would grow from 45 to 70 per cent;
- *Interest payments* would almost double and absorb a third of total tax revenues;

- *Redemptions* – despite an assumed five year's grace before amortisation would begin – would attain 25 per cent of total government expenditure (against some 7 per cent in 1987).

Key features of economic policy

The new economic programme does not represent a break with important traditional elements of Austrian macroeconomic management: the pegging of the schilling to the Deutschemark in combination with comprehensive tripartite wage and income policies will remain the main instrument to keep inflation low and hence safeguard competitiveness; as previously, monetary policy will support the exchange rate. On the other hand, fiscal policy will not be used for the time being as an instrument of general demand support. Within this framework, the new economic programme focuses on:

- *Enhancing supply responsiveness* through an array of institutional, sectoral and microeconomic measures with a view to creating a favourable environment for expanding the exposed sectors of the economy;
- *Restoring the room for manoeuvre of demand management* through fiscal retrenchment. The goal is to bring the net federal budget deficit down from its present (1987) level of 5 per cent of GDP to 2½ per cent by 1992.

The Government has firmly reiterated its commitment to the hard-currency policy as the optimal device to impose discipline in wage-setting and pricing decisions, while limiting imported inflation and reducing uncertainty for domestic and foreign investors. Also, the concept and operational contents of *social partnership*, which has been a cornerstone in Austria's post-war economic history, remains firmly anchored[5].

Enhancing supply responsiveness

The ability to respond quickly to changing world market conditions is an important prerequisite for a small open economy wanting to sustain high employment. Enhanced supply-side responsiveness to demand and/or supply shocks depends crucially on the flexibility of both goods and factor markets, including the adaptability of the regulatory and institutional framework in which they are embedded. Measures to reinforce dynamism in goods markets are envisaged in four main areas:

i) Restoration of economic viability of the nationalised sector. The Government has excluded further unconditional financial support to loss-making steel enterprises. A reorganisation of the Austrian State holding company (ÖIAG) into five branches is to be operative by early 1988. New lines of production activities (e.g. in environment technology) will be developed and measures to make nationalised enterprises financially independent of government funds will be considered; the latter could comprise stock issues, partnership agreements and joint ventures. Finally, privatisation of subsidiaries is also envisaged.

ii) Strengthening of small and medium-sized enterprises, whose international competitiveness is impaired by an out-of-date company law (Gewerbeordnung). Financial resources will be made available for setting up new firms and legal requirements will be eased to facilitate the entry and exit rates of firms into and out of the market, notably within the fields of services and new technologies.

iii) Closing the technology gap *vis-à-vis* other industrialised countries by stepping-up technology and research programmes involving resources (public and private) to the tune of 1½ per cent of GDP by 1990. Priority will be given to areas like micro-electronics and biotechnology. Moreover, co-operation between scientific and industrial communities should be broadened with a view to ensuring a more rapid dissemination and adoption of new technologies and innovation.

iv) Finally, a broadly-based tax reform aimed at a simpler and more equitable tax system should help to remove a number of existing distortions affecting the supply of production factors.

Restoring the room for manoeuvre in fiscal policy

Budgets for 1987 and 1988

Following the formation of the new Government, a revised *Federal Budget for 1987* was presented to the *Nationalrat* in February 1987 (Table 5). The initial objective was to maintain the federal deficit on an administrative basis at Sch 74.6 billion (before debt repayments), corresponding to 5.0 per cent of GDP[6]. According to provisional official estimates, the actual budget deficit is likely to remain as foreseen in the Budget, but with higher levels of both expenditure and

Table 5. **The Federal Budget**
Administrative basis

	1985	1986	1987	1988[1]	1986/1985	1987/1986	1988/1987
	Outturn		Voted		Outturn	Voted	
	Billion schilling				Percentage changes		
Revenue							
Taxes	266.3	278.8	283.4	311.5	4.7	1.4	10.1
Income from federal enterprises	66.1	70.9	73.1	77.5	7.3	0.8	6.0
Other	37.4	34.9	33.1	52.0	–6.7	3.1	57.1
Total revenue[2]	372.9	391.7	398.8	446.5	5.0	2.6	12.0
Expenditure							
Wages and salaries[3]	102.9	110.2	114.0	113.4	7.1	5.3	–0.5
Gross investment	35.0	36.3	33.8	32.6	3.7	–11.1	–3.6
Investment promotion	9.6	10.4	10.1	26.6	8.3	–2.9	163.4
Price subsidies and transfers	144.0	152.2	165.9	173.1	5.7	9.4	4.3
Other	133.0	148.9	149.5	171.1	12.0	1.4	14.4
Total expenditure[2]	433.0	464.8	473.4	517.6	7.3	3.5	9.3
Net budget balance	–60.1	–73.1	–74.6	–71.1			
Per cent of GDP	(–4.4)	(–5.1)	(–5.0)	(–4.6)			
Redemption of debt	31.7	33.6	36.5	41.3			
Gross budget balance	91.8	106.7	111.1	–112.2			
Per cent of GDP	(–6.7)	(–7.4)	(–7.4)	(–7.3)			

1. Changing book-keeping practices introduced in the 1988 Budget are estimated to have increased both revenues and expenditure by Sch 29.1 billion.
2. Including additions to and withdrawals from reserves.
3. Including contribution to salaries of teachers employed by the States (Länder).

Source: Ministry of Finance, *Bundesfinanzgesetz 1987* and *Bundesvoranschlag 1988*.

revenues. The growth of *total spending* at current prices should nevertheless slow down to just 2½ per cent (from 5 per cent in 1986), the lowest increase since 1959. This mainly reflects cuts in investment outlays and a more moderate growth of the wage bill, which more than offset further strong increases in other expenditure items, notably transfers (for a more comprehensive discussion of the largest expenditure areas, see below). The rise in interest payments has slowed as a result of lower interest rates at home and abroad. It is interesting to note that outlays for the provision of public services and disbursements connected with redistribution of income expanded strongly, to a large extent a result of legislative commitments. The growth of *revenues* was foreseen to be moderate (2½ per cent) pointing to some decline in the aggregate federal tax burden from 27 per cent of GDP in 1986 to 26½ per cent in 1987. Income taxes expanded less strongly as a result of adjustments for fiscal drag, bringing the direct tax share for household incomes down to 12 per cent (against 12¾ per cent in 1986). Moreover, the abolition of the interest rate tax has depressed revenue growth[7].

In contrast, the changing structure of domestic demand towards consumption has led to a resumption of growth in VAT receipts. Moreover, the Government has envisaged a small (Sch 0.6 billion) increase in revenue from privatisation and other asset sales. However, combined with the additional income accruing to ÖIAG and the reduction in expenditure resulting from the sale of subsidiaries, privatisation has contributed as much as Sch 1¾ billion to reducing the budget deficit.

The *Federal Budget for 1988* – generally perceived as the acid test for the Government's determination to implement budgetary retrenchment – was presented to the *Nationalrat* in October 1987. Preparatory negotiations, both within the Government and between the Government and the social partners, proved unusually difficult as initial claims from individual Ministries would have led to a net deficit of around Sch 100 billion or more than 6 per cent of GDP. In the event, the budget deficit for 1988 has been projected at around Sch 70 billion or some 4½ per cent of GDP[8]. The main elements of budget restraint have fallen on the two largest expenditure areas, public sector employment and pay, and the social security system. The key elements of expenditure restraint may be summarised as follows:

- A delayed and moderate wage round for civil servants[9];
- Tighter ceiling for federal government recruitment (only half of new vacancies will be filled, against two-thirds earlier) and a 5 per cent cut in appropriations for overtime payment;
- No further increase in subsidies to agriculture;
- Postponement by six months of the standard adjustment of pensions, which takes into account the development of wages and the unemployment rate; and further limitations to "automatic" expenditure increases within the pension system;
- Reduction and/or abolition of certain family allowances;
- Introduction of fees for certain social services.

Changing book-keeping practises in the 1988 Budget aimed at giving more transparency to the budgeting process have led to a once-for-all increase in both revenues and expenditure of Sch 29 billion. Hence it is difficult to assess in detail the 1988 budget against the estimated outcome for 1987. However, abstracting from these book-keeping changes, total revenues are expected to increase by some 4½ per cent and expenditures by 3¼ per cent

Federal government expenditure accounts for somewhat more than half of general government outlays. Local governments (the Länder and the municipalities) contribute most to public consumption and investment, whereas the lion's share of

Table 6. **Fiscal indicators**

As a per cent of nominal GDP[1]

	1985	1986	1987	1988
Change in general government financial balance	+0.8	–0.8	–1.1	–0.4
Automatic stabilisers[2]	+0.1	–0.1	–0.5	–0.4
Discretionary changes[3]	+0.6	–0.6	–0.6	0

1. A positive sign indicates a move towards restriction (surplus). A negative sign indicates expansion (deficit), therefore public expenditure increases and/or tax reductions.
2. Automatic stabilisers represent the cyclical component of the budget balance, estimated as the reaction of the budget to differences between real GDP growth and its trend rate.
3. Reflect deliberate policy actions, fiscal drag, changes in debt service cost and variations in resource revenues.

Source: OECD Secretariat estimates and projections.

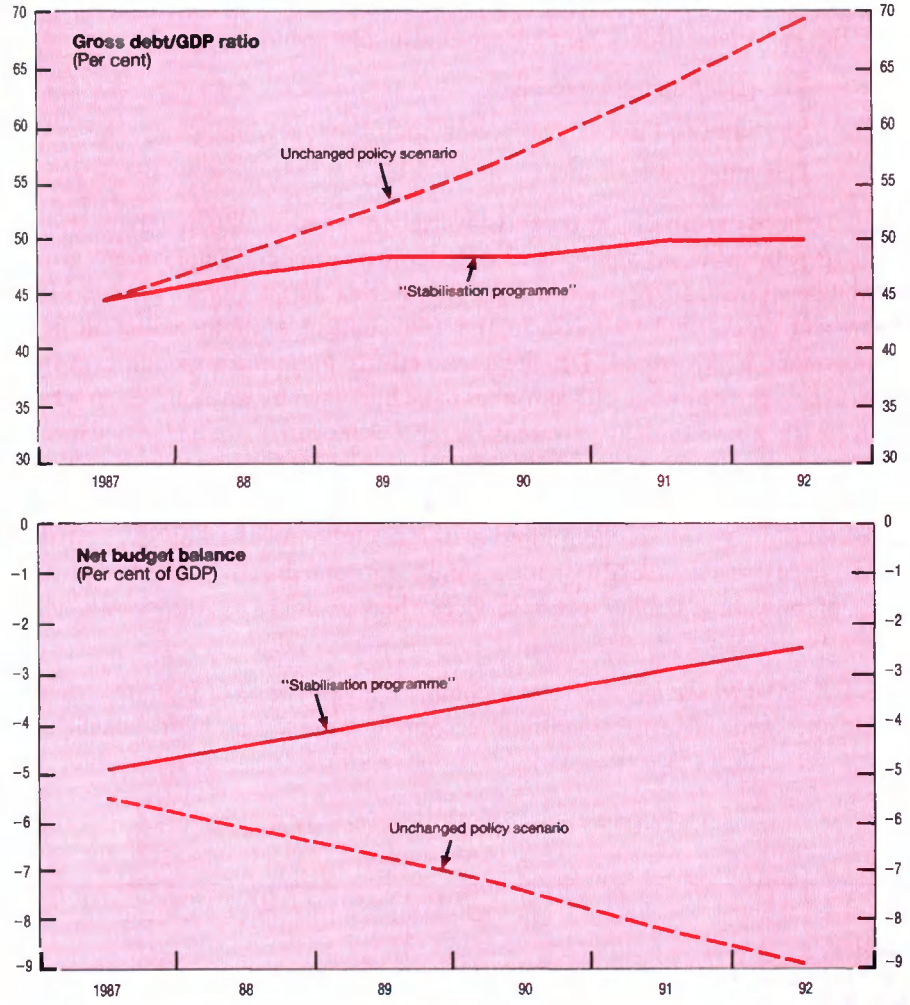
transfer payments falls upon the Federal government. Local governments incur deficits on an administrative basis, but given sizeable housing loans extended by the Länder, show significant surpluses on a national accounts "net lending" basis. The general government financial deficit (net lending) is estimated to have widened from 3 per cent of GDP in 1986 to 4 per cent in 1987 and is expected to attain 4¼ per cent in 1988. Changes in the general government financial balance can be decomposed into discretionary and automatic effects, the former reflecting deliberate policy action, fiscal drag and changes to debt service cost and the latter the cyclical component of changes in the budget balance[10]. As shown in Table 6, the cyclically-adjusted budget balance moved towards deficit in 1986, i.e. in an expansionary direction, reinforcing the automatic stabiliser effects resulting from the weakness of economic activity. In 1987, fiscal policy appears to have remained expansionary, due to tax cuts but also reflecting the fact that an important part of federal government spending restraint relates to financing transactions which do not affect general government net lending. In 1988, however, the general government budgetary stance is estimated by the Secretariat to be broadly neutral.

What needs to be done

The present Government aims at stabilising the debt/GDP ratio at 50 per cent by the early 1990s, calling for a gradual reduction in the federal budget deficit from some 5 per cent of GDP in 1987 to 2½ per cent in 1992. The required path, together with the unchanged trends scenario is depicted in Diagram 5.

As international experience shows, exercising expenditure restraint over prolonged periods is a difficult task. Many expenditure categories are "automatic" in

Diagram 5. **AVOIDING THE DEBT TRAP**



Source: Working agreement, *Op. cit.*

the sense of being based on political or legal commitments. Moreover, in the case of Austria, certain revenue categories are earmarked for specific expenditure items. In the 1988 Budget it has been estimated that about 80 per cent of all outlays (including interest payments) are predetermined. Unless such rigidities are progressively eased, spending restraint will fall mainly on expenditure items which are amenable to

discretion rather than on spending areas with a lower overall priority. Coming to grips with the deficit problem would seem to require determined efforts to exercise restraint in at least three "heavy" areas of public spending:

- The government wage bill;
- Subsidies to the business sector and off-budget financing;
- Pensions and transfers.

The need to restrain the federal government wage bill lies mainly in an excessive wage growth in recent years. Indeed, federal government employment growth has slowed down from an increase of 7 per cent during the six years 1973 to 1979 to just 3 per cent from 1980 to 1987. In the 1987 budget a slight reduction in federal employment is envisaged. Despite these efforts to contain spending growth, the federal government wage bill continues to be burdened by wage increases which have been clearly above those in private industry, despite lower productivity gains and the benefit of job security. Since 1980, public sector wages have increased at an average annual rate of 7 per cent, compared to 5 per cent in industry. Moreover, the obligation to pay for teachers hired at the discretion of the Länder, and statutory overtime payments have also made a significant contribution to the faster rise in the costs of providing public sector services than in prices of the private industrial sector[11].

Subsidies to the business sector comprise a vast range of schemes covering the entire spectrum of institutional and economic sectors. The main beneficiaries are

Table 7. **Federal government subsidies and guarantees**

Schilling billion

	1982	1983	1984	1985	1986	1987
Subsidies						
Industrial enterprises	6.2	7.7	7.2	8.8	9.5	8.5
Agriculture	5.3	7.0	7.3	8.1	8.9	9.8
Total	11.5	14.7	14.5	16.9	18.4	18.3
Guarantees[1]						
Export promotion	308.9	335.4	373.6	374.2	362.0	–
Public enterprises	39.8	47.4	54.4	58.3	65.2	–
Road construction companies	26.1	31.4	34.7	39.6	42.0	–
Other	25.8	26.6	27.4	25.5	23.0	–
Total	400.6	440.8	490.1	497.6	492.2	–

1. Data for guarantees granted in 1986 only cover the period January-September 1986.

Sources: Ministry of Finance, *Bundesvoranschlag 1987*, *Bundesfinanzgesetz 1987*, and Österreichische Kontrollbank, *Export Guarantees and Export Financing in Austria*, Vienna 1987.

nationalised industries and agriculture, but housing and private industry also receive considerable support (Table 7). By 1984 – according to the latest available subsidy report of the Federal Government – subsidies to the enterprise sector (including tax expenditures) amounted to Sch 31 billion or more than 6 per cent of federal government outlays (2 per cent of GDP). Further substantial increases are estimated, on less complete data, to have taken place in 1985 and 1986, notably reflecting the large commitments to nationalised industries in the face of heavier-than-expected losses, notably in the steel sector[12]. At the same time, federal government credit guarantees extended to private and public enterprises, continued to climb, attaining Sch 500 billion or 34 per cent of GDP in 1984. Thereafter a small relative decline has occurred.

As noted above, a restructuring of the nationalised industries is now under way and is expected to reduce, and eventually obviate, the need for payments under federal credit guarantees. However, the immediate needs of these industries are likely to be reflected in an increased budgetary burden for some years to come. In line with the Government's intention to promote the use of new technologies, to raise the supply of risk capital and to support environmental protection, new subsidy schemes have been introduced with most older schemes remaining in force[13]. Thus, there would seem to be a continuing need to scrutinize the entire subsidy programme with a view to better meet changing priorities and achieving a higher degree of budgetary transparency[14].

Federal government transfers to the compulsory *pension insurance* system have increased rapidly over the past five years or so, reflecting the growing deficit of the pension insurance fund. In 1987, the federal contribution to total pension benefits exceeded 30 per cent, more than 4 percentage points up from the 1982 share (Table 8). The sharp rise of the pension burden has been due to demographic developments but also to the greater use of early retirement as a labour market instrument in recent years. From 1980 to 1985, the number of pension recipients increased by 1.8 per cent per year, while that of active contributors fell by 0.4 per cent. In 1985, revised indexation rules for payments to new pensioners were introduced. The adjustment to wage increases to be scaled down for any given increase in unemployment was introduced, and the relevant time horizon for the calculation of pensions was to be progressively doubled from the average salary in the last five years to that in the last ten years. Despite these tighter rules, federal pension outlays in relation to total federal government transfers increased from about 20 per cent at the beginning of the 1980s to an estimated 27 per cent in 1987, the highest level since 1977. It is clear that such a trend, if continued, would represent a serious

Table 8. **Pension insurance**

Schilling billion

	1982	1983	1984	1985	1986	1987
Revenues	88.2	91.4	101.1	108.2	114.6	118.6
Expenditures	118.7	128.9	139.1	148.3	158.3	169.4
of which:						
Pension benefits	103.8	113.2	122.0	130.8	139.4	149.0
Balance	–30.5	–37.5	–38.0	–40.1	–43.7	–50.8
Federal budget	31.0	39.1	40.6	42.0	44.9	51.1
In per cent of pension insurance expenditure	26.1	29.6	28.9	27.7	28.0	30.4

Sources: Ministry of Social Affairs, *Handbuch der Österreichischen Sozialversicherung*, various issues, and Ministry of Finance, *Bundesvorsanschlag 1987*.

threat to the stability of public finances. A reform of the pension system is to be introduced in 1988 with new regulations being implemented step-by-step in the years to 1992. However, according to preliminary information, the envisaged measures would be rather slow in reducing federal transfers to the pension funds.

Apart from specific labour market measures (see Part IV), federal government resources have increasingly been called upon, owing to the growing slack in the labour market. Indeed, since 1978 *labour market related transfers* have increased fourfold, or twice as fast as federal outlays (Table 9). The unemployment insurance system is wholly included in the budget and fully financed by contributions. Hence, the burden of unemployment is very unevenly spread among socio-economic groups. The contribution rate has increased from 2.1 per cent in 1980 to 5.2 per cent in 1986. Moreover, as the spells of unemployment have lengthened, additional resources have been required to meet social needs of those not covered by normal insurance schemes.

Table 9. **Federal outlays related to the labour market**

Per cent shares

	1978	1980	1982	1984	1986
Labour market measures	13.7	10.3	10.5	11.3	18.4
Unemployment benefits	34.3	31.9	42.4	32.9	32.6
Welfare benefits	8.1	12.0	12.9	20.5	22.0
Other (including administration)	43.9	45.8	34.2	35.3	27.0
Total	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance, *Bundesvoranschlag 1987*.

Indeed, unemployment benefits and special welfare allowances have increased from about 50 per cent to more than 60 per cent of the federal labour market budget. Given that labour market slack is likely to increase substantially in the coming years, this will put further strain on public finances.

The difficult task of exercising restraint on the expenditure side raises questions on *tax capacity*. Indeed, a noticeable feature of the semi-official medium-term fiscal projections is that savings on tax expenditures from reductions of tax exemptions are fully used to lower tax rates, as the ratio of overall receipts to GDP declines by 1 percentage point over the consolidation period. While the Government aims at curbing the budget deficit mainly through expenditure restraint, the process of budget consolidation could be facilitated by an overhaul of the *tax system*, which is flawed by a number of inefficiencies:

- The wide spread between the average marginal rate of taxation and the effective rate of taxation calculated from the household appropriation account, also reflects numerous tax exemptions which blur transparency, while maintaining inequalities and distortions for both household and entrepreneurial savings and investment decisions;
- A very low income tax elasticity which makes for a trend-decline in the ratio of government revenue to GDP unless offsetting measures are being taken.

A tax reform is planned in two stages, with the aim of making the tax system simpler and fairer, without raising the average tax burden which is already considered too high. In the first stage, scheduled to come into effect in 1989, tax exemptions for around Sch 30 billion (corresponding to 2 per cent of GDP) are to be abolished, providing room for linear reductions of tax rates by 6 percentage points. Surprisingly, this is planned *not* to affect the partial tax exemption applying to thirteenth- and fourteenth-month salaries. The number of income tax brackets is to be reduced from eleven to five. In a second stage, in the early 1990s, a more broadly-based tax reform is planned in the fields of income taxation as well as corporate and business taxes.

The Government's aim to reduce the federal net deficit to 2½ per cent of GDP by 1992 is ambitious, but necessary if a spiralling of the debt/GDP ratio is to be avoided. As noted above, given the limited time available for its preparation, the 1987 Budget cannot be taken as an indication of the will to implement stated policies. The 1988 Budget is, however, crucial. On the face of it, the federal budget seems on track with the medium-term objective. However, in judging future policy needs, it is important to keep in mind interactions between fiscal deficits, interest rates and nominal GDP

growth. In this context, it is essential to closely monitor the *primary budget deficit*, defined as the gross deficit less interest payments and redemptions. In recent years, the primary deficit has been considerably smaller than the recorded administrative net deficit, reflecting the rapid increase in interest payments. However, given that nominal interest rates may be expected to remain higher than nominal GDP growth[15], the government's budgetary position, excluding interest payments, *must* be in surplus if a continuous rise in the debt to GDP ratio is to be avoided. On the *1988 budget* figures, the primary deficit attained about 1½ per cent of GDP, compared to 1¾ per cent in 1987. Thus, since linear deficit cuts of the same magnitude would leave the primary budget in deficit by 1992, a more determined effort to restrain government spending would seem to be required in the years ahead if the medium-term target of a stable debt/GDP ratio is to be achieved. The smaller the spending cuts in the initial phase of the stabilisation programme, the faster the growth of debt and interest payments, and hence the greater the need for future spending restraint to generate the required primary deficit.

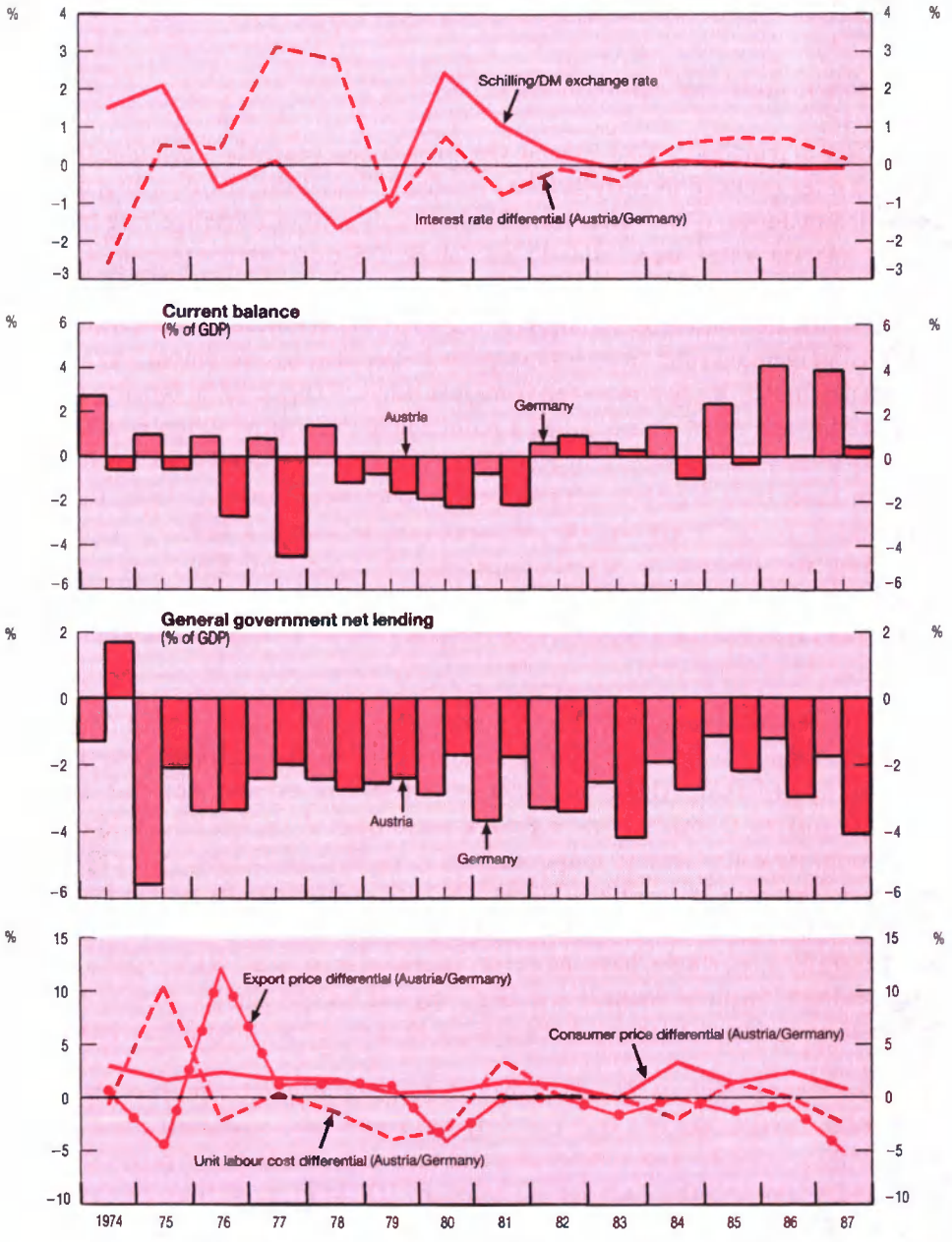
Monetary policy and developments

The central aim of monetary policy has been to stabilise the external value of the schilling against the currency in which the bulk of Austria's foreign trade and capital transactions takes place. The choice of this framework for monetary policy – *the hard-currency option* – in a world of liberalised trade and capital movements, implicitly rules out the setting of independent targets for monetary aggregates or interest rates. Hence monetary aggregates are seen as being influenced mainly by factors affecting demand rather than supply of liquidity. The relative contribution of domestic and foreign components of monetary growth are largely determined by Austrian/German interest rate differentials.

Exchange rate and monetary policy

The pegging of the Austrian schilling to the Deutschemark has made for a high *predictability* of central bank policy, providing a safeguard against exchange rate fluctuations which in the past had often caused severe strains on the economy. Maintaining such a currency strategy requires that the macroeconomic fundamentals of Austria shadow those of the hard-currency country, at least over the medium term. This process, which was reviewed in detail in the July 1986 *OECD Economic Survey of Austria*, is shown in stylised form in Diagram 6. A noticeable recent feature

Diagram 6. **HARD-CURRENCY POLICY**
Economic fundamentals, 1974-1987



Sources: Österreichisches Institut für Wirtschaftsforschung, Monatsberichte, various issues and OECD Secretariat.

has been a widening of the inflation differential *vis-à-vis* Germany and diverging budget deficits which have moved out of line with "requirements".

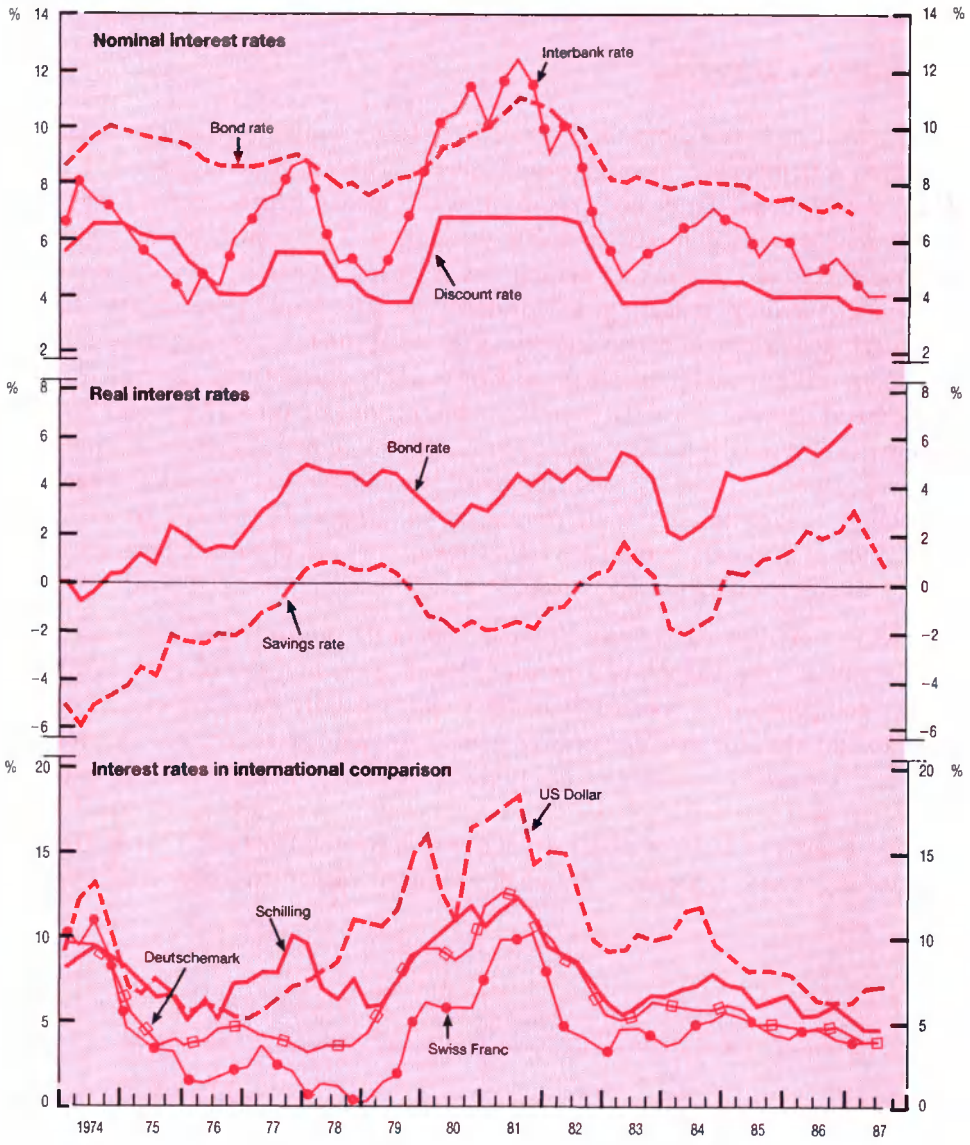
Money, bond and equity markets

After a temporary hike around the turn of the year, the declining trend in interest rates resumed in early 1987 as Austria followed the German discount rate reduction in January 1987 (Diagram 7). In the absence of exchange rate tensions, money market rates were allowed to follow the downward move in German short-term rates in the first half of 1987 in a situation of ample bank liquidity but subdued private lending demand. The National Bank lowered short-term money market intervention rates in several steps to 3⅝ per cent by November. As a result, day-to-day money market rates fell from just below 5½ per cent in January to 4 per cent in May and June. This entailed a reduction of the positive differential over the German money market rate from over 1 percentage point in January to ½ percentage point in June. By November, the intervention rates were further reduced to 3⅝ per cent and in early December, the discount rate, following a similar reduction in Germany, was lowered by ½ percentage point to 3 per cent. The Austrian banks lowered their deposit and lending rates in two rounds by between ¼ and ½ percentage point. The rate on savings deposits with statutory notice, at 2⅞ per cent, has reached the lowest level since 1951.

With the turnaround in German money market interest rates since mid-1987, the three-year slide in yields on the money and capital markets was at least temporarily reversed. The adjustment of interest rates was, however, lagging developments in Germany, leading to a narrowing of the positive interest rate differential *vis-à-vis* German money market rates. By mid-October, the day-to-day money market rate had climbed by only 70 basis points from its trough in June to 4.7 per cent. Long-term interest rates, which are less influenced by monetary policy and generally more stable, have, however, increased in parallel. With expectations of a tightening of financial conditions in Germany and hence a similar move in Austria, longer-term yields rose from 6.6 per cent in June to 7.2 per cent in early October.

The Vienna stock exchange recovered in the third quarter most of the losses incurred in the first half of 1987. The rally was staged both by domestic and foreign investors, attracted by new share issues and sales expected from the privatisation of the Länderbank and the Austrian oil company (OEMV), as well as by announcements of further stock market innovations (warrant issues and convertible bonds). The international stock market crisis, which broke out in mid-October 1987 only

Diagram 7. **INTEREST RATES**



Sources: Österreichisches Institut für Wirtschaftsforschung, Monatsberichte, various issues and OECD Secretariat.

moderately affected the Vienna stock exchange. By the third week of October, prices had declined (– 2¾ per cent) i.e. much less than in Frankfurt (– 25 per cent).

Monetary aggregates

Interest rates represent the intermediary target supporting the exchange rate objective, with monetary aggregates adjusting or changing in accordance with them. Thus, the National Bank does not control the money supply, but influences its repartition between domestic and foreign sources. The growth of the aggregate balance sheets of the banking system has been less dynamic than the monetary aggregates, mainly reflecting a slowdown in inter-bank transactions. Banks' additional acquisition of assets has primarily taken the form of purchases of bonds and notes, while direct lending to the private sector has grown only moderately. Most of the credit demand has come from the public sector (almost a 17 per cent increase over the twelve months to September 1987), while lending to industry – in line with sluggish economic activity and improved cashflow – has virtually stagnated. Reflecting the continuing high propensity of private households to save, the acquisition of monetary capital has been strong, and sales of bank debentures to the non-bank public expanded vigorously.

After a marked acceleration of the growth of the *adjusted monetary base* in the second half of 1986, monetary expansion slowed in the first half of 1987. While the foreign component was boosted by massive, only partially sterilised, capital inflows from abroad, the growth of domestic components remained moderate in the course of the year. A renewed acceleration has taken place in recent months and the adjusted monetary base was some 7¾ per cent higher than a year earlier, compared to an average growth in 1986 of about 4½ per cent in September 1987 (Table 10). The broader monetary aggregate, *M1*, has expanded rather strongly, reflecting the

Table 10. **Monetary indicators**
Percentage changes

	1985	1986	1987[1]
Central bank money	–1.2	6.5	4.9
Enlarged monetary base	1.5	6.8	7.7[2]
Money supply (M1)	1.6	4.6	9.7
Domestic credit to domestic non-banks	8.0	10.0	11.6

1. Twelve months to August 1987.
2. Twelve months to September 1987.
Source: Austrian National Bank, *Austria's Monetary Situation*, 10/1987.

relatively low levels of interest rates which tend to increase the demand for currency and demand deposits. In July and August, double-digit growth was recorded for the first time since the turn of the year 1983-84 (WIFO definitions). *M2* growth, which in recent months has exceeded 18 per cent (15 per cent in 1986) mirrors the relatively easy liquidity position of private firms and a doubling of government time deposits held with the banking system.

The stance of monetary policy cannot be assessed with reference to just a single financial variable. However, the evolution of the most common indicators do not give an unambiguous picture. On the one hand, while short-term interest rates have remained relatively low, the yield curve has steepened since late 1986, suggesting relatively easy monetary conditions. On the other hand, real long-term interest rates, measured against current inflation rates, reached a historical peak in October 1987 but have abated more recently. Similarly, the growth of the adjusted monetary base has on average been close to the advance of nominal incomes, while the expansion of the broader monetary aggregates has been much faster. Thus, all in all, monetary conditions may be judged to be as accommodating as the exchange rate objective allows.

III. Recent trends and prospects

Recent trends

Activity over the past two years has been disappointingy sluggish. Output has been growing on average by 1¼ per cent, one full point below the rate generally expected a year ago. Compared with other European countries, Austria has lost further ground, with GDP growth in both 1986 and 1987 being about 1 percentage point weaker (respectively 1¾ and 1 per cent in Austria against 2¾ and 2¼ per cent in OECD Europe). This largely reflects three main forces at work:

- The combination of more sluggish Austrian export markets and considerable market share losses;
- Smaller oil-price-induced terms-of-trade gains in 1986 and a more moderate demand response to it;
- Over and above the unspent oil rent, an unexpected surge in the household saving ratio.

Sluggish export performance

Following an absolute fall in 1986, the first in more than a decade, exports of goods and services in volume terms recovered slightly in 1987, entirely the result of a marked rise in service exports (Table 11). Merchandise goods exports were flat in 1986 and fell in 1987, despite a recovery of export market growth from its subdued level in 1986[16]. According to OECD calculations, market share losses of more than 7 per cent were incurred after losses of 1½ per cent in 1986. An important factor has been the poor performance of the nationalised industries whose exports (in nominal terms) fell by 15 per cent reflecting their lagging structural adaptation and, especially, their unfavourable product mix. However, exports have also been suffering from the lagged effects of the appreciation of the exchange rate against the average of other currencies, which has raised relative unit labour costs and relative export prices by some 5½ per cent and 6½ per cent respectively over the past two years.

Table 11. **Export performance and competitiveness**

	1985	1986	1987
	Percentage changes		
Export growth[1]			
Merchandise goods	9.7	0.6	1.1
Manufactured goods	10.0	1.4	–2.6
Market growth (manufactured goods)	4.9	2.8	4.5
Export performance (manufactured goods)	5.1	–1.4	–7.1
	Indices, 1980=100		
Competitiveness indicators[2]			
Relative unit labour cost	98.0	102.4	103.2
Relative export prices	105.0	112.7	116.4

1. Customs basis.
2. In common currency.
Source: OECD Secretariat estimates.

Slow pass-through of falling oil prices

The terms-of-trade gain associated with the oil price fall in 1986 has been estimated at about 2½ per cent of GDP cumulated over the two years to 1987, markedly smaller than in most other European countries (Table 12). Import prices in local currency fell in both years but so did export prices, partly influenced by the commodity composition of exports and partly by the significant appreciation of the schilling vis-à-vis the dollar, inducing exporters to cut their margins in order to remain competitive. In fact, falling import prices resulted in gross purchasing power gains of about 1¾ per cent of GDP over the past two years partly offset by falling

Table 12. **Terms-of-trade gains**
Per cent

	1986	1987
Terms-of-trade		
Austria	5¾	2½
Germany	10½	3
OECD Europe[1]	8	1½
Income terms-of-trade gains[2]		
Austria	2	½
Germany	3	½
OECD Europe[1]	2½	¼

1. Excluding the United Kingdom and Norway, as they suffered terms-of-trade losses.
2. Per cent of GDP/GNP in the previous year.
Source: OECD Secretariat estimates.

export prices equivalent to ¼ per cent of GDP. Part of the net gain seems to have been absorbed by the enterprise sector. However, according to the Austrian Institute for Economic Research, only about half of the reduction in imported energy prices has been passed to the manufacturing industry, implying large increases in the oil-importing sectors' profits[17]. Segments of industry also replenished their profit margins to a certain extent as evidenced by the difference between the fall in wholesale prices of oil products and that in the energy component of consumer prices (respectively 25 per cent and 12 per cent in 1986, and 20 per cent and 10 per cent in the first half of 1987). With only little change in specific energy taxes, the public sector did not benefit much from the oil price fall. Hence, the remaining gains largely accrued to the household sector *via* lower prices.

Continuing rise in household savings

The terms-of-trade gain, coupled with strong wage growth in 1986 and income tax cuts in 1987, resulted in unusually strong real disposable income increases of 4½ and 4 per cent respectively (Table 13). These gains were, however, incompletely translated into higher household spending. *Private consumption* growth, at an average annual rate of 1¾ per cent between 1985 and 1987, has been weaker than previously and much lower than in OECD Europe on average (Table 14). The relatively modest growth of consumers' expenditure reflected a sharp increase in the saving ratio from 8.5 per cent in 1985 to 11.2 per cent in 1986, attaining a historical peak of 12.8 per cent in 1987 (while it had remained essentially flat on average in Europe). This could have been the result of at least three main factors. First, consumer durables demand

Table 13. **Appropriation account for households**
Percentage changes from previous year

	1984	1985	1986	1987
Compensation of employees	5.3	6.0	6.0	3.8
Income from property and other	9.5	8.5	7.6	5.0
Current transfers received	6.7	8.0	6.0	6.0
Total income	6.5	7.0	6.2	4.6
less: Direct taxes	11.0	11.0	5.4	–2.0
Current transfers paid	6.8	8.4	5.4	4.5
Disposable income	5.6	5.9	6.7	6.0
Consumers' expenditure	5.5	5.7	3.5	4.0
Savings rate[1]	8.4	8.5	11.2	12.8

1. As a percentage of disposable income.
Sources: Österreichisches Statistischen Zentralamt, *Österreichs Volkseinkommen* and OECD Secretariat estimates.

Table 14. **Demand and output**

Constant 1976 prices, percentage changes

	1984	1985	1986	1987
Private consumption	–0.3	2.2	1.5	2.0
Government consumption	0.6	2.3	2.2	1.5
Gross fixed investment	2.4	5.2	3.9	2.0
Construction	0.7	1.2	4.0	1.7
Machinery and equipment	4.4	9.9	3.7	2.3
Final domestic demand	0.5	2.9	2.2	1.9
Stockbuilding[1, 2]	2.0	0.0	1.1	–0.1
Total domestic demand	2.5	2.8	3.3	1.8
Exports of goods and services	6.6	6.9	–2.3	0.8
Imports of goods and services	9.9	6.9	1.3	2.7
Foreign balance[1]	–1.1	0.1	–1.6	–0.8
GDP	1.4	2.8	1.7	1.0
Memorandum items:				
Consumption deflator	5.8	3.5	1.9	2.0
GDP deflator	5.9	3.0	4.0	3.4
Industrial production	5.2	4.6	1.3	1.0
Productivity	–1.0	2.8	0.3	0.9

1. Changes in stockbuilding and the foreign balance are expressed as a per cent of GDP in the previous period.
2. Including the statistical discrepancy.

Sources: Österreichisches Statistischen Zentralamt, *Österreichs Volkseinkommen*, and OECD Secretariat estimates.

was restrained by the announcement of the lowering of VAT on luxury goods by April 1987. Secondly, a general deterioration of economic expectations, associated in part with domestic problems such as high and rising deficits in the nationalised sector, the uncertainties surrounding the pension reform and the marked rise in unemployment, may have undermined consumer confidence. Thirdly, according to a study by the Institute of Advanced Studies[18], faced with a windfall income gain, households typically save for "rainy days", thus spending less than normal out of the extra income.

Domestic demand and imports

Other major demand components also expanded less vigorously in 1987 (Table 14). Reflecting budget consolidation efforts, the rate of growth of real government consumption decelerated after two years of relatively rapid expansion (2¼ per cent). Gross *fixed investment* growth has weakened over the past two years. In response to lower capacity utilisation, machinery and equipment investment slowed

down markedly. In contrast, construction investment picked up sharply in 1986, after ten years of slow growth, particularly in the road sector, but the momentum was lost again in 1987. In 1986, with strong stockbuilding, *total domestic demand* growth reached 3¼ per cent, but slowed down to less than 2 per cent in 1987. The pattern of *imports* has been rather erratic with import propensities highly unstable, probably due to marked price movements. Imports of finished goods, both investment and consumption goods, were strongest with the rise in car imports being the main factor behind related to the boom in consumer durables.

Table 15. **Current external balance**
Billion schilling

	1985	1986	1987
Exports	348	332	321
Imports	429	399	389
Trade balance	–81	–67	–68
Investment income, net	–5	–10	–5
Non-factor services, net	72	76	79
Transfers, net	0	1	–1
Current balance	–4	1	6

Source: OECD Secretariat estimates.

Balance of payments

The sharp drop in oil and commodity prices in 1986, resulting in improved terms of trade, more than offset the contraction of real net exports, moving the current external account back into a small surplus (Table 15). Favourable price developments served to reduce the deficit in the trade balance, while depressed net receipts from tourism lowered the surplus on services and transfers. After falling for four years, the number of nights spent by foreign visitors changed little in 1986, in spite of a dramatic decline in the number of North American tourists. Austrians spending abroad continued to increase in line with the large real income gains. The current balance surplus widened in 1987 as tourism activity improved and investment income debits fell sharply.

Costs and prices

Inflation, as measured by the increase in the private consumption deflator, slowed down from 3½ per cent in 1985 to 2 per cent in 1986 (Table 16). The 7 per cent

Table 16. **Costs and prices**
Percentage changes

	1985	1986	1987
Wage rate	5.2	5.5	3.2
Hourly earnings in manufacturing	5.7	4.5	4.0
Unit labour costs	3.1	4.2	2.8
Private consumption deflator	3.5	4.2	2.8
GDP deflator	3.0	4.0	3.4

Source: OECD Secretariat estimates.

fall in import prices was instrumental. Indeed, the GDP deflator, boosted by strong increases in nominal wage rates, accelerated in 1986. Some wage moderation in 1987, reflecting the deterioration in the labour market, and a further fall in import prices maintained the increase in consumer prices at the same low rate as a year earlier. The rise of the GDP deflator, on the other hand, flattened somewhat less than unit labour costs suggesting some further widening of profit margins.

Labour market

The labour market has deteriorated markedly since the middle of 1986. Private business, faced with a much less favourable performance of the economy than earlier anticipated, began to adjust employment to slackening demand, and nationalised industries confronted with mounting losses had to gradually abandon their earlier labour hoarding practices. Dependent employment increased by about ½ per cent only in 1986 and was flat in 1987. As a result, unemployment (OECD definition) increased sharply to 3¾ per cent of the labour force in 1987, three-quarters of a point above the rate a year earlier[19].

Short-term prospects

Key assumptions

The growth of aggregate output in the OECD area is projected to continue at a moderate pace of about 2 per cent per annum over the coming two years. With a likely reversal of falling non-OECD imports, the growth of world trade can be expected to pick up. According to Secretariat projections, Austrian export markets for manufactures should expand by 5¼ per cent in 1988 and 4¼ per cent in 1989 after an

estimated 5 per cent rise in 1987. The deterioration in cost competitiveness, fully accounted for by effective exchange rate appreciation of the schilling, and the structural problems of the nationalised industries are, however, likely to lead to further, albeit smaller, losses in overall export market shares, despite continued gains on European markets.

At the time of writing, the 1988 Federal Budget, discussed in Part II, was under active consideration in Parliament. The stance of fiscal policy, as measured by the cyclically-adjusted general government financial balance, is projected to be broadly neutral in 1988 and restrictive in 1989. The general government deficit is projected to widen by ¾ percentage point to 4¾ per cent of GDP in 1989 due to the expected slowdown in activity. Interest rates are likely to remain slightly above those in Germany, which in turn may fall back somewhat after the rise in the third quarter of 1987, remaining broadly stable thereafter.

The outlook for 1988-89

Business surveys point to continued moderate expansion in machinery and equipment investment in 1988 and near-stagnation of construction activity. Fiscal consolidation can be expected to damp the expansion of public consumption and investment. Decelerating nominal income growth of private households, observed in 1987, is likely to continue at least in 1988. All income components can be expected to share in this slowdown. The recently concluded agreement for metal-workers embodied wage increases of around 1¾ per cent for 1988, considerably below the previous year's settlement. The Government aims at subdued wage growth for civil servants and at constraining the growth of transfer income. With some resumption of fiscal drag, real disposable income growth could decelerate markedly to about ½ per cent in 1988 and remain flat in 1989. Although notoriously difficult to predict, the saving ratio is assumed to move back to its 1986 level by the end of the projection period. This would allow growth in private consumption of about 1¼ per cent on average over the coming two years.

The resulting slowdown in domestic demand growth to 1½ per cent in 1988 and further to 1 per cent in 1989 should moderate import growth, though some reconstitution of raw material stocks is projected to somewhat support imports in 1988. Hence, the contribution of the foreign balance to real GDP growth is likely to remain slightly negative over the projection period. Real output growth may therefore be somewhat stronger than in 1988, but some deceleration is projected in 1989. Total employment may fall in both years, notably with accelerated dishoarding of labour in nationalised industries. On these assumptions, unemployment as a per

Table 17. **Short-term prospects**

Percentage changes

	1987	1988	1989
Volume at 1976 prices:			
Private consumption	2	1½	1
Government consumption	1½	1¼	1
Gross fixed investment	2	1½	1¼
Final domestic demand	2	1½	1
Stockbuilding[1, 2]	0	0	0
Total domestic demand	1¾	1½	1
Exports of goods and services	¾	1¼	1¼
Imports of goods and services	2¾	2	1½
Foreign balance[1]	–¾	–¼	0
GDP	1	1¼	1
Memorandum items:			
Private consumption deflator	1½	2	1¾
GDP deflator	3	2¼	2
Total employment	0	–¼	–¼
Unemployment rate[3]	3¾	4¼	4¾
Current balance:			
Schilling billion	7	2¼	–2
U.S. dollars billion	½	¼	– ¼

1. Change as a per cent of GDP in the previous period.
2. Including the statistical discrepancy.
3. As a per cent of total labour force.

Source: OECD Secretariat estimates and projections.

cent of the total labour force might increase in the two years to 1989 by about 1 percentage point to some 4½ to 5 per cent (OECD definition).

On the basis of the projected declines in pay increases and the likely recovery in labour productivity to an average rate of 1½ per cent, i.e. close to its long-term average, domestic inflation should remain low. The annual advance of unit labour costs (total economy) should fall below 1½ per cent. On the other hand, import prices can be expected to rebound to a positive rate of growth of some 1 to 1½ per cent in both 1988 and 1989. Despite some increase in profit margins, the rise in the private consumption deflator is nevertheless projected to remain stable at just under 2 per cent, while the rise in the GDP deflator might decelerate to 2 per cent by the end of the projection period. In line with the relative improvement in the real foreign balance combined with the slight deterioration in the terms of trade, the current account should be in broad balance in the coming two years.

IV. The problem of rising unemployment: challenges ahead

Large-scale unemployment is a relatively recent phenomenon in Austria. Apart from slower economic growth this reflects the discontinuation of "labour hoarding" in nationalised industries and of budgetary support to employment. Greater flexibility of both aggregate labour costs and relative wages will now have to play a more important role in the preservation of existing jobs and the creation of new ones. After a brief account of the current unemployment situation, this section first analyses the nature of unemployment and then considers ways and means of improving the functioning of labour markets, so as to minimize the projected increase of unemployment during the remainder of this decade.

Emergence and characteristics of high unemployment

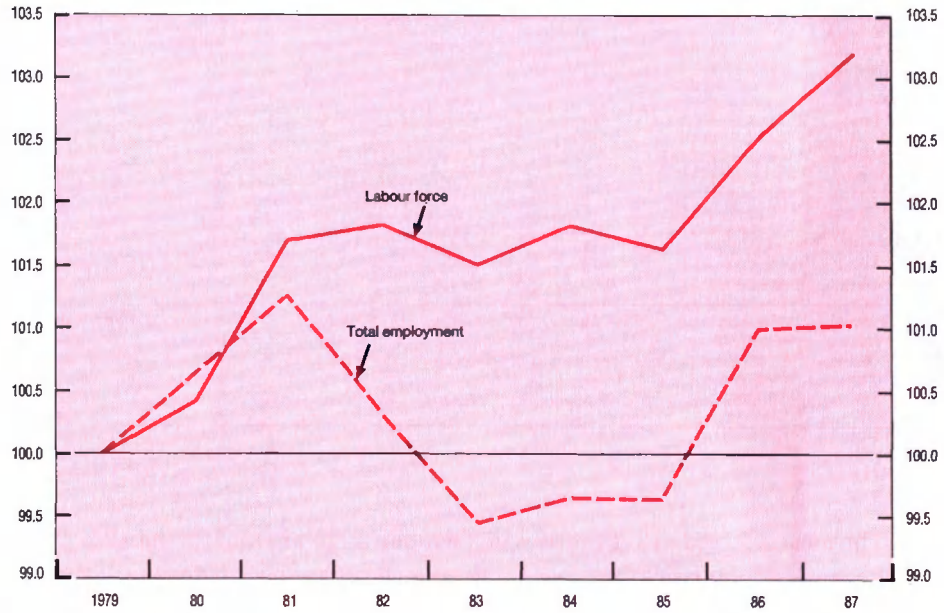
Aggregate unemployment

In the ten to fifteen years to 1981, the number of unemployed fluctuated between 1½ and 2½ per cent of the total labour force, being lower in the second half of the 1970s than in the first. Thereafter, unemployment began its upward move, continuing throughout the entire post-OPEC II business cycle (Diagram 8). Thus in 1987, while still belonging to the group of low unemployment countries (with Japan, Iceland, Norway, Sweden and Switzerland), the average number of registered unemployed in per cent of the dependent labour force – the more widely used measure in Austria – stood at 5.6 per cent, three times as high as in 1979[20].

Composition of unemployment

The burden of unemployment has been shared unevenly among different population groups. *Male* unemployment has risen much faster than *female* unemployment, especially in 1982-83, and by 1986, unemployment rates were about the

Diagram 8. **THE UNEMPLOYMENT GAP**
(Indices 1979 = 100)



Source: OECD, *Labour Force Statistics.*

same for both sexes (Table 18). According to unemployment by *occupation* (derived from the Mikrozensus Survey) the hardest-hit sectors have been construction and certain services (Hilfsberufe), where double-digit rates of unemployment are now recorded. Unemployment in the large tourist sector as well as in the metal industry also increased sharply. On the other hand, most other service industries, notably the public sector, finance and insurance continued to exhibit very low rates of unemployment. Overall, as typical elsewhere, *vocational* unemployment rates for managerial and professional workers seem to be lower than for clerical workers. The same is true for skilled versus unskilled workers. The *geographical distribution* of unemployment is also very uneven. Regions whose activities (tourism and construction) are significantly influenced by seasonal factors (Tyrol and Carinthia) and/or are suffering from an excessive concentration of so-called "sunset" industries (Styria) have suffered most from unemployment.

Table 18. **Unemployment trends**

Per cent

	1974	1980	1982	1986
Unemployment rate[1]	1.5	1.9	3.7	5.2
Males	0.8	1.6	3.9	5.1
Females	2.2	2.3	3.5	5.2
Unemployment by age[2]				
Youths	..	23	27	31
Adults	54	67	59	53
Unemployment duration[2]				
6 to 12 months	..	10.2	14.1	14.1
12 months and over	..	9.2	5.7	12.6

1. Registered unemployment as a per cent of dependant labour force. 1974 figures for male and female unemployment are adjusted for break in series in 1975.
2. Per cent share in total unemployment, end-August figures, youths refer to the 17 to 24-year-old age group and adults to the 25 to 49-year-old age group.

Source: Österreichisches Institut für Wirtschaftsforschung, *Monatsberichte*, various issues.

The most affected by recent rises in unemployment are the less than 25-year-old and the long-term unemployed. *Youth unemployment* has been deteriorating steadily since 1980 (Table 18), though largely confined to young adults (20 to 24-year-old). Teenage unemployment has remained broadly stable, reflecting the importance of apprenticeship in Austria, and the more recent special measures targeted at first-job seekers. The incidence of *long-term unemployment* (measured as the share of total employment of persons who have been unemployed for more than twelve months) has doubled since 1982. However, at 13 per cent in 1986, its share remains markedly lower than in most OECD countries, largely because unemployment has started only

Table 19. **Incidence of long-term unemployment by age and gender**[1]

Per cent

	1980	1983	1986
Youths	3.3	3.6	5.1
Adults	7.9	10.3	16.4
Older workers	22.1	21.6	30.4
Males	13.0	10.2	15.1
Females	7.0	7.4	10.1

1. Percentage of long-term unemployment in total unemployment within age and gender groups. Youths refer to the 17 to 24-year-old age group and adults to the 25 to 49-year-old age group. Data refer to end-August of each year.

Source: *Arbeitsmarktvorschau*, Ministry of Social Affairs, various issues.

recently to rise and early retirement schemes have been widely used. The incidence of long-term unemployment seems to be increasing with age, at least in terms of the broad age groups used (Table 19). Long-term unemployment appears to be more widespread for males than females, but this may in part reflect the way unemployment data are collected.

Duration of unemployment

At times of falling demand and/or excess labour supply, persons with the least attractive characteristics are most liable to be pushed into long-term unemployment. Since the early 1980s the number of people becoming unemployed during a year doubled, and the average duration of unemployment spells has increased from 90 to 110 days[21]. In 1984-85, almost 40 per cent of unemployed had been out of work for more than six months, against 27 per cent in 1979-80. Within the group of unemployed for more than six months, the highest increases were in the age-group 50 to 59 year-old.

Accounting for unemployment

The rise in unemployment can be arithmetically decomposed into labour supply and labour demand factors (Table 20). The mechanical impact on unemployment, stemming from *labour force* growth may in turn be broken down into contributions from the potential labour force (i.e. the population of working age) and from the change in participation rates. In the 1980s, the rise in unemployment has been mitigated by labour supply developments. The growth of the labour force has slowed down marginally compared to the post-OPEC I period as a result of two opposite forces. Reflecting large inflows of young people, the potential labour force has risen faster, while the fall in activity rates accelerated as a result of the increasing tendency for early retirement and rising enrolment in secondary and tertiary education. With employment recovering more recently, these developments have weakened. The male activity rate has fallen more sharply in recent years while female rates showed a continued long-term upward trend. Continued falls in the number of foreign workers as well as further declines in hours worked contributed to damp the rise in unemployment.

Labour demand growth has been positive throughout the post-1973 period, but weakened after the second oil shock (Table 20). As the contribution of general government to sustain employment growth remained high, the slower overall employment growth between 1980 and 1986 was exclusively due to increased labour

Table 20. **Arithmetical decomposition of unemployment**

Percentage points[1]

	1960-73	1973-80	1980-86
Rise in unemployment rate[2]	–2.5	1.1	2.8
Contribution to increases in the unemployment rate:			
Labour force			
Total	–8.1	3.8	3.5
Potential labour force	–0.1	5.3	8.1
Participation rates	–8.0	–1.4	–4.5
(Foreign workers)	(5.2)	(–3.3)	(–2.5)
Employment			
Total	5.6	–2.7	–0.7
General government	–3.6	–5.3	–5.1
Business[3]	9.2	2.6	4.5
of which due to:			
Output	–66.4	–22.3	–17.5
Productivity	75.6	25.9	22.0
(Hours worked)	(–1.7)	(–12.1)	(–4.6)

1. A positive (negative) sign indicates an unemployment rate increasing (decreasing) effect. All changes are standardised to correspond to a ten-year period.
2. The sum in the contributions from total labour force and from total employment as a per cent of the labour force.
3. Including agriculture.

Sources: *OECD Labour Force Statistics* and Ministry of Finance *Bundesfinanzgesetz 1987.*

shedding. Demand-management policies have been less supportive as of 1983 and the rapid deterioration in the financial position of nationalised industries has prompted labour-saving rationalisation measures (see below). Dependent employment started to grow again in 1983, regaining its previous (1981) peak level in 1986. It is interesting to note that shortening of working hours contributed significantly more to reducing the rise of unemployment after OPEC I than after OPEC II, at least in the mechanical sense of Table 20.

The nature of present unemployment

What part of excess labour supply can be absorbed by improvements on the supply side and what part by strengthening the growth of demand? The answer to this question is relevant for policy formulation over the short and medium term. Allowing for lack or poor quality of information on which an assessment could be based, crucial issues to be addressed are:

- What is the existing margin of unused viable capacity, and what is the speed by which potential output and employment-capacity can be expanded?
- What is the size of "mothballed" capacity which could be reactivated if real costs were lower?
- What is the degree of *ex post* malleability of the physical and human capital stock in the event of relative cost and demand shifts?

A different but equally pertinent question concerns the feasibility and/or desirability of lowering the wage level relative to productivity or other input prices, and to change the pattern of demand towards more labour-intensive activities.

Available survey-based indicators of *capacity utilisation* do not give any clear indication of the degree of slack in the economy (Table 21). On the one hand, judged by capacity utilisation rates, the capital stock was in 1986 as fully used as at the previous cyclical peak of 1979-80. On the other hand, according to business surveys, the balance of firms reporting satisfactory capacity utilisation was lower than in 1980 and far below the levels of the early 1970s, when more than 70 per cent of firms reported satisfactory capacity use. Estimations of the GDP-gap – the difference between actual real GDP and phased-trend GDP – point to an under-utilisation of the factors of production by 2 to 2½ per cent in the mid-1980s. Allowing for some cyclical recovery of productivity, this in turn implies that actual employment was running 1½ to 2 percentage points below the level consistent with trend output. This together with business assessment of capacity utilisation would suggest that a not insignificant part of unemployment might be of a structural nature, in the sense that it could not be eliminated in the short run by raising the level of aggregate demand.

Table 21. **Indicators of capacity utilisation**

Per cent

	1979	1980	1983	1985	1986
Industry					
Capacity utilisation[1]	83	83	79	83	83
Balance of firms reporting satisfactory capacity utilisation[2]	25	34	16	27	24
Entire economy					
Real GDP gap[3]	97.8	98.3	95.6	97.0	96.4

1. From investment surveys.
2. From business surveys.
3. The ratio of actual real GDP to potential GDP.

Source: Österreichisches Institut für Wirtschaftsforschung, *Monatsberichte*, various issues.

Non-cyclical unemployment

The non-cyclical element of unemployment which cannot be removed in the short term may at least conceptually be divided into three sub-groups:

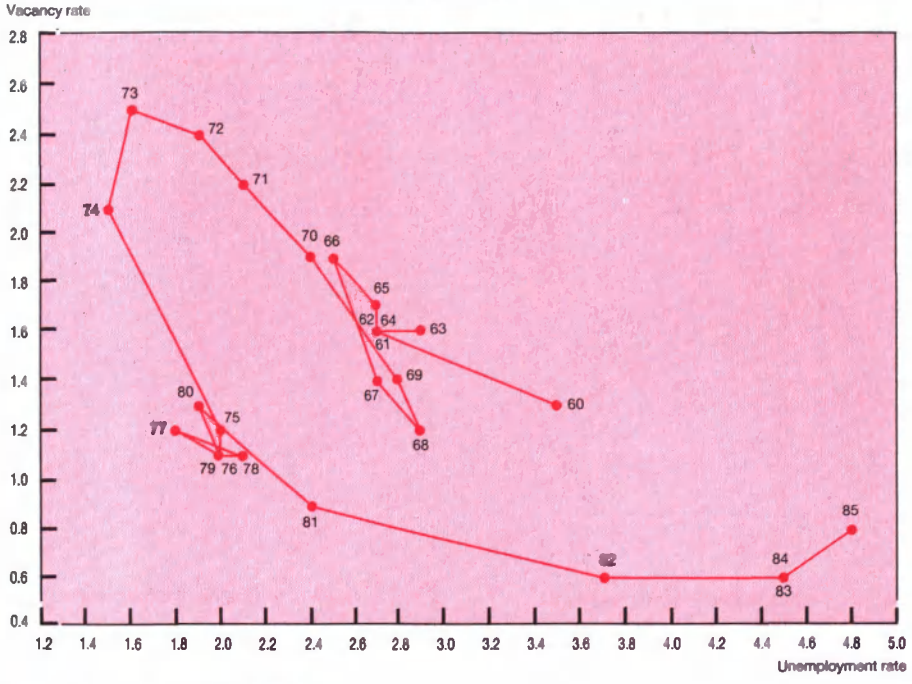
- *Frictional or voluntary-search unemployment*, which involves unemployment spells between changes of jobs;
- *Mismatch unemployment*, which reflects unemployment due to regional and/or skill differences between labour demand and supply;
- *"Classical" unemployment*, which would disappear if real wages (individual and aggregate) were lower, and/or if new capital were put in place with increased output capacity being met by increased demand.

Frictional and/or mismatch unemployment

The degree of labour mobility and changes over time may be gauged by examining hirings, redundancies, quits, tenure rates and mismatches between the demand for and the supply of labour. However, lack of reliable data severely limits any quantitative assessment of the relative importance of each of the first two sub-groups of unemployment. Statistics on redundancies and quits are fragmentary, covering only the Vienna area and may thus incompletely reflect the situation nationwide[22]. While dismissals have remained fairly stable as a per cent of employment, quits have declined by more than one-third between 1977 and 1984, reflecting declining job opportunities and greater job attachment in periods of higher unemployment. Voluntary job changes – here defined as a person who finds a new job within a year after voluntary termination of the previous job contract – have followed the trend decline in quits. Moreover, job shifts have increasingly taken place within the same branch, while shifts between branches have been more than halved.

There is also some evidence that mismatch between labour supply and demand has become an increasingly important feature in more recent years. On the strong assumptions that the pace of structural shifts (and hence the required rate of labour reallocation) has not changed and that the search time needed, claimed and used for finding jobs or filling vacancies has not lengthened, increased market mismatches are indicated if rising unemployment is not accompanied by falling vacancies and *vice versa*. Diagram 9 shows the so-called *Beveridge-curve*, which traces the relation between the rate of unemployment and the vacancy rate, the latter defined as the number of vacancies in relation to total employment[23]. After having shifted inwards

Diagram 9. **THE BEVERIDGE CURVE, 1960-1985**
(Per cent)



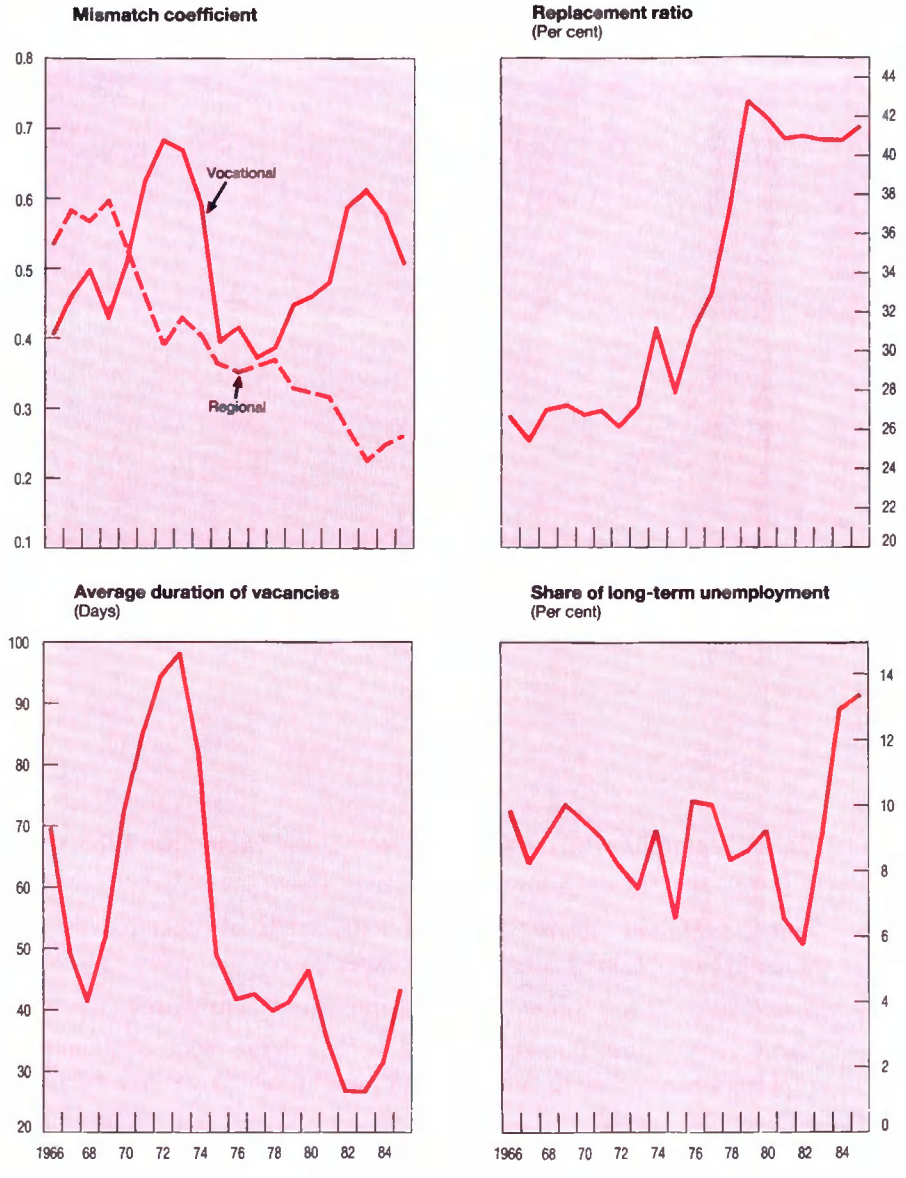
Source: Adapted from Christl (1987), *Op. cit.*

in the 1970s, the beginning of an outward shift seems observable since 1983, which in a period of labour market slack may reflect:

- *Decay of human capital*, following long spells of unemployment and difficulties in obtaining adequate job experience;
- *Demotivation of job-seekers*, reducing intensity of job search;
- *Higher recruitment standards*, faced with a large pool of unemployed, employers become more "choosy" and prolong search for new recruits.

In addition to the three factors mentioned above, the position of the Beveridge curve may be influenced by changes in labour mobility and the "generosity" of the unemployment support system. The overall impression is that mobility has somewhat declined in the 1980s compared with the first half of the 1970s. Occupational mobility depends not only on pay incentives, but also on training and re-training

Diagram 10. **LABOUR MARKET INDICATORS**



Source: Adapted from Christl (1987), *Op. cit.*

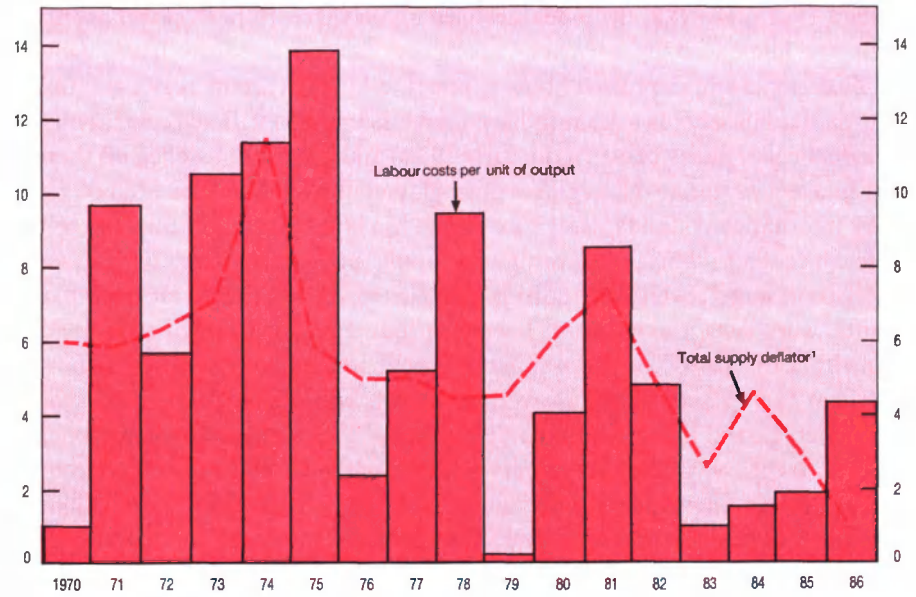
facilities. The *vocational mismatch index* reached a peak in the early 1970s – a period with severe labour shortages – but declined subsequently. Following a renewed rise between 1977 and 1983, the index declined again thereafter. *Regional mismatches*, which are influenced by a variety of socio-economic factors – house-ownership, subsidised rents and depressed housing prices in labour surplus regions, family ties, multi-earner households – seem to have been less important. The regional mismatch index declined steadily between the early 1970s and 1983, but levelled off thereafter. The *replacement ratio*, which relates unemployment benefits to the level of wages, is low by international standards. It rose during the late 1970s and remained relatively stable since then. Thus, the minimum supply price of labour, or the so-called "reservation wage", which in addition depends on the eligibility for unemployment benefits, work tests, the length of benefit period, and the profile of the replacement ratio within this period, would not *per se* appear to explain the outward shift of the Beveridge-curve after 1983. However, work disincentive effects are increased in two ways. First, earned income is taxed at high rates, while unemployment benefits are tax free. Secondly, welfare payments increase with the number of children, while there are no tax allowances for dependent children[24]. With the greater stickiness of the relative wage structure (see below) and a larger pool of unemployed with required skills and job experience, firms are likely to have increased their own search time before filling a vacancy. Hence, the observed rise in the duration of vacancies.

"Classical" unemployment

A major part of the rise in unemployment in Europe over the past fifteen years can probably be attributed to an insufficient and delayed adjustment of wages to the two external price shocks of 1973 and 1979 and the – partly associated – slowdown of productivity growth and loss or insufficient growth of economically-viable capacity. Comparing unit labour costs and output deflators allows an *ex post* identification of periods of "labour cost push" and profit squeeze (Diagram 11). On this basis, the 1975 and 1978 wage settlements stand out notably as being out of line with developments in output prices, resulting in strong pressure on profits. Conversely, more recent wage developments (1983 to 1985) were rather moderate, permitting some restoration of profit margins.

A significant gap between labour productivity and real labour costs – *the "real wage gap"* – opened up after the 1975 recession, and it was not until the early 1980s that it began to narrow in line with a gradual improvement of business profits (Diagram 12). Apart from wage moderation, this reflected a significant shedding of labour by industry, sustaining relatively strong productivity growth in the face of

Diagram 11. **LABOUR COSTS AND TOTAL SUPPLY DEFLATOR**
(Percentage rates of growth)

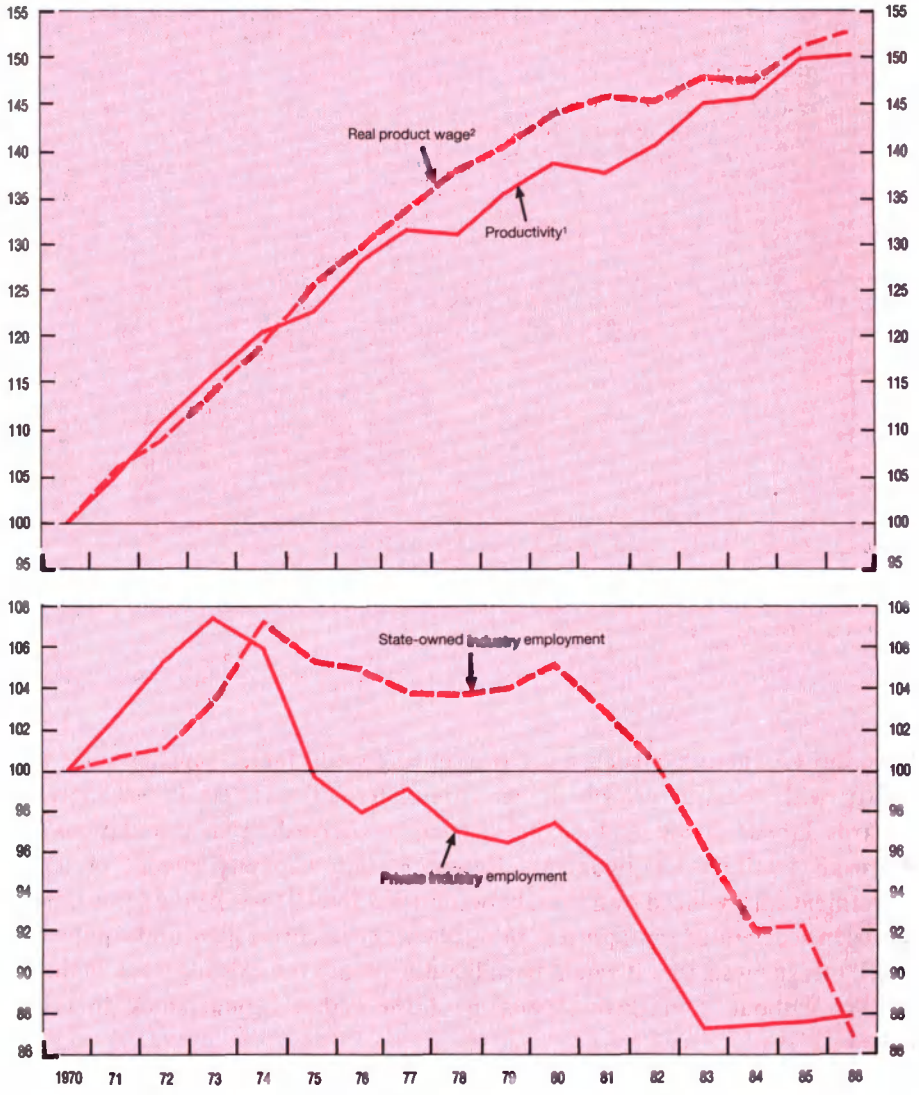


1. The deflator for the sum of domestic demand and imports.
Source: OECD, *National Accounts.*

weakening economic activity. The latter adjustment mechanism has been associated with massive lay-offs of "unprofitable labour", increased capital-for-labour substitution and accelerated scrapping of capital, thereby "validating" *ex post* the above-equilibrium wage level for those remaining in employment[25]. As noted above, the practice of labour hoarding in nationalised industries was particularly pronounced in the mid-1970s. Indeed, following the first oil shock, employment remained largely unchanged despite a decline in output of more than 10 per cent, and it was not until the beginning of the 1980s that continuing losses eventually led to a reduction of capacity. It is noticeable, though, that wage levels in nationalised industries still remain higher than in corresponding branches in the private sector (see below).

The large discrepancy between the two most commonly used measures of economic slack, the GDP-gap and the unemployment rate, suggests that potential output may be capital rather than labour-constrained. As can be inferred from

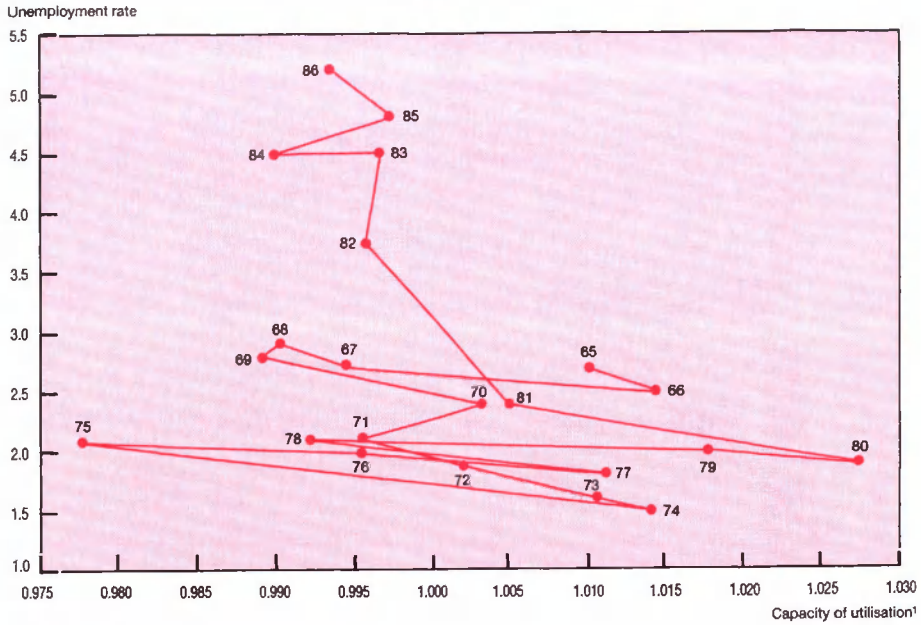
Diagram 12. **LABOUR COST, PRODUCTIVITY AND EMPLOYMENT**
(Indices 1970 = 100)



1. Real output per employee.
2. Wages and salaries per employee deflated by the GDP deflator.

Sources: OECD, *National Accounts* and submission from the Austrian Institute for economic research.

Diagram 13. **THE OKUN CURVE, 1965-1986**
(Per cent)



1. Real GDP divided by phased-trend real GDP.
Source: OECD, estimates.

Diagram 13, there has been a growing imbalance in factor supplies since the late 1970s, with reduced growth of net capital formation being increasingly biased towards labour-saving and capital-deepening. According to calculations by the Austrian Institute for Economic Research, the "capacity effect" of industrial investment was reduced by a third between 1968 and 1986[26]. At the same time, there has been accelerated scrapping, notably of energy-intensive plant and equipment. All in all, this suggests that it would be difficult to absorb the existing slack in the labour market without a marked expansion of the viable capital stock in the years ahead.

This *potential "capital shortage"* may at given cost/price relationships be taken as a manifestation of insufficient wage flexibility and/or the depressive cumulative impact on output capacity, entailed by prolonged periods of weak demand prospects. On the other hand, the favourable employment performance through most of the troublesome period of the 1970s and the early 1980s does suggest, *prima facie*, that Austrian labour markets function comparatively well and that *real wage rigidity* is

not a major problem. Recent attempts to develop criteria for labour market flexibility have focused on two indicators: real wage flexibility and employment adaptability, with the former measured by the elasticity of nominal wage changes with respect to the level of unemployment and the latter by the elasticity of labour productivity advances with respect to output growth. Obviously, countries with flexible real wages can weather negative external supply or deflationary demand shocks more smoothly than those with rigid real wages. When the moderating influence of rising unemployment on wage settlements and wagedrift is relatively strong, the fall in profitability and optimal output and employment is typically small; or put differently, the rise in unemployment required to reduce inflation, while restoring profit margins to pre-shock levels, is smaller when real wages are flexible, i.e. adjust quickly and completely to exogenous shocks. For this reason, the need to adjust employment to deflationary shocks is less felt. Countries with a high measure of aggregate real wage flexibility could therefore be expected to exhibit a high degree of *employment rigidity*.

Table 22 lends some support to this proposition. Indeed, as can be seen, Austria belongs to the group of countries where real wages in the business sector are

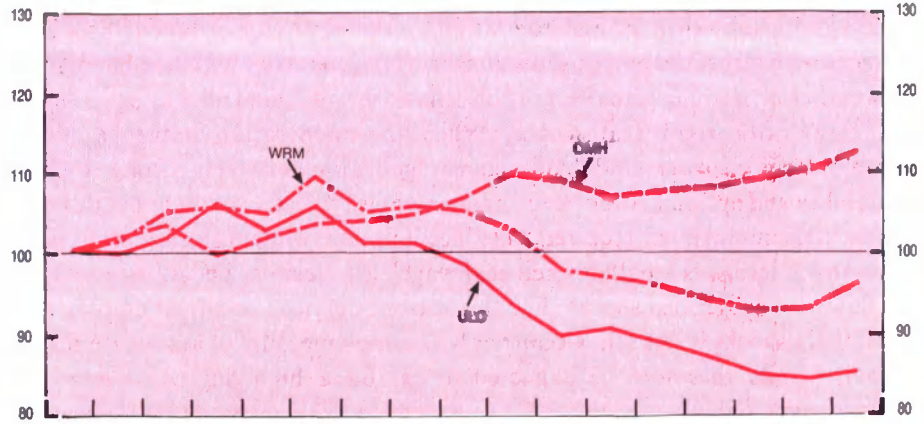
Table 22. **Employment rigidity and real wage flexibility (business sector)**

	Employment rigidity[1]	Long-run real wage flexibility[2]
Austria	**0.80**	**–0.83**
Italy	0.99	–0.60
Japan	0.91	–1.66
Sweden	0.78	–1.40
United Kingdom	0.77	–0.15
France	0.75	–0.33
Belgium	0.73	–0.49
Germany	0.68	–0.14
Finland	0.67	–0.49
Australia	0.60	–0.39
United States	0.58	–0.60
Canada	0.44	–0.51
Average (unweighted)	**0.72**	**–0.55**

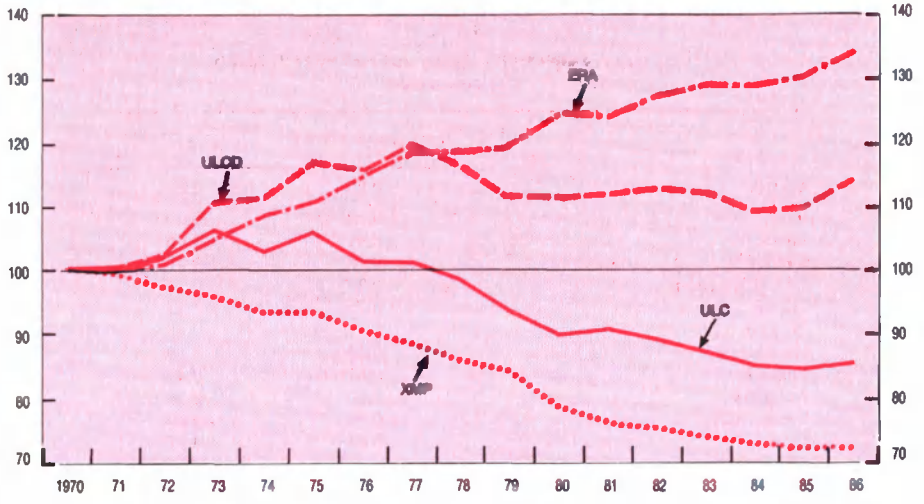
1. Employment rigidity is measured by the output coefficient b in the equation:
$(q/l) = a + bq_t + cq_{t-1}$
where q is output growth, l is employment and (q/l) is labour productivity growth.
The observation period is 1960-86. If the b coefficient is low, employment is easily adaptable and *vice versa*.
2. Real wage flexibility is measured by the elasticity of nominal wage changes with respect to the rate of unemployment.

Sources: Annex II and Chan-Lee, J.H., Coe, David T. and Prywes, M., "Microeconomic changes and macroeconomic wage disinflation in the 1980s", *OECD Economic Studies*, No. 8, Spring 1987; and Mittelstadt, A. and Kendall, L., "Sectoral labour market flexibility", *OECD/ESD Working Paper Series* – forthcoming.

Diagram 14. **INTERNATIONAL COMPETITIVENESS**
(Indices 1970 = 100)



Note: ULC is relative unit labour costs in local currency.
OMH is relative productivity per hour.
WRM is relative wages in manufacturing in local currency.



Note: ULCD is relative unit labour costs in a common currency.
ERA is nominal effective exchange rate.
ULC is relative unit labour costs in local currency.
XMP is relative export prices in manufacturing.

Source: OECD, Secretariat estimates.

comparatively flexible and where employment is rather resilient to changes in output growth[27]. It shares these features with Japan and Italy. With the exception of Sweden, no European country, for which empirically-determined labour-market-flexibility measures are available, displays greater flexibility of real wages than Austria, and, with the exception of Italy, none has greater employment rigidity. In this context, two features are of particular importance:

- In the Austrian context of wage-setting, the aggregate wage equation clearly confirms that unions are anxious not to price their members out of the market, with considerations of competitiveness playing an important role, probably not unrelated to the hard-currency policy. This has clearly been one of the reasons why external inflationary shocks have not given the same strong twist to the price-wage spiral than typically elsewhere;
- The simultaneously observed high degree of employment stability indicates that labour hoarding has to some extent been "traded" against greater wage restraint, suggesting that in times of sluggish growth the slack in the labour market has been higher than reflected in recorded unemployment data.

For a small open economy, *international competitiveness* is perhaps the most important determinant of employment over the medium term. Diagram 14 decomposes unit labour costs corrected for changes in the effective exchange rate into its three main components. As can be seen from Panel A, since the post-OPEC I recession, Austrian wages have expanded more moderately than in main competitor countries, reflecting the high importance being attached to external constraints in the wage-setting process (see Annnex I). Since 1985, there was a reversal of this trend, as the disinflationary process became more generalised abroad. However, with hourly productivity increasing somewhat faster than elsewhere, the relative unit labour cost index in local currency came down further. Taking exchange rate developments into account importantly modifies this picture (Panel B). Pegging the schilling to the Deutschemark entailed a strong appreciation of the effective exchange rate, notably in the latter part of the 1970s and after 1985. Thus, measured in a common currency, there was only a moderate fall in relative unit labour costs in the first half of the 1980s, giving way to a sharp rise in 1986 and 1987. By contrast, movements in relative export prices in common currency (Panel B) were more damped as profit margins tended to widen when relative cost positions improved (1980-85) and to narrow in the opposite case (1987).

Policy issues

As noted above, there is little that presently can be done to deal with the demand-deficiency part of unemployment, given budgetary constraints, the structural weakness of parts of the nationalised industries and the desirability of continuing the hard-currency policy. Thus the main emphasis has to be on shifting demand towards the employment-creating part of the productive private sector. For small open economies like Austria, the employment performance crucially depends on the ability of the internationally exposed sectors to compete successfully abroad and at home. The hard-currency option ties the Austrian schilling to the Deutschemark. Barring discretionary exchange rate policy as a means of changing relative profitability between the exposed and the sheltered sectors places the structural adjustment burden on relative price and wage shifts between the declining sectors (including the public sector) and the more competitive and dynamic parts of the economy. Secondly, with a view to increasing labour mobility and to reducing mismatches between supply and demand, the role of labour market policies needs to be strengthened, as developments in this area have been "retarded" by the rather late emergence of unemployment as a large-scale problem. Thirdly, it would be desirable if future settlements took greater account of the employment potential of individual domestic sectors and the nexus between employment and wages. In this respect, given the secular trend of industrialised countries towards services, it is important to remove existing impediments to growth in this area. A general presumption is that an easing of the regulatory framework pertaining to the production and distribution of services would constitute an important step in this direction.

Labour market and manpower policies

Active *labour market policies* have a limited history in Austria. In fact, it was not until 1969 that the the legal basis for comprehensive policies in this area was created. In view of the favourable employment trends during the 1970s, it is not surprising that labour market policies are quantitatively less important than in other so-called "corporatist" economies, e.g. Norway and Sweden. Moreover, the focus of policy has mainly been on influencing the supply of labour, notably regulating the inflow of foreign workers. At present, labour market policies are aiming at:

i) Achieving higher efficiency in the matching of job-offers and job-seekers at the labour exchanges;

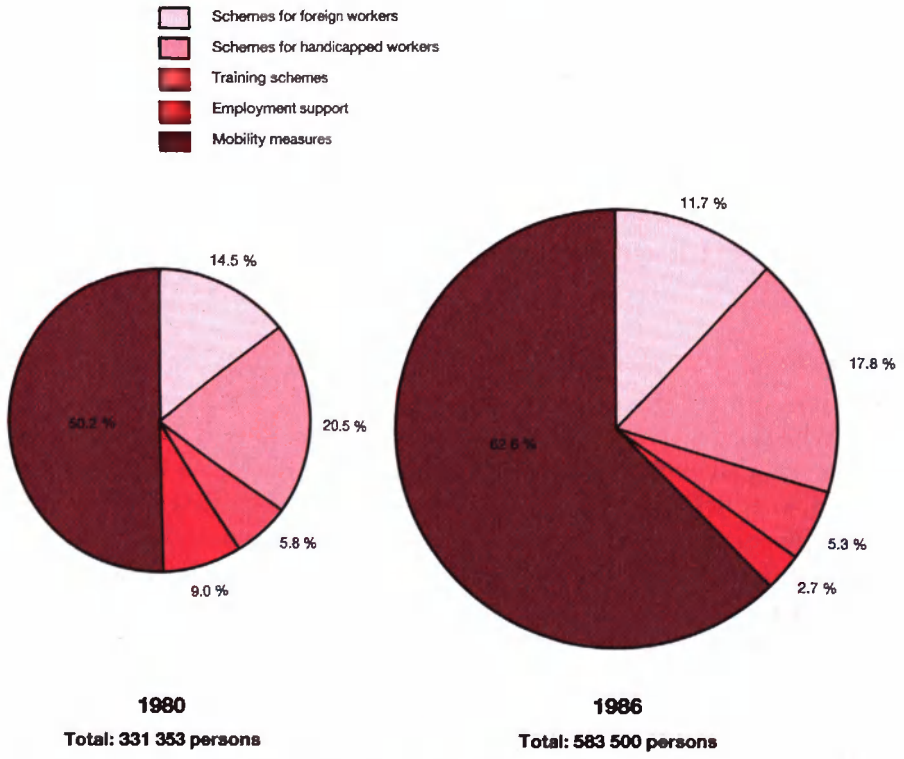
ii) Increasing the mobility of the labour force, both geographically and vocationally;

iii) Alleviating long-term unemployment through intensive retraining and financial incentives to employers;

iv) Restraining labour supply by limiting the intake of foreign workers and inducing longer-term unemployed to enter early retirement schemes.

As noted in Part II, the share of federal government funds allocated to labour market measures has increased rapidly in recent years. This, however, reflects to a large extent a higher burden of unemployment benefit payments rather than a stepping-up of labour market measures *per se*. Diagram 15 shows the numbers of

Diagram 15. **PERSONS AFFECTED BY LABOUR MARKET MEASURES**



Source: Ministry of Social Affairs, Arbeitsmarktförderung Berichtsjahr 1986, Vienna 1987.

persons covered by existing labour market programmes. There has been a particularly steep rise in the number of people receiving *vocational training and retraining* through publicly-sponsored education programmes[28]. This reflects not only higher unemployment, but also the ability of firms to externalise the costs of training when labour supply is abundant. *Job support schemes* increased rapidly in the early 1980s but seem to have levelled off in 1985 and 1986, probably reflecting tighter budget constraints (Diagram 14). The "Action 8000" programme, introduced in 1985, was designed to ease the unemployment problem of two particularly hard-hit groups, the age group 19 to 25 and the long-term unemployed. More specifically, measures included schemes for vocational training, subsidised employment and direct employment creation and applies to 15 to 25-year old who have been unemployed for at least three months and to persons aged over 25 who have been unemployed for more than six months. The intention is to accommodate 8 000 persons out of the 30 000 in the relevant two groups. As already noted, incentives to retire from the labour force have been strengthened, and there has been a growing number of "unemployed pensioneers".

Contrary to the experience of many other countries, regulations pertaining to the labour market, such as hiring and dismissal rules, fixed-term contracts, and to the possibility to resort to temporary work and compulsory redundancy payments in the case of large-scale lay-offs are governed by "social partnership" arrangements rather than specific legislation. Therefore, given the desire of the authorities to maintain the present institutional set-up, efforts to increase flexibility in the labour market need the explicit or tacit agreement of both sides of industry.

Relative wage flexibility

While aggregate wage behaviour has been found to be rather flexible, there are indications that *relative* wage flexibility has decreased[29]. As for other countries, sectoral wage flexibility – measured in the same way as for the entire economy – has been found to be lower for industry than for the economy as a whole. Wage differentials started to widen by the end of the 1970s (Table 23). Relative earnings in the construction sector which was severely hit by the recession, declined rapidly. But wages in manufacturing increased faster than in the rest of the economy, notwithstanding a 10 per cent fall in employment between 1980 and 1985, and a sharp squeeze on profit margins. These relative wage developments in the face of rising unemployment point to problems of labour market segmentation, impeding market clearing as well as reducing overall economic efficiency.

Table 23. **Wage differentials**[1]

Manufacturing wages = 100

	1975	1980	1983	1985
I. *Blue-collar workers*				
Crafts and small industry	100.7	99.0	100.7	100.1
Trade	98.6	97.4	97.7	97.3
Transportation (private)	94.5	98.7	97.3	97.2
Tourism	95.0	100.9	101.5	101.5
Agriculture	109.5	98.7	97.3	96.4
II. *White-collar workers*				
Crafts and small industry	106.0	100.5	100.0	100.1
Trade	100.7	97.7	97.6	98.3
Transportation (private)	96.6	101.0	100.3	100.1
Finance and insurance	102.5	98.4	98.2	99.4
Tourism	104.4	101.2	101.4	101.6
Agriculture	106.9	99.8	99.0	98.5
III. Public services	104.6	99.7	98.9	100.4
IV. Public transport	101.3	98.8	97.3	99.1

1. Tariff wages per hour (blue-collar workers) and per month (white-collar workers and employees in the public sector).
Source: *Statistiches Handbuch für die Republik Österreich 1985*, Österreichisches Statistischen Zentralamt, Table 9.09, p.187.

V. Conclusions

The Austrian economy is at a crossroads. After having out-performed over the last ten to fifteen years most European economies in terms of growth, unemployment and inflation, its record has deteriorated more recently. With prospects for the remainder of this decade hardly more encouraging, this has led to a widespread notion that in the face of mounting budgetary costs and pent-up structural adjustment requirements, the former policy of generous employment support has run its course. The new Coalition Government, while adhering to basic features of the traditional Austrian approach to macroeconomic policy – hard-currency policy and reliance on social partnership – has stressed the twin prerequisites for restoration of better performance: consolidating public finances and enhancing the competitiveness of the economy.

The weakness of the recovery since 1983 entailed steadily widening budget deficits up to 1986. The unsustainability of this trend was ackowledged by the new Government. Indeed, medium-term projections based on past trends in public sector spending suggested that the debt/GDP ratio could reach more than 70 per cent in the early 1990s and that debt servicing would absorb more than a quarter of federal government revenues. The aim is to gradually bring the federal budget deficit down from 5 per cent of GDP in 1986 to 2½ per cent by 1992, thereby stabilizing the debt/GDP ratio at around 50 per cent, and to implement budgetary restraint through reduced public sector spending growth rather than increased taxation.

The strengthening of the supply side of the economy – the need for which had already been underlined in the *1985 Economic Survey of Austria* – is planned to be achieved through an array of microeconomic and institutional measures. A new company law (Gewerbeordnung) should encourage the creation of small firms and improve competitiveness along with better diffusion of, and adaptation to new technologies. Financial support will be restricted to the potentially viable part of the nationalised industry. The tax reform envisaged for 1989 will aim at a fairer and simpler system of income taxation. At the same time, by streamlining investment tax allowances and subsidies, allocative efficiency should be improved.

First steps towards fiscal retrenchment were already embodied in the revised 1987 federal budget presented in February 1987, with the deficit being contained at Sch 70 billion or 5 per cent of GDP. Government spending growth was limited to 2½ per cent in nominal terms, the lowest increase since 1959. Efforts to slim the deficit were pursued in the 1988 budget presented to Parliament in October 1987, following unusually tough intra-governmental and tripartite negotiations. The outcome was a budget proposal where expenditure restraint is to a greater extent to be exercised in the "heavy" areas of public spending: the government wage bill, subsidies to industry and agriculture, and the social security system. The budget entails cuts in federal government employment and a postponement by six months of moderate wage increases for civil servants. Moreover, the 1987 financial support package for the nationalised industries will not be renewed in 1988, but commitments already made will entail significant budgetary consequences for some years to come. As a result of these measures, the budget deficit net of redemptions is projected to be around 4½ per cent of GDP.

It is important that efforts to cut back on subsidies are sustained. In this respect it should be noted that the measures for promotion of technological progress contain new forms of subsidisation, while older more general schemes have been scaled down. Though new subsidies may be justifiable on their own account in certain instances, at least for a limited period, further proliferation of financial support schemes would hardly be in conformity with the overall objective of making the economy more competitive and efficient. Initial budgetary costs are often small, but the burden tends to increase over time and may endanger the achievement of budgetary aims. Among the major components of government spending, transfers have risen most strongly relative to GDP. The measures taken in the field of pensions hopefully represent only the first step in a broader revision of the entire transfer system. In this respect, it would also seem important that a major overhaul of federal lending and financing, including off budget, should be effected in order to get a clearer picture of possible consequences for future budgets.

Maintaining expenditure restraint over a period of several years obviously poses difficult political problems, given autonomous upward pressure on expenditure arising from demographic and other exogenous factors embedded in legislation and tradition. As much as 80 per cent of federal spending has its origin in legislation and statutory commitments. Such commitments should be made more flexible if the Government's expenditure policy is to succeed over the medium term. Otherwise, budgetary restraint would fall excessively on spending categories which are more amenable to discretionary cuts, rather than reflecting a careful weighing of political priorities within the limited overall scope for federal spending growth. In this context

it is important to realise that as long as nominal interest rates exceed nominal GDP growth, the *primary budget balance* – i.e. the balance excluding interest payments – must eventually move into surplus if the debt/GDP ratio is to be stabilised. And barring increases in the overall tax burden, the expansion of non-interest expenditure has to be kept below that of national income.

The emphasis put on spending restraint should not however distract from the need to reconsider the revenue side of the budget. Through a stepwise reform, the authorities aim at a fairer and simpler tax system. This would help to remove distortions and make decision processes more rational and increase the allocative efficiency of markets. However, the process of budget consolidation would be facilitated by strengthening the response of federal revenues to income growth. The income tax burden in Austria, despite high marginal tax rates, is low by international standards. A vast array of *de jure* and *de facto* tax exemptions for major kinds of income reduces tax revenues relative to nominal GDP. A straightforward solution would be to broaden the tax base by submitting all incomes to the same tax schedules, thereby closing loopholes and streamlining tax allowances. In view of the high household savings ratio, a removal of tax incentives to save would seem particularly desirable at the present juncture.

Given the need for financial consolidation and the outlook for sluggish economic growth, labour market imbalances are bound to grow. The traditional tools for ensuring full employment – expansionary fiscal policy and labour hoarding in the nationalised industries – can no longer be used. Hence, in order to create viable employment in the longer term, a stronger expansion of the business sector is required. For a small open economy like Austria, the two major concerns must be first to improve the cost and product competitiveness of the large internationally-exposed sector and secondly to remove supply impediments to faster growth in the private sector. Given the commitment to a firm exchange rate policy, which has played a crucial role in the achievement of economic stability, the desired relative shift of prices between goods produced in Austria and abroad can only be achieved by keeping domestic inflation lower than elsewhere. While overall nominal wage restraint is needed to ensure non-inflationary growth, greater adaptability of the structure of wages could promote shifts of labour towards sectors with the largest growth potential over the medium term. As noted in Part IV of this Survey, relative wage flexibility has decreased in recent years, with salaries in the structurally weak branches remaining among the highest in industry, thereby raising the structural component of unemployment. Given the secular trend of output and employment towards services, job creation would also be favoured through liberalisation of the regulatory framework governing large parts of this sector.

As unemployment is partly of a structural nature, measures designed to increase factor mobility, both regionally and vocationally, would be helpful in reducing existing mismatches between labour services demanded and offered. While long-term unemployment is still significantly lower than in most other European countries, specific attention should nevertheless be paid to this problem as it has become more important recently. However, within the overall fiscal objectives, increased resources for active labour market policies must be met by spending restraint in other areas. Supply-side oriented measures combined with judicious income policies can importantly assist the Government in its difficult task of consolidating the financial position of the public sector. This may, however, not suffice to prevent labour market slack from growing as long as Austria's export markets fail to grow significantly faster than foreseen at present.

Notes and references

1. The federal deficit is defined here net of redemptions, following Austrian practices.
2. It is interesting to note in this context that the discretionary fiscal stimulus imparted to the economy during the first two years of the latest recovery (1982-83) amounted to less than 1 per cent per annum as compared to 1½ per cent in 1976-77.
3. *"Government Statement delivered to the Nationalrat"*, Federal Press Service, Vienna (1987).
4. *"Agreement between the Socialist Party of Austria and the Austrian People's Party on the Formation of a Joint Federal Government for the Duration of the 17th Legislative Term of the Nationalrat"*, Federal Press Service, Vienna (1987).
5. The Government programme is of course wider in scope, encompassing virtually all aspects of social (and cultural) life, but only the elements which are of central importance for the economic performance are dealt with here.
6. Assessment of the consolidation efforts made so far should take into account the fact that the budget deficit of Sch 76.6 billion presented by the former Government did not include statutory increase in the government wage bill as of 1st January 1987 and increased support to ÖIAG and agriculture. All in all, this might have entailed a net deficit of 5.5 per cent of GDP.
7. The tax on interest income applied to income from schilling-denominated assets. It was withheld at source at a rate of 5.0 per cent (before 1st January 1985 at a rate of 7.5 per cent). The tax did not represent an advance payment of income tax, as interest income net of the interest tax remained subject to regular income tax. The double taxation implied by this arrangement was found unconstitutional and the tax therefore abolished. Revenue from the interest income tax on interest receipts which were also declared for income tax purposes have to be refunded, with refunds to be recorded in the budget as offsets against the respective income tax categories.
8. The key assumptions underlying the 1988 Budget are that real GDP would grow by 1.5 per cent and the GDP deflator by 1.9 per cent. Consumer prices are expected to increase by 2.2 per cent and unemployment to a rate of 6.1 per cent. The current external account is foreseen to be in surplus to the tune of Sch 4 billion.
9. As the rate of civil servants' contributions to their pension scheme was raised at the same time by ½ percentage point, the net cost for the budget is assumed to remain low.
10. For a detailed description of the metholology, see OECD, *Economic Outlook 41*, p.141, Paris (1987).

11. This is reflected in a rising share of public consumption in nominal GDP, while in real terms the share has remained constant.

12. The ÖIAG can offset losses of its subsidiaries against the profits of others. Since the beginning of the 1980s, mounting losses in the nationalised steel sector led to overall deficits of the holding company. Therefore, the federal Government, acting as owner, has had to provide financial assistance to the ÖIAG to meet debt service payments (ÖIAG itself raises the capital needed on the capital market and injects the funds into the loss-making companies in the form of equity or grants).

13. For a discussion of subsidies to industry see *OECD Survey of Austria*, February 1985, pp.46-47.

14. Indeed, such a need was already recognised by the preceding Government which commissioned in 1985 a comprehensive review of subsidies and transfers.

15. Except for highly inflationary periods, this would seem to have been the historical norm.

16. Traditional Austrian markets were importantly affected by sharply reduced imports of notably OPEC and Eastern bloc countries.

17. Austrian Institute of Economic Research, *Monthly Report*, 4/1987, p.87.

18. Jäger, A. and Neusser, K. *Die Moderne Aggregierte Theorie des Konsum und Sparverhaltens: Eine Empirische Studie für Österreich*, Working Paper, Institute for Advanced Studies, (February 1987), Vienna.

19. According to national definitions, relating registered unemployment to the dependent labour force, unemployment rose to 5½ per cent.

20. According to the OECD standardised unemployment measure, the rate of unemployment rose from 1.7 to 3.7 per cent between 1979 and 1987. For further details on the two measures, see *OECD Economic Survey of Austria*, Annex II, February 1983.

21. See, G. Fischer, (1987) *Arbeitsmarkt und Arbeitslosigkeit, Entwicklung und Struktur* in "Österreichs Vollbeschäftigung am Ende?" (E. Talos and M. Wiederschwinger, eds.), Vienna. According to another study the average duration of unemployment increased from 51 days in 1980 to 95 days in 1985. See, Biffl G., Guger A., and W. Pollan, (1986) *Some Reasons for Low Unemployment in Austria*, Austrian Institute of Economic Research (September).

22. See Fischer G. (1987) *op.cit.*

23. Christl, J. "Steigt die Strukturelle Arbeitslosigkeit?", *Unpublished Paper*, (October 1987) p.28. The mismatch indices have been constructed as

    $$MMI = \Sigma \mid (VAC(i)/VAC) - (UN(i)/UN) \mid ,$$

    where VAC(i) is vacancies within a branch or region, VAC is total vacancies, UN(i) is unemployment in a branch or region, and UN is total unemployment.

24. Recently enacted legislative changes have removed the possibility to claim back taxes for the majority of wage earners (Lohnsteuerausgleich) and thereby reduced disincentive effects.

25. The fact that by 1985 the wage gap had practically been eliminated – tantamount to a restoration of the non-wage share in GDP to its 1970 level – does not imply full restoration of profitability as capital productivity has declined and the share of interest income increased.

26. Austrian Institute for Economic Research, *Monthly Report*, 4/1987.

27. For a detailed account of the institutional framework for wage settlements see Annex I, and OECD Secretariat estimates of an aggregate wage equation for Austria are reported in Annex II.

28. Most of the training of young people is traditionally covered by the dual apprenticeship system.

29. Pollan W. (1977) "Der Einfluss des Konjunkturverlaufs und der Fremdarbeiterbeschäftigung auf die interindustrielle Lohnstruktur" *Monthly Report of the Austrian Institute of Economic Research*, Vol. 50 (2), February 1977, p. 63-70. and Pollan W. (1980): "Wage Rigidity and the Structure of the Austrian Industry - An Econometric Analysis of Relative Wages", *Weltwirtschaftliches Archiv*, Vol. 116 (4), 1980, pp. 697-728.

Annex I

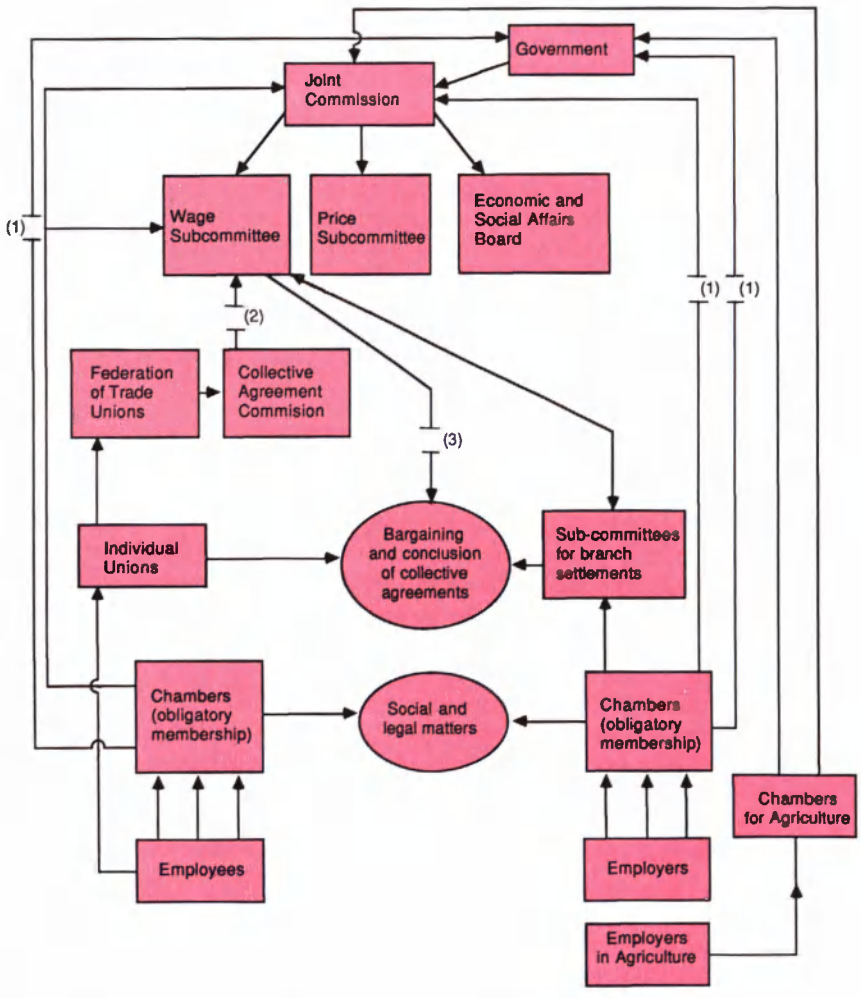
INSTITUTIONAL FEATURES OF THE LABOUR MARKET

Given the specific nature of the institutional organisation of the Austrian society, based on the long standing principles of social partnership, it is difficult to focus in isolation on the institutions most directly involved in labour markets (for a comprehensive review of the social partnership, see OECD *Economic Survey of Austria* 1982). However, it is important to remember that the social partnership is not just an approach to incomes policy, but has to be seen as a system of institutionalised cooperation between business, labour and government covering virually all aspects of economic and social policy. Nevertheless, an attempt has been made in the Diagram to capture the most essential features of the relationships between the social partners in the labour market:

- Both labour and employers operate a parallel structure of chambers and free associations. Chambers are self-governing corporate bodies with compulsory membership established by law. They have the right to present considered reports on government draft bills, they are represented in more than one hundred institutions and participate in public administration (the chambers operate the social security system and the agricultural funds and are engaged in various other administrative work). There are chambers for various professions, but only the Chamber of Commerce, the Chamber of Labour and the Chamber of Agriculture are of political importance from a macroeconomic point of view.
- Closely related to the chambers are voluntary associations, the most important of which is the Federation of Trade Unions, covering about 60 per cent of dependant employees. The free associations on the employers side and smaller chambers are excluded from the social partnership framework.
- Claims from individual unions are initially discussed within the Federation of Trade Unions in the so-called "Collective Agreement Commission". Thus, while the Committee or the Unions do not publish wage guidelines, the institutional authority of the Federation, which in its screening capacity is well placed to coordinate the timing and amounts of individual union claims, exercises self-restraint.
- Wage settlements are negotiated annually through collective agreements between the Federation of Trade Unions and a corresponding subcommittee representing the employers' chambers. The employers subcommittees also negotiate individual agreements with independent unions.

– The collective agreements are reconsidered in the Wage Committee, where all parties as well as the government are represented. While the committee cannot influence the outcome of the collective agreement as such, the duration of the agreement can be affected by the refusal to give permission to open new negotiations.

THE INSTITUTIONAL FRAMEWORK FOR WAGE BARGAINING



1. Procedures of consultation as to legislation but not in respect of wage bargaining.
2. Demand for opening new wage negotiations.
3. After authorizing the start of negotiation.

While it seems clear that such a highly institutionalised framework for wage bargaining is likely to involve a high degree of control over the outcome of the central settlements, considerable pressure for wagedrift is built into the system. With unions tending to negotiate the maximal wage increases the marginal employer can pay, this will even in a centralised system lead to wagedrift. At the level of the individual firm, it is normally accepted that supplementary terms to the central agreements are subsequently negotiated. In an attempt to regain control over earnings, some unions, in addition to minimum wage rates, also negotiate minimum increases in the amount of wagedrift.

Wage and incomes policies play a crucial role in the social partnership and are implemented to control "cost-push"-inflation. This policy framework is characterised by three features:

- It has been conceived as a long run concept;
- It has been based on voluntary co-operation between the social partners and the government;
- It does not formulate any quantitative, binding wage and price guidelines.

The formal basis is the co-operation between representatives of employers, trade unions and government in the so-called Parity Commission, where questions pertaining to wage agreements, as well as demands for price settlements by particular firms or even industries, are subject to a voluntary procedure of approval.

Wage policies as formulated by the trade unions have undergone important changes over the past two decades. During the fifties and sixties, unions followed a wage policy geared to long-run productivity growth. Such a policy would imply pressing for higher wage increases in recessions so as to strengthen purchasing power of consumers, while moderating wage claims in cyclical recoveries (the so-called countercyclical wage policy). The first apparent break with this policy line came in the aftermath of the balance-of-payments crisis in the mid-1960's and in the 1967 recession, which in the early 1970s was captured in the so-called "Benya formula": real wages should grow at only 3 per cent in the long run, providing entrepreneurs with ample profits for investment. A further shift in union wage policy took place during the 1970s, as the external constraint moved increasingly in the foreground of policy concerns. The 1975 wage explosion and the subsequent deterioration of the trade balance prompted unions to advocate a policy of wage moderation. In recent years, the need for wage moderation has been accepted by the social partners, and the terms-of-trade loss caused by the oil price rises was not offset by higher nominal agreements.

The pursuit of wage and incomes policies over such a protracted period has only been possible because flanking counter inflationary policies were put in place:

- A fairly broad surveillance of prices by the Price Committee,which has helped to ease inflationary pressures during periods of economic expansion;
- A "tax-income policy", which through pre-announced tax cuts aimed at reducing unions pre-tax claims, was operated until the 1975 wage explosion, and replaced by the hard-currency option, the cornerstone of social consensus, and continued wage restraint.

Annex II

ESTIMATION OF WAGE EQUATIONS

The Secretariat has on several occasions estimated aggregate wage equations for Austria (see Coe (1986) and J. Chan-Lee *et al.* (1987)). The empirical work presented below remains within that approach. Based on yearly national accounts data for the private sector, the following basic equation has been estimated for the period 1965 to 1986:

$$\begin{aligned} wr = & \underset{(0.86)}{-1.70} + \underset{(2.06)}{6.21 \times (1/UNR)} + \underset{(0.15)}{0.78 \times PCP(-1)} + \underset{(0.14)}{0.60 \times PDTY(-1)} \\ & + \underset{(0.12)}{0.27 \times PDTY(-2)} + \underset{(0.30)}{1.07 \times TOT(-1)} \end{aligned}$$

R**2(adj) = 0.90 Standard error = 0.92 Durbin-Watson = 2.31. Figures in parentheses are standard errors of estimates. Estimation method is OLS.

where :

wr is the yearly growth of wages in the business sector, measured as the sum of wages and salaries divided by the number of employees;

UNR is the unemployment rate as given by the Mikrozensus;

PCP is the yearly growth rate of the private consumption deflator;

PDTY is the yearly growth rate of business productivity, measured as real GDP divided by the number of employees;

TOT is the yearly change in terms of trade defined as the difference between the deflator for the gross domestic product and the deflator for private consumption.

The non-linear specification is preferred as it has slightly more robust statistical properties. The implication of this formulation is, however, unpleasant: as unemployment increases, the gains in terms of reduced inflation diminish. This feature of the wage formation process may be seen as consistent with the so-called "insider/outsider" hypothesis, according to which those who remain unemployed lose over time the possibility of influencing union behaviour. However, the validity of the interpretation seems doubtful – at least *prima facie* – in view of the high degree of centralisation of wage negotiations and the widespread involvement through the social partnership of unions in important macroeconomic decisions.

A specification of the wage equation with an error-correction term (not reported here) suggests that trade unions base their real wage guidelines on rather conservative estimates of

productivity growth, but demand compensation for adverse shifts in the distribution of factor incomes.

Constraining the effect of prices on wages to 1, as theory would suggest, does not yield a significantly different estimation result:

$$wr = \underset{(0.75)}{-2.35} + \underset{(1.75)}{4.58\times(1/UNR)} + \underset{(0.14)}{0.67\times PDTY(-1)} + \underset{(0.12)}{0.25\times PDTY(-2)} + \underset{(0.27)}{1.29\times TOT}$$

R**2(adj) = 0.90 Standard error = 0.94 Durbin-Watson = 2.31

The main results which emerge from the econometric study of the aggregate wage equation may be summarised as follows:

- Wages are highly responsive to changes in unemployment – whether the aggregate wage equation is estimated in a linear or non-linear form – suggesting that unions are anxious not to "price themselves out of the market".
- There is little (or no) inertia in money wages with respect to domestic inflation, i.e. trade unions have apparently little (or no) money-wage illusion. This, however, only holds for domestic inflation. A change in the gap between producer price inflation (approximated by the rise in the GDP deflator) and consumer price increases is fully reflected in the growth of wages, suggesting that considerations of international competitiveness play an important role in wage bargaining. In addition, a highly significant productivity term further adds to the real wage flexibility embedded in the aggregate wage equation.

Annex Table. **Real and nominal wage rigidity**[1]

	Unemployment rate used in calculation of (3)	Price elasticity	Semi-elasticity with respect to unemployment at (1)	Elasticity with respect to productivity	Real wage rigidity[2]
	(1)	(2)	(3)	(4)	(2) / (3) + (4)
Austria	3	0.79	0.83	0.87	0.5
Denmark	8	1.01	0.28	0.46	1.4
Finland	any	1.00	0.49	0.91	0.7
Germany	8	0.99	0.05	0.65	1.4
Japan	3	1.04	0.76	0.64	0.7
United States	any	1.00	0.60	0.27	1.1
Netherlands	13	1.10	0.12	–	9.2
France	any	1.09	0.33	–	3.3

1. Given the non-linear specification, the semi-elasticity has been evaluated at the mean unemployment rate for the estimation period.
2. The estimates of real wage rigidity, are based on long-term elasticities. For countries where a productivity term enters the wage equation, an Okun coefficient of 2 has been assumed in calculating the real wage rigidity.

Sources: OECD Secretariat estimates. Wage equations for the other countries are taken from Chan-Lee *et al.*: "Microeconomic Changes and Macroeconomic Wage Disinflation in the 1980s", *OECD Economic Studies, 8* and OECD *Economic Survey of Denmark*, July 1987, Annex III, Table 3.

Thus, wage formation in Austria exhibits an impressive amount of real wage flexibility, reflecting labour's willingness to quickly accept reductions in the real consumption wage due to external price shocks and to lower productivity gains. The semi-elasticity of nominal wages with respect to unemployment, evaluated at the average rate of unemployment for the estimation period, puts Austria once more at the top league of the OECD countries (Annex Table).

Annex III

CALENDAR OF ECONOMIC EVENTS

1986

January

Civil servants' contributions to the pension fund are increased by ½ a percentage point to 8½ per cent.

The tax-free allowances for investors in participation funds are reduced to 75 per cent of the price of the participation certificates.

The tax advantages accruing to participation funds are to apply to new share issues, i.e. full offsetting against tax of the purchase of new issues in industrial companies up to a limit of Sch 40 000 (inclusive of any participation certificates).

The capital market committee (Kapitalmarktauschuss) recommends the raising of bond rates by ¼ of a percentage point to 7¾ per cent.

March

Banks raise interest rates by ¼ of a percentage point, to 9¼ per cent for the prime rate.

May

The Minister of Finance announced that the tax on interest income is to be abolished as of 1st July.

June

Banks lower the maximum rate on savings deposits by ¼ of a percentage point to 5¾ per cent. Interest rates on both deposits and credits to be lowered by ¼ of a percentage point as of 1st July.

October

Revision of the Budget with an increase in the budget deficit of Sch 2.8 billion as expenditure and revenue are to be respectively Sch 6.1 billion and Sch 3.3 billion higher than projected. An increase of main personal tax allowances for income tax relief to be raised.

Draft Federal Budget for 1987 to Parliament. Given the elections, it will not be voted before 1st January 1987 and for a maximum period of 4 months it will be considered as provisional.

November

The Austrian National Bank releases and simplifies a number of foreign exchange regulations.

1987

January

New Banking Law takes effect. Main points were:

i) Rise in the capital ratio of banks to 4½ per cent of the *total* of all assets in the balance sheet

ii) New regulations to encourage risk capital.

The Austrian National Bank lowers its discount rate by ½ of a percentage point to 3½ per cent, following a similar move by the German Bundesbank.

The interest rate on short-term open-market operations of the Austrian National Bank is put at 4½ per cent.

February

Banks lower the interest rates on savings deposits by ¼ to ½ of a percentage point to 3¼ per cent for the minimum rate on savings deposits and to 8¾ per cent for the prime rate.

Publication of expenditure plans for 1987 to be effective as of 1st April. The main point is that increases in VAT for a number of goods are dropped.

March

The voted federal Budget for 1987 projects a net deficit of Sch 74.7 billion (5 per cent of GDP).

June

The ceiling of full offsetting against tax of the purchase of new issues lowered to Sch 30 000 and to Sch 22 500 for participation certificates.

July

Banks lower the minimum interest rate on savings deposit by ⅝ of a percentage point to 2⅞ per cent.

The tax on land acquisition lowered from 8 per cent to 3.5 per cent.

October

Draft Federal Budget for 1988 to Parliament. The budget deficit is projected at around Sch 70 billion, or 4½ per cent of GDP. Total revenues are expected to increase by 7½ per cent and expenditures by 5 per cent.

STATISTICAL ANNEX

Table A. **Gross domestic product**
Sch. billion

	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
	Current prices					1976 prices				
Expenditure:										
Private consumption	640.2	694.8	733.0	774.9	801.8	460.1	484.5	483.0	493.5	501.0
Public consumption	214.3	226.9	237.8	255.0	272.5	151.8	155.2	156.1	159.7	163.2
Gross domestic fixed capital formation	261.3	267.7	280.9	302.2	321.5	186.4	184.3	188.7	198.5	206.2
Construction[1]	151.1	156.7	161.6	154.1	164.6	100.9	101.1	101.8	103.0	107.1
Machinery and equipment[1]	110.2	110.9	119.3	148.1	156.9	85.5	83.3	87.0	95.6	99.1
Change of stocks, incl. statistical errors	–1.0	–3.9	25.1	19.6	24.1	3.2	1.7	18.4	18.1	28.0
Exports of goods and services	431.2	449.7	497.6	549.1	527.2	324.8	335.6	357.8	382.3	373.5
less: Imports of goods and services	412.4	433.9	495.7	546.8	514.6	298.4	315.4	346.6	370.6	375.6
Gross domestic product at market prices	1 133.5	1 201.2	1 278.7	1 354.1	1 432.5	827.9	845.9	857.4	881.6	896.4
Origin by sector:										
Agriculture, forestry and fishing	43.7	44.1	48.7	44.8	47.0	43.4	41.6	42.9	40.8	41.5
Manufacturing and mining	313.5	328.1	346.8	373.6	394.8	247.9	251.7	258.1	270.3	274.8
Construction	85.1	87.4	86.9	88.5	94.8	55.2	54.5	53.3	53.6	55.5
Other	691.2	741.6	796.3	847.2	895.9	481.4	498.1	503.1	516.9	524.6
	Current prices					Current prices percentage distribution				
Distribution of the national income:										
Compensation of employees	616.9	642.4	676.3	716.9	759.8	73.7	72.9	72.6	72.2	72.1
Income from property and entrepreneurship										
Savings of corporations	246.6	267.3	289.5	311.8	336.0	29.5	30.3	31.1	31.4	31.9
Direct taxes on corporations										
Government income from property and entrepreneurship	22.7	22.4	23.0	26.2	26.6	2.7	2.5	2.5	2.6	2.5
less: Interest on public debt and consumer debt	49.1	50.6	57.0	62.1	68.0	5.9	5.7	6.1	6.3	6.4
National income	837.1	881.5	931.8	992.8	1 054.4	100.0	100.0	100.0	100.0	100.0

1. Excluding VAT.
Source: Österreichisches Institut für Wirtschaftsforschung.

Table B. **General government income and expenditure**

Sch. billion

	1979	1980	1981	1982	1983	1984	1985	1986
Operating surplus and property income receivable	13.2	18.5	22.4	22.7	22.4	23.1	25.1	24.5
Casualty insurance claims receivable	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Indirect taxes	139.3	162.8	174.4	185.0	197.1	216.1	226.1	235.2
Direct taxes	118.0	128.4	144.2	149.5	156.6	173.8	193.5	205.6
Compulsory fees, fines, and penalties	2.7	2.9	3.4	3.4	3.7	4.1	4.1	4.3
Social security contributions	112.1	124.6	133.4	139.8	145.5	155.5	167.1	178.0
Unfunded employee welfare contributions imputed	22.3	23.7	25.9	28.8	30.0	32.8	35.0	37.3
Current transfers n.e.c. received from the rest of the world	0.6	0.6	0.5	0.6	0.6	0.6	0.7	0.7
Current receipts	420.4	461.6	504.4	529.9	557.1	606.1	651.9	685.8
Final consumption expenditure	166.0	178.7	195.2	214.3	227.5	239.2	255.7	271.0
Property income payable	21.3	24.7	29.3	35.2	36.6	43.1	47.4	52.5
Net casualty insurance premiums payable	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Subsidies	26.9	30.0	32.1	34.3	37.6	38.1	37.2	43.0
Social security benefits and social assistance grants	86.7	94.5	103.4	112.6	121.5	130.8	139.9	149.7
Current transfers to private non-profit institutions serving households	54.5	56.2	60.1	67.0	71.0	73.4	78.3	81.5
Unfunded employee welfare benefits	36.0	38.6	42.3	46.1	49.2	52.3	55.9	59.0
Current transfers n.e.c. paid to the rest of the world	2.4	2.5	2.7	3.0	3.2	3.5	3.7	3.8
Current disbursements	393.9	425.5	465.2	512.7	546.7	580.4	618.3	660.8
Saving	26.5	36.2	39.1	17.1	10.3	25.7	33.6	25.0
Consumption of fixed capital	6.8	7.5	8.4	9.1	9.6	10.1	10.7	11.3
Capital transfers received, net, from:	–11.8	–16.5	–20.3	–20.0	–24.9	–25.2	–26.2	–27.0
Other resident sectors	–11.7	–16.4	–20.2	–19.9	–24.8	–25.2	–26.2	–27.0
Rest of the world	–0.1	–0.1	–0.1	–0.1	–0.1	–0.0	–0.0	–0.0
Finance of gross accumulation	21.4	27.2	27.2	6.3	–4.9	10.6	18.0	9.3
Gross capital formation	40.2	41.6	43.8	42.9	44.3	45.4	46.9	47.3
Purchases of land, net	3.1	2.6	1.9	1.8	1.7	1.7	1.5	1.3
Net lending	–22.0	–17.0	–18.6	–38.5	–50.8	–36.5	–30.4	–29.3

Source: Bundesministerium für Finanzen.

Table C. **Output, employment, wages and productivity in industry**

	1983	1984	1985	1986	1986 Q1	1986 Q2	1986 Q3	1986 Q4	1987 Q1	1987 Q2	1987 Q3
Output in industry, adjusted for working days (1981 = 100):											
Total industry	100.4	105.4	110.3	111.6	110.0	115.3	104.2	116.9	105.3	116.0	..
Mining and quarrying	96.8	102.9	101.9	98.7	101.8	97.2	95.3	100.5	102.0	107.5	..
Investment goods	101.1	107.4	115.7	118.2	111.6	121.5	111.0	128.7	102.1	120.9	..
Intermediate goods	101.3	114.3	120.8	118.5	126.4	124.0	107.5	116.1	117.4	130.0	..
Finished goods	102.1	104.5	116.5	121.9	112.7	119.8	111.3	143.8	100.4	113.8	..
Consumer goods	100.9	106.0	108.1	110.6	112.9	112.7	101.2	115.6	104.9	111.4	..
Food, drinks, tobacco	103.1	104.0	107.8	109.6	118.2	105.6	101.4	113.2	98.6	105.5	..
Durable goods	102.3	103.8	108.2	112.6	108.4	116.1	102.0	123.9	97.2	109.1	..
Employment:											
Not seasonally adjusted ('000)[1]	565	561	562	559	557	558	563	557	545	543	..
Wages and productivity:											
Gross hourly earnings for wage earners (schillings)	87	90	95	99	87	106	91	113	91	111	..
Gross monthly earnings, employees (schillings)	17 740	18 626	19 755	20 713	17 931	22 077	19 128	23 717	18 548	22 839	..
Output per hour (1970 = 100)	198.6	208.2	217.6	226.7	215.8	224.5	229.2	237.3	216.7	238.1	..
Wages and salaries per unit of output (1970 = 100)	204.9	203.5	206.7	212.7	192.0	225.1	201.9	231.8	200.9	228.2	..

1. Including administrative personnel.

Sources: Österreichisches Institut für Wirtschaftsforschung and Österreichisches Statistiches Zentralamt.

Table D. **Retail sales and prices**
(1980 = 100)

	1983	1984	1985	1986	1985 Q4	1986 Q1	1986 Q2	1986 Q3	1986 Q4	1987 Q1	1987 Q2	1987 Q3
Retail sales												
Total	120.8	121.8	127.5	128.5	147.0	115.7	125.9	124.9	147.2	114.1	129.0	..
of which: Durables	123.4	114.3	126.2	136.4	140.3	115.0	138.5	136.4	155.7	113.9	146.2	..
Prices												
Consumer prices												
Total	116.3	122.9	126.9	129.0	127.5	129.0	128.7	129.2	129.2	129.4	130.5	132.2
Food	113.4	119.8	122.5	125.5	122.6	125.1	125.4	126.0	125.4	125.9	127.0	126.6
Rent	127.0	136.0	143.2	147.7	144.6	145.9	146.8	148.5	149.7	150.5	151.1	152.7
Other goods and services	116.6	123.0	127.2	128.7	128.0	129.1	128.3	128.7	128.9	128.9	130.0	132.6
Wholesale prices												
Total	112.2	116.4	119.4	113.1	116.7	116.9	114.4	111.5	109.7	111.2	112.1	109.8
Agricultural goods	108.5	112.9	115.2	104.7	103.4	110.9	110.1	102.9	95.1	109.5	119.9	102.7
Food	111.1	117.3	121.3	121.5	122.2	122.1	122.1	121.6	120.2	119.3	118.0	117.8
Cost of construction (residential)	119.3	123.6	125.8	127.9	126.1	126.1	127.3	128.6	129.8	131.0	132.3	133.5

Source: Österreichisches Institut für Wirtschaftsforschung.

Table E. **Money and banking**[1]

End of period

	1985	1986	1985 Q4	1986 Q1	1986 Q2	1986 Q3	1986 Q4	1987 Q1	1987 Q2	1987 Q3
Interest rates (per cent):										
Discount rate	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.50	3.50	3.50
Average bond yield[2]	7.48	7.31	7.48	7.45	7.05	6.93	7.31	6.70	..	..
Money circulation and external reserves (Sch. bill.):										
Notes and coins in circulation	113.9	118.0	113.9	111.5	115.4	115.8	118.0	113.3	119.7	121.0
Sight liabilities of the Central Bank	46.6	53.0	46.6	42.9	47.8	44.6	53.0	43.2	46.5	46.8
Gross external reserves of the Central Bank	110.5	115.0	110.5	105.9	113.3	105.6	115.0	112.5	114.3	113.5
of which: Gold	39.4	39.5	39.4	39.4	39.4	39.4	39.5	39.5	39.5	39.5
Credit institutions (Sch. bill.):										
Credits to domestic non-banks	1 211.7	1 333.6	1 211.7	1 216.5	1 247.1	1 270.6	1 333.6	1 325.1	1 245.6	1 396.3
Deposits from domestic non-banks	1 058.2	1 170.7	1 058.2	1 078.2	1 085.1	1 104.7	1 170.7	1 174.4	1 212.6	1 220.3
Sight	107.5	113.5	107.5	97.8	107.8	109.0	113.5	108.0	122.9	125.5
Time[3]	124.1	162.8	124.1	145.4	136.2	147.7	162.8	159.3	175.8	176.3
Savings	826.6	894.4	826.6	835.0	841.1	848.0	894.4	907.2	913.9	918.5
Holdings of domestic Treasury bills	41.0	41.0	41.0	40.7	41.9	40.1	41.0	42.0	47.0	48.1
Holdings of other domestic securities	233.0	249.9	233.0	226.1	234.8	238.1	249.9	257.8	268.3	271.6
Foreign assets	695.9	737.6	695.9	713.0	717.8	722.2	737.6	736.6	760.9	792.9
Foreign liabilities	724.6	772.4	724.6	724.7	742.0	743.8	772.4	753.0	791.6	824.8

1. Totals may not add due to rounding.
2. Average effective yields on circulating issues.
3. Including funded borrowing of banks.

Sources: Österreichische Nationalbank; Österreichische Länderbank.

Table F. **The Federal budget**

National accounts basis
Sch. billion

	Outturn					
	1981	1982	1983	1984	1985	1986
1. Current revenue	248.6	260.5	278.0	306.1	329.4	343.6
Direct taxes of households	70.6	74.7	79.8	92.1	101.9	108.3
Indirect taxes	123.2	130.5	139.7	151.5	157.9	163.6
Corporate taxes	16.2	14.8	15.8	17.5	20.4	21.0
Income from property and entrepreneurship	15.8	15.9	16.0	16.7	18.7	18.2
Current transfers from abroad	0.3	0.3	0.3	0.3	0.4	0.5
Other	22.7	24.4	26.4	28.0	30.2	32.0
2. Current expenditure	242.3	275.4	303.2	319.2	339.4	361.1
Goods and services	70.0	78.8	85.0	89.0	95.3	101.0
Subsidies	22.9	26.1	29.5	29.9	28.8	32.9
Public debt	20.6	25.3	27.0	33.8	38.4	40.6
Transfers to abroad	0.8	0.9	0.9	1.0	1.0	1.0
Transfers to public authorities	54.2	62.8	74.7	76.8	81.4	86.0
Transfers to private households	47.4	52.8	55.7	56.6	60.2	62.8
Other	26.4	28.6	30.4	32.2	34.4	36.8
3. Net public savings (1 – 2)	6.3	–14.9	–25.2	–13.1	–10.0	–17.5
4. Depreciation	1.9	2.1	2.2	2.3	2.4	2.6
5. Gross savings (3 + 4)	8.2	–12.8	–23.0	–10.8	–7.6	–14.9
6. Gross asset formation	14.9	14.1	17.0	18.0	17.9	17.3
7. Balance of income effective transactions (5 – 6)	–6.7	–26.9	–40.0	–28.8	–25.5	–32.2
8. Capital transfers (net)	16.6	16.4	21.9	21.7	23.4	25.5
9. Financial balance (7 – 8)	–23.3	–43.3	–61.9	–50.5	–48.9	–57.7

Sources: Österreichisches Statistisches Zentralamt; Ministry of Finance; Österreichisches Institut für Wirtschaftsforschung.

Table G. **Balance of payments**

Sch. million

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Trade balance[1]	–30 629	–52 516	–71 296	–50 675	–58 658	–87 483	–77 130	–62 613	–70 753	–76 784	–67 669	–62 231
Exports	145 576	168 890	180 634	194 073	227 474	247 787	284 659	298 930	333 485	324 606	366 544	342 659
Imports	176 205	221 406	251 930	244 748	286 132	335 270	361 789	361 543	404 238	401 390	434 213	404 890
Services, net	27 620	28 053	24 414	30 466	34 855	42 159	41 393	46 158	40 434	48 430	49 085	42 007
Foreign travel, net	29 528	29 209	27 254	32 931	35 374	42 939	46 398	49 234	42 334	48 529	48 853	44 884
Receipts	48 450	56 437	61 958	68 551	75 010	83 363	90 952	95 031	94 386	101 026	105 186	106 195
Expenditure	18 922	27 228	34 704	35 620	39 636	40 424	44 554	45 797	52 052	52 497	56 333	61 311
Investment income, net	–2 390	–3 847	–5 572	–7 071	–6 442	–6 838	–7 442	–6 962	–6 696	–7 029	–5 334	–10 103
Other services, net	482	2 691	2 732	4 606	5 923	6 058	2 437	3 886	4 796	–7 128	5 566	7 226
Unclassified goods and services	2 264	7 472	13 921	11 129	9 319	25 093	15 692	29 877	35 777	25 626	18 045	24 631
Transfers, net	–2 601	–1 910	–2 322	–130	387	–1 144	–1 363	–1 238	–1 456	–1 206	–1 947	–657
Public	–39	–194	–285	–160	–312	–399	–471	–608	–792	–766	–799	–690
Private	–2 562	–1 716	–2 037	30	699	–745	–892	–630	–664	–440	–1 148	33
Current balance	–3 346	–18 901	–35 283	–9 210	–14 097	–21 375	–21 408	12 184	4 002	–3 934	–2 486	3 750
Long-term capital, net	18 214	–1 261	9 828	20 430	–7 172	7 084	15 040	–9 864	–24 054	–7 097	–3 653	9 927
Official[2]	15 985	3 245	12 048	12 221	2 170	5 938	12 281	14 176	6 428	1 499	8 612	14 736
Private	2 228	–4 506	–2 220	8 209	–9 342	1 145	2 759	–24 040	–30 482	–8 596	–12 265	–3 792
Basic balance	14 868	–20 162	–25 455	11 220	–21 269	–14 291	–6 368	2 320	–20 052	–11 031	–6 139	13 677
Non-monetary short-term capital	9	–737	5 672	–371	–4 013	–5 210	2 004	–6 261	2 651	–4 199	2 166	–3 070
Errors and omissions	2 977	2 587	1 147	3 084	1 013	2 865	4 508	10 623	–6 974	–2 080	11 626	–11 944
Balance on non-monetary transactions	17 854	–18 312	–18 636	13 933	–24 269	–16 636	144	6 682	–29 677	–17 310	7 653	–1 337
Private monetary institutions' short-term capital	2 592	14 997	11 628	3 227	7 256	38 313	7 984	–2 939	21 832	18 938	–8 854	9 788
Balance on official settlements excluding allocation of SDRs, monetization of gold and revaluation of reserve currencies	20 446	–3 315	–7 008	17 160	–17 013	21 677	8 128	3 743	–7 845	1 628	–1 201	8 451

Memorandum items:												
Changes in reserves arising from allocation of SDRs, monetization of gold and revaluation of reserve currencies	2 213	–3 554	–2 160	9 278	7 935	4 413	3 974	803	6 519	4 706	–9 601	–6 960
Allocation of SDRs	0	0	0	0	598	560	597	0	0	0	0	0
Changes in total reserves	22 659	–6 869	–9 168	26 438	–9 078	26 090	12 102	4 546	–1 326	6 334	–10 802	1 491
Exchange rate (Sch. per dollar)	17.42	17.94	16.53	14.52	13.37	12.94	15.92	17.06	17.97	20.01	20.69	15.27

1. Including non monetary gold and adjustments to trade according to foreign trade statistics.
2. Including Central Bank.

Source: Österreichische Nationalbank.

Table H. **Merchandise trade by commodity group and area**

Sch. billion

	Imports					Exports				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
Total	332.6	348.3	392.1	431.0	408.0	266.9	277.1	314.5	354.0	342.5
By commodity group:										
Food, drink, tobacco	20.8	21.4	23.2	25.2	24.6	12.1	12.3	14.2	14.7	13.0
Raw materials	21.7	21.0	26.0	27.1	22.3	17.4	18.2	20.0	19.3	18.1
Mineral fuels, energy	53.7	48.1	59.2	64.1	35.4	4.1	3.9	4.8	7.3	4.3
Chemicals	33.1	35.0	39.3	43.0	41.1	21.4	25.9	30.6	32.3	29.6
Machinery and transport equipment	92.4	103.6	110.0	128.6	137.9	78.7	83.6	94.2	110.8	113.7
Other	110.9	119.2	134.4	143.0	146.7	130.5	133.2	150.7	169.8	163.8
By area:										
OECD countries	255.3	284.1	300.7	334.6	338.7	189.3	198.6	229.0	262.9	269.8
EEC countries[1]	203.4	218.4	236.9	263.1	272.9	141.6	148.8	167.7	192.0	205.8
Germany	134.9	144.6	156.5	176.4	179.5	78.3	85.3	93.1	106.6	112.1
Italy	28.7	30.9	33.8	35.5	36.5	24.2	24.6	29.5	31.8	31.7
France	12.9	14.3	14.5	15.6	15.9	11.3	10.4	12.2	14.0	14.7
UK	7.3	7.5	8.4	9.8	9.4	11.5	11.3	13.8	16.3	15.3
EFTA countries[2]	25.5	27.2	31.1	34.4	31.3	31.2	29.8	33.9	38.1	40.3
Switzerland	5.8	6.1	7.2	7.8	7.1	6.1	5.2	5.9	6.6	6.8
USA	12.5	11.7	13.7	16.0	13.1	7.8	8.2	12.9	16.5	13.8
Other OECD countries	13.9	26.8	19.0	37.1	21.4	8.7	11.8	14.5	16.3	9.9
Non-OECD countries										
COMECOM Europe[3]	37.0	36.1	45.5	46.0	33.9	29.7	33.5	38.1	39.2	32.9
Africa	12.1	11.7	16.6	18.9	11.1	13.9	11.4	12.3	13.2	8.6
Latin America	6.7	8.0	8.1	9.8	7.3	3.4	2.9	3.4	3.8	3.6
OPEC	17.7	13.3	18.6	19.9	9.3	20.4	20.4	20.2	21.4	13.1
Far and Middle East	17.9	13.9	16.1	16.8	12.6	22.6	23.1	23.3	25.5	19.3
Index, in real terms (1980 = 100)	95	101	109	116	120	106	111	122	134	134
Index of average value (1980 = 100)	111	109	114	119	107	111	111	114	116	112

1. From 1986, including Spain and Portugal.
2. Including Finland.
3. Excluding Yugoslavia.

Source: Österreichisches Institut für Wirtschaftsforschung.

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BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period[1]	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
Population																											
Total	Thousands	1985	15 752	7 555	9 857	25 379	5 113	4 901	55 162	61 015	9 950	243	3 562	57 128	120 754	366	14 484	3 279	4 148	10 230	38 602	8 350	6 530	49 870	56 618	239 283	23 120
Inhabitants per sq.km	Number		2	90	323	3	119	14	101	245	75	2	51	190	324	141	427	12	13	111	76	19	158	64	231	26	89
Net average annual increase over previous 10 years	%		1.3	0.0	0.1	1.1	0.1	0.4	0.5	–0.1	1.0	1.1	1.2	0.3	0.8	0.1	0.6	0.6	0.3	0.6	0.8	0.2	0.2	2.1	0.1	1.0	0.8
Employment																											
Total civilian employment (TCE)[2]	Thousands	1985	6 676	3 235	35 607	11 311	2 522	2 427	20 916	25 011	3 588	114 (84)	1 056 (84)	20 509	58 070	160	5 083	1 329	2 012	4 029	10 623	4 299	3 171	15 213	24 089	107 150	..
of which: Agriculture	% of TCE		6.2	9.0	2.9	5.2	6.7	11.5	7.6	5.5	28.9	10.6	16.0	11.2	8.8	4.2	4.9	11.1	7.2	23.2	17.6	4.8	6.6	57.3	2.6	3.1	..
Industry	% of TCE		27.7	38.1	29.7	25.5	28.1	31.9	32.0	41.0	27.3	36.8	28.9	33.6	34.9	33.4	28.1	32.4	27.8	35.3	31.8	29.9	37.7	17.6	32.4	28.0	..
Services	% of TCE		66.1	52.9	67.4	69.3	65.2	56.6	60.4	53.5	43.8	52.6	55.1	55.2	56.3	62.4	67.0	56.5	65.0	41.5	50.6	65.3	55.7	25.1	65.0	68.9	..
Gross domestic product (GDP)																											
At current prices and current exchange rates	Billion US$	1985	155.1	66.1	79.1	346.0	57.9	54.0	510.3	625.0	32.8	2.7	18.2	358.7	1 327.9	3.6	125.0	21.9	57.9	20.7	164.2	100.2	92.7	52.7	449.7	3 946.6	43.5 (84)
Per capita	US$		9 847	8 743	8 022	13 635	11 319	11 024	9 251	10 243	3 294	10 958	5 123	6 278	10 977	9 745	8 628	6 722	13 960	2 032	4 255	12 006	14 195	1 057	7 943	16 494	1 896 (84)
At current prices using current PPP's[3]	Billion US$	1984	..	85.7	119.7	382.2	68.0	59.6	694.7	811.6	62.3	..	27.6	575.1	1 468.4	5.3	168.9	..	63.6	50.9	317.8	..	..	..	625.2	3 634.6	..
Per capita	US$		..	11 345	12 150	15 198	13 311	12 217	12 643	13 265	6 296	..	7 795	10 093	12 235	14 385	11 710	..	15 367	5 021	8 279	..	..	..	11 068	15 356	..
Average annual volume growth over previous 5 years	%	1985	3.0	1.6	0.6	2.6	2.3	2.6	1.1	1.3	1.0	0.7	1.8	0.9	3.9	2.4	0.7	3.3	3.1	1.0	1.4	1.8	1.3	4.9	1.9	2.4	..
Gross fixed capital formation (GFCF)	% of GDP	1985	24.4	22.3	15.9	19.6	18.5	23.4	18.9	19.5	19.0	21.5	20.9	18.2	27.5	20.2	18.6	25.4	21.7	21.8	19.1	19.1	23.8	19.8	17.2	18.6	21.9 (4)
of which: Machinery and equipment	% of GDP		10.4 (84)	9.6	5.3 (84)	6.6	8.6	8.8	9.4	8.4	7.9	5.8 (84)	11.0 (84)	7.9	10.1 (84)	8.9 (82)	8.1 (84)	12.3 (84)	6.3	13.7 (81)	6.1 (83)	9.1	8.0	9.1 (82)	8.1 (84)	8.4	..
Residential construction	% of GDP		5.4 (84)	4.6	3.2	5.4	4.3	6.2	4.7	5.5	4.0	4.8	5.6 (83)	4.7	5.0 (84)	4.7 (82)	5.0 (84)	4.3 (84)	4.1	7.1 (81)	5.2 (82)	4.1	15.8[9]	2.6 (82)	3.7 (84)	4.8	..
Average annual volume growth over previous 5 years	%	1984	1.9	–0.5	–4.0	0.9	2.1	2.6	–0.1	–1.3	–2.8	–1.0	–1.9	0.3	2.7	–2.8	–1.0	6.6	–1.2	–4.5	–1.4	1.2	2.7	4.9	2.1	5.0	..
Gross saving ratio[4]	% of GDP	1985	20.1	24.4	15.9	19.0	14.9	23.7	18.0	22.2	12.2	16.3	18.1	17.7	31.4	65.3	24.1	20.9	30.0	23.1	21.0	17.8	30.0	18.7	19.2	16.5	..
General government																											
Current expenditure on goods and services	% of GDP	1985	16.7	18.7	17.3	20.1	25.3	20.2	16.3	19.9	19.9	18.0	19.1	19.5	9.8	15.6	16.3	16.4	18.6	14.2	14.0	27.4	13.2	8.5	21.1	18.3	14.0 (84)
Current disbursements[5]	% of GDP	1985	33.4 (84)	44.9 (84)	52.3	43.3 (84)	56.7	37.6	49.4	43.4	43.2	26.4 (84)	51.5 (83)	51.9	27.1 (84)	47.8 (82)	55.9 (84)	..	44.0	37.5 (81)	32.3 (82)	59.6	30.9	..	44.8 (84)	35.3	..
Current receipts	% of GDP	1985	34.1 (84)	47.0 (84)	46.5	39.9 (84)	57.0	40.6	48.5	45.4	34.6	34.8 (84)	43.6 (83)	44.1	30.3 (84)	53.0 (82)	54.3 (84)	..	56.1	33.2 (81)	31.2 (82)	59.8	34.4	..	42.8 (84)	31.1	..
Net official development assistance	% of GNP	1984	0.46	0.28	0.56	0.50	0.85	0.36	0.77	0.45	..	..	..	0.33	0.35	..	1.02	0.25	1.02	..	..	0.80	0.30	..	0.33	0.24	..
Indicators of living standards																											
Private consumption per capita using current PPP's[3]	US$	1984	6 742 *	6 490	7 637	8 484	6 826	6 287	8 009	7 274	4 118	6 335 *	4 338	6 254	6 751	8 540	7 270	4 041 *	6 624	3 076	5 456	5 821 *	8 755 *	759 *	6 535	10 214	966 *
Passenger cars, per 1 000 inhabitants	Number	1985	..	306 (81)	335 (84)	421 (82)	293	316	360 (83)	424	108 (83)	431	206 (83)	355 (84)	221 (83)	414	341	455	367	135 (82)	240	377	402	18 (82)	312 (83)	473 (84)	121 (83)
Telephones, per 1 000 inhabitants	Number	1985	540 (83)	460 (83)	414 (83)	664 (83)	783	615	541 (83)	621	336 (83)	525 (83)	235 (83)	448 (84)	535 (83)	404 (84)	410 (86)	646	622 (84)	166 (83)	369	890 (83)	1 299	55 (83)	521 (84)	650 (84)	122 (83)
Television sets, per 1 000 inhabitants	Number	1985	..	300 (81)	303 (84)	471 (80)	392	380	297 (80)	372	158 (80)	303	181 (80)	244 (84)	250 (80)	336 (83)	317 (86)	291	330	140 (80)	256 (82)	390	329	76 (79)	336 (84)	621 (80)	175 (83)
Doctors, per 1 000 inhabitants	Number	1985	..	1.7 (82)	2.8 (84)	1.8 (82)	2.5 (84)	2.1	2.1 (82)	2.5 (84)	2.8 (83)	2.4 (84)	1.3 (82)	3.6 (82)	1.3 (82)	1.7 (84)	2.2 (84)	2.4	2.2	1.8 (82)	3.3	2.5	1.4 (84)	1.5 (83)	0.5 (83)	2.3 (83)	1.6 (82)
Infant mortality per 1 000 live births	Number	1985	9.2 (84)	11.0	9.4	9.1 (83)	7.9	6.3	6.9	9.1	14.1	5.7	8.9	10.9	5.9 (84)	9.0	9.6 (86)	10.8	8.4	17.8	7.0 (84)	6.8	6.9	..	9.4	10.6 (84)	31.7 (83)
Wages and prices (average annual increase over previous 5 years)																											
Wages (earnings or rates according to availability)	%	1986	7.7	5.0	4.4	5.5	6.2	10.2 (85)	8.7	3.7	25.1 (85)	..	12.0 (85)	12.6	3.9	..	3.3	10.3 (85)	9.2 (85)	19.2 (85)	15.0 (85)	8.0	..	..	9.1	4.0	..
Consumer prices	%	1986	8.2	3.8	5.7	5.8	6.3	6.9	7.4	2.6	20.4	42.4	9.0	11.3	1.8	5.3	2.9	11.6	7.8	21.5	11.1	7.4	3.1	37.2	5.5	3.8	56.3
Foreign trade																											
Exports of goods, fob*	Million US$	1986	22 536	22 428	68 652[7]	86 664	21 216	16 296	119 268	242 400	5 640	1 092	12 636	97 476	210 804	..[8]	80 580	5 837	18 240	7 188	27 132	37 200	37 248	7 908 (85)	107 016	217 308	7 188
as % of GDP	%		14.5	33.9	86.8	25.0	36.6	30.2	23.4	38.8	17.2	40.4	69.4	27.2	15.9	..	64.5	26.7	31.5	34.7	16.5	37.1	40.2	15.0	23.8	5.5	16.5
average annual increase over previous 5 years	%		0.7	7.3	4.4	4.2	5.8	3.1	3.3	6.7	5.6	3.9	10.0	5.2	6.8	..	3.3	0.7	0.3	11.7	5.8	5.4	6.7	23.5	0.7	–1.4	–3.1
Imports of goods, cif*	Million US$	1986	23 916	26 724	68 544[7]	81 312	22 824	15 300	128 760	189 684	11 340	1 116	11 616	99 972	127 668	..	75 420	6 156	20 292	9 444	34 920	32 484	40 860	11 328 (85)	126 156	369 960	8 196
as % of GDP	%		15.4	40.4	86.7	23.5	39.4	28.3	25.2	30.3	34.6	41.3	63.8	27.9	9.6	..	60.3	28.1	35.0	45.6	21.3	32.4	44.1	21.5	28.1	9.4	18.8
average annual increase over previous 5 years	%		0.1	4.9	2.1	4.1	5.4	1.5	1.3	3.1	4.9	1.6	1.8	1.9	–2.2	..	2.7	1.3	5.4	–0.6	1.7	2.4	6.0	12.6	4.2	7.2	–7.5
Total official reserves[6]	Million SDR's	1986	6 202	5 778	5 724[7]	3 348	4 116	1 528	28 579	45 626	1 357	255	2 658	18 661	35 394	..	10 687	4 752	10 541	1 896	12 581	5 568	20 726	1 332	15 726	39 790	1 259
As ratio of average monthly imports of goods	Ratio		3.7	3.0	1.2	0.6	2.5	1.4	3.1	3.4	1.7	3.2	3.2	2.6	3.9	..	2.0	0.9	7.3	2.8	5.1	2.4	7.1	1.7	1.8	1.5	2.2

* At current prices and exchange rates.

1. Unless otherwise stated.
2. According to the definitions used in OECD *Labour force Statistics*.
3. PPP's = Purchasing Power Parities.
4. Gross saving = Gross national disposable income *minus* Private and Government consumption.
5. Current disbursements = Current expenditure on goods and services *plus* current transfers and payments of property income.
6. Gold included in reserves is valued at 35 SDR's per ounce. End of year.
7. Including Luxembourg.
8. Included in Belgium.
9. Including non-residential construction.

Sources:
Population and Employment: OECD *Labour Force Statistics*.
GDP, GFCF, and General Government: OECD *National Accounts*. Vol. I and OECD *Economic Outlook, Historical Statistics*.
Indicators of living standards: Miscellaneous national publications.
Wages and Prices: OECD *Main Economic Indicators*.
Foreign trade: OECD *Monthly Foreign trade Statistics, series A*.
Total official reserves: IMF *International Financial Statistics*.

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