

## DETERMINANTS OF THE RISE OF UNEMPLOYMENT IN AUSTRIA

*A relatively low rate of economic growth and strong productivity increases are important causes underlying the unfavourable development of the labour market in the 1990s. However, unemployment continued to rise even during the economic recovery of 1997-98. This is due to a more restrictive policy of early retirement, the shortened period of entitlement to parental leave allowance, and staff cuts in the public sector as part of an overall effort of budget consolidation, rather than a general deterioration of the labour market situation. In addition, most of the newly created jobs in the service sector are part-time jobs, whereas the majority of the unemployed are looking for full-time employment.*

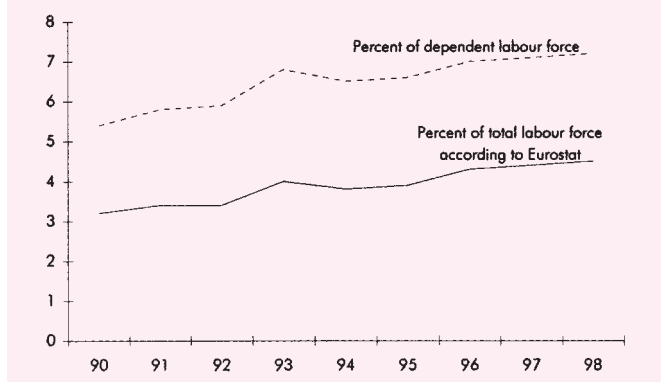
Unlike the European Union, which had already experienced a surge in unemployment during the recession of the mid 1970s, Austria first saw a rise in unemployment at the beginning of the 1980s. During the past two decades, the rate of unemployment in Austria has increased in three steps from 2 percent to approximately 7 percent of the dependent labour force (according to the traditional Austrian method of calculation):

- In a first wave, unemployment rose from 1.9 percent in 1980 to 5.6 percent in 1987, the main causes being the effects of the second oil-price shock, the change-over to a policy of high interest rates, and the crisis of the basic industries.
- At the beginning of the 1990s (1990-1992), unemployment increased further to 5.9 percent despite strong economic and employment growth, which was primarily due to the increasing supply of labour following a temporary liberalisation of the inflow of migrant workers from abroad.
- In the course of the 1993 recession, the rate of unemployment finally jumped to 7 percent – and has rarely fallen below that level since that time as a result of a relatively low level of economic growth.

Like the majority of EU countries, Austria went through a period of difficult labour market conditions in the 1990s. However, unlike other small EU member states with

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Figure 1: Unemployment rate



similar economic and social structures, such as the Netherlands and Denmark, Austria was unable to reduce unemployment even during the last years. Nevertheless, the Austrian rate of unemployment continues to be among the lowest in Europe.

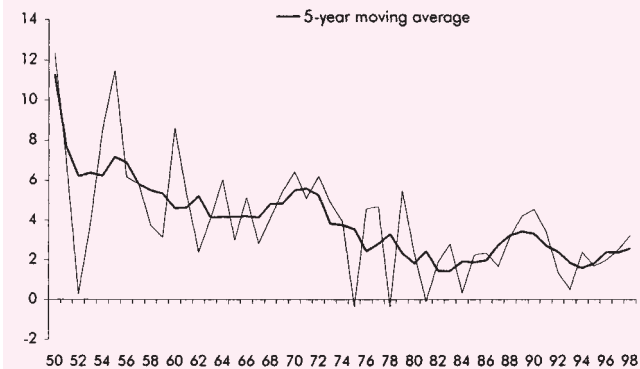
The causes underlying this development are varied, the labour market being a reflection of developments in the goods, services and financial markets, of changes in the demographic and institutional environment, and of economic and social policy decisions. The most important factors accounting for the negative performance of the Austrian labour market in the 1990s can be summarised as follows:

Throughout the 1990s, economic growth was insufficient to generate demand for additional labour. Above all, the 1993 recession led to a substantial deterioration of the labour market situation. Productivity has been increasing at an accelerated pace in recent years, due to a rising number of competitors following the integration of the Austrian economy with the economies of Western and Eastern Europe. In some sectors, such as wholesale and retail trade and tourism, employment growth failed to produce the desired effect on unemployment. Factors relating to labour supply have played an important role in this respect: many people previously not available to the labour market tend to accept newly created part-time jobs; at the same time, the shortened period of entitlement to parental leave allowance and the declining number of persons taking early retirement have increased the overall supply of labour.

This contribution is based on unemployment figures as registered by the labour exchange statistics, as they are the only ones broken down in detail by sectors, regions, age groups and gender. When calculated according to the EU method, the rate of unemployment would be approximately 2.5 percentage points lower than the "traditional" Austrian rate, but the cyclical behaviour of the two rates is

Figure 2: Gross domestic product

Percentage changes from previous year, volume



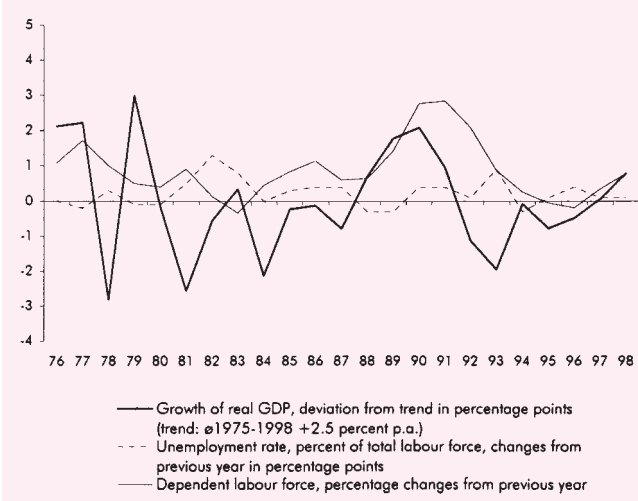
very similar (for a comparison of the various forms of calculating unemployment rates and their advantages and disadvantages, see Biffi, 1997).

### SLOW-DOWN OF ECONOMIC GROWTH AS AN IMPORTANT CAUSE OF LABOUR MARKET PROBLEMS

*In Austria and the EU, the unfavourable development of the labour market in the 1990s has been due, among other things, to sluggish economic growth: a close relationship continues to exist between demand for goods and services, on the one hand, and demand for labour, on the other hand. The economic upswing in 1998 resulted in a noticeable growth of employment.*

The pace of economic growth is one of the most important factors determining the development of employment: Like in all other industrialised countries of Europe, the relationship between the two parameters has been fairly close and stable over the past few decades in Austria. A growing demand for goods and services results in a growing demand for labour. On a longer-term basis (except in recent years), the employment intensity of economic growth has even increased slightly in the wake of a process of structural change, as the service sector with its lower rate of productivity increase tends to expand more strongly than others. Economic growth itself, however, slowed down noticeably in the 1970s – compared with the rates reported in the "golden age" of the 1950s and the 1960s – following the drastic changes in the world-wide regulatory framework.

Figure 3: Economic growth and the labour market

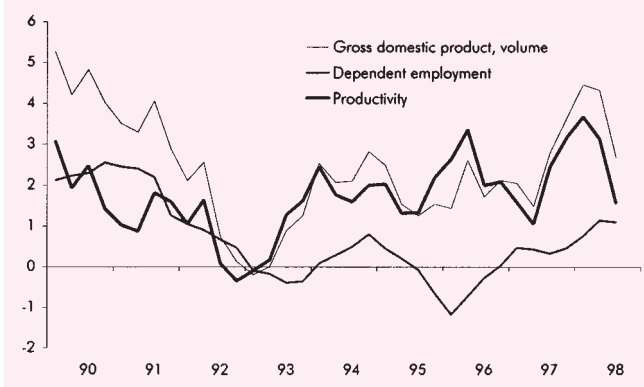


The 1990s turned out to be a decade of relatively weak economic growth for the European Union. On average, GDP growth between 1990 and 1998 amounted to 1.8 percent in real terms, which is 0.5 percentage point per year less than the decade before. Economic growth in Austria averaged around 2.1 percent, i.e., 0.2 percentage point below the value of the 1980s. The 1992-93 recession led to a substantial decline in employment throughout Europe and a sharp rise of unemployment. In Austria, given the less pronounced cyclical fluctuations and the pro-cyclical development of both productivity and labour supply, these effects remained below the EU average. In addition, the strong over-valuation of the Austrian schilling during the exchange-rate crises of the European Monetary System had a dampening effect on economic growth during the first half of the 1990s. 1994 was the only year of decreasing unemployment. With the economy recovering from the recession, almost 50 percent of the associated employment growth was fed from falling unemployment. In 1996 and 1997, domestic demand was restrained under the impact of budget consolidation measures taken to meet the "Maastricht criteria". Throughout the period of restrictive fiscal policy, macroeconomic growth remained moderate and was accounted for almost entirely by exports (Marterbauer – Walterskirchen, 1999).

A noticeable economic upswing did not set in before the second half of 1997 and reached its peak already in 1998 – at a surprisingly early point in time. The relatively slow pace of economic activity between 1994 and 1997 (with GDP on average growing by 2 percent in real terms) resulted in a stagnation of employment (-3,000), whereas the dynamic economic development of 1998 (GDP +3.3 percent) did not fail to produce the expected positive effects on the labour market (+30,000 jobs, i.e., +1 percent).

Figure 4: Performance of productivity in the 1990s

Percentage changes from previous year



The close relationship between economic growth, on the one hand, and the development of employment and unemployment, on the other hand, is also illustrated by Figure 3. Whenever GDP growth exceeds the 1975-1998 average (+2.5 percent), employment growth accelerates – with a certain time lag – and unemployment goes down. The phase between 1987 and 1990 clearly shows the positive effects of a sustainable economic upswing on the labour market: an annual 2 percent employment growth in the EU, accompanied by a 2 percent decline of unemployment. In Austria, employment grew by 1.3 percent per year. Only two periods of the economic cycle did not follow this pattern of a close relationship between macroeconomic growth and employment: between 1984 and 1986, employment was growing despite below-average economic growth; and the dynamic macroeconomic expansion between 1989 and 1991 generated strong employment growth without a corresponding decline in unemployment – which is closely associated with the strong inflow of foreign labour during that period.

### ABOVE-AVERAGE PRODUCTIVITY INCREASE

Almost in parallel with economic growth, productivity growth – showing a pro-cyclical development – has been decreasing in recent decades. The close relation between the two parameters is a well-known fact of economic theory ("Verdoorn's law"), which results from economies of scale in production, the growth dependence of structural change, and the easing pressure for technological progress in phases of low demand and investment growth.

At the beginning of the 1990s, the increase of productivity in Austria slowed down noticeably as a result of strong employment growth associated with the rising inflow of foreign labour in 1990-91 after the liberalisation of ac-

cess to the Austrian labour market. The availability of "low-cost" labour diminished the pressure for structural change in low-wage sectors with a low per-capita gross value added. However, the appreciation of the Austrian schilling and the intensified competitive pressures due to the integration of the Austrian economy with Eastern and Western Europe resulted in above-average productivity increases in subsequent years. Less productive enterprises – some of them in formerly protected sectors – had to close down, implement comprehensive streamlining programmes, or move their production facilities to other countries.

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*The rate of productivity increase in Austria has accelerated noticeably in recent years, with pressure for adjustment resulting from European integration and the opening up of Eastern Europe playing an important role in this respect. In manufacturing, in particular, the restructuring of the Austrian economy has gone hand in hand with a substantial loss of employment.*

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Between 1995 and 1998, the productivity of labour grew by 2.3 percent a year, which is well above the average of the 1990s. Not counting the public sector, in which productivity changes are defined on an exogenous basis and very low, productivity growth in recent years has been even higher. Presumably, the strong pressure for restructuring in the course of progressive European integration continues to be effective. The forthcoming enlargement of the EU will require further adjustments, above all in the service sector (Mayerhofer, 1998).

A relatively stable relationship between output development and employment can also be observed in manufacturing. According to estimates by Walterskirchen (1994) and Hahn – Thury (1994), the long-term average productivity growth of industry was between 3 percent and 4 percent until the beginning of the 1990s. In the years after the studies quoted above, the productivity increase in total manufacturing was clearly above the long-term industrial trend. Between 1995 and 1998, it averaged 5.25 percent a year. Given this highly dynamic development of productivity, even the recent above-average rates of expansion of production have been insufficient to stabilise employment in manufacturing. Major waves of early retirement in industry may have contributed to this situation.

The accelerated growth of labour productivity in total economy tends to result in an underestimation of the actual situation, since job growth was highest in the field of

part-time employment. The results of the microcensus suggest that the employment growth of 1998 was largely due to the creation of additional part-time jobs in the service sector. Standing at 15 percent (1997), the share of part-time employment is only slightly below the European average, but much lower than in the Netherlands. In Austria, part-time employment has been available, above all, for women and in low-skill and low-income occupations. Nevertheless, there are individual sectors in which part-time employment already accounts for a quarter of all jobs (not counting persons in marginal employment, who make up about 6 percent of dependent employment). These include jobs in business services, wholesale and retail trade, health care and social services.

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#### INCREASING UNEMPLOYMENT BETWEEN 1996 AND 1998 DESPITE STRONG EMPLOYMENT GROWTH

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*As expected, employment and unemployment are developing in opposite directions in manufacturing and construction. In the private service sector, however, supply effects and the structure of the newly created jobs result in an increase of both employment and unemployment.*

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Despite stagnating total employment, a clear change in the employment structure was observed between 1995 and 1997. Major job losses in manufacturing (–28,000, –4.5 percent) were compensated by employment growth in the business services sector (+18,000, +10 percent) – which comprises, among others, leased labour and real estate (including cleaning services, software) – and the public sector (+16,000, +2 percent; mainly in health care: +6,000).

1998 was characterised by strong employment growth not only in business services (+13,000) and the public sector (+12,000), but also in wholesale and retail trade (+4,000), tourism (+2,000) and telecommunications (+2,000). The volume of manufacturing increased strongly enough to maintain employment at the level of previous years (+600) despite continued and substantial productivity increases.

A negative relationship between the development of employment and unemployment has been observed in recent years in manufacturing and the construction. Cyclical influences as well as weather-related fluctuations in production not only have an immediate impact on the availability of jobs, but are also reflected in unemployment figures

Table 1: Labour market performance by sectors

	Dependent employment <sup>1</sup>			Persons	Unemployment		
	Manufacturing	Construction	Private services <sup>2</sup>		Manufacturing	Construction	Private services <sup>2</sup>
1997	615,981	266,708	1,157,620	45,514	38,463	105,143	
1998	616,580	264,567	1,178,253	45,150	40,088	108,854	
	Changes from previous year						
1997, 1st quarter	-12,429	+10,667	+10,655				
2nd quarter	-10,104	+ 2,328	+ 9,533				
3rd quarter	- 6,615	- 1,330	+ 7,409				
4th quarter	- 6,179	- 4,412	+14,357				
1998, 1st quarter	- 960	- 195	+12,604	- 329	+ 58	+ 5,844	
2nd quarter	+ 2,319	+ 700	+21,175	- 27	+ 2,446	+ 4,244	
3rd quarter	+ 1,197	- 1,818	+22,423	- 610	+ 2,047	+ 3,927	
4th quarter	- 159	- 7,252	+26,328	- 491	+ 1,948	+ 832	
1997	- 8,832	+ 1,813	+10,489				
1998	+ 599	- 2,141	+20,633	- 364	+ 1,625	+ 3,712	

Source: Labour Market Service, Federation of Austrian Social Security Institutions. – <sup>1</sup> Excluding parental leave and military service. – <sup>2</sup> Wholesale and retail trade, tourism, transport and communication, finance and insurance, real estate and business services.

within a relatively short period of time. Labour supply factors, such as the shortened period of entitlement to parental leave allowance, are of no significance in these sectors of the economy, which are strongly male-dominated.

In the field of private services, however, the relation between the two parameters is less pronounced. Strong employment growth in this sector has been accompanied by rising unemployment. In 1998, in particular, employment in wholesale and retail trade expanded markedly and simultaneously with unemployment (+2,000 on the annual average). Presumably, this is due to the above-average effect of changes in parental leave legislation. At the same time, many women are looking for full-time employment, while the majority of vacancies are for low-wage part-time jobs, which often have the additional disadvantage of being difficult to reconcile with child-care obligations. On an annual average, tourism also experienced a rise of both employment and unemployment between 1995 and 1998. The figures reported for December 1998 are most striking in this respect: owing to favourable weather conditions, the number of overnight stays and the level of employment increased strongly (+11,000), but unemployment did not fall accordingly (-500). The situation is similar in business services, a sector comprising a wide variety of occupations, where vigorous employment growth failed to lead to a reduction of unemployment.

Developments in 1998 seem quite paradoxical: the number of unemployed registered with the Labour Market Services increased slightly by 4,400 to 237,800, although the rates of GDP and employment growth were the highest ever recorded since the beginning of the 1990s. The surprisingly divergent developments of employment and unemployment calls for a more detailed analysis. An unusually strong cyclical reaction of labour supply alone is no

adequate explanation for this discrepancy. However, the rapid increase in the supply of labour may be attributed to the simultaneous growth of employment and unemployment.

In the meantime, the employment situation has improved noticeably. Until March 1999 (+40,500, i.e., 1.4 percent over the year before), the rate of job growth increased continuously. Thus, it has certainly become easier to find a job. The more favourable labour market situation was reflected not only in the number of persons employed, but also in the number of vacancies (+4,000). At the same time, unemployment among the employable population aged under 50 years fell between 1996 and 1998.

According to a regression equation<sup>1</sup>, which explains the change of unemployment on the basis of employment and demographic changes, unemployment should have decreased by 4,900 (instead of increased by 4,400) in 1998. Hence, the actual development must be due to the influence of special factors.

To account for the simultaneous increase of employment and unemployment, the development of unemployment will be investigated in the following on the basis of age, gender and regions.

### RISE OF UNEMPLOYMENT IN HIGHER AGE GROUPS

Rising unemployment among the higher age groups has had a decisive impact on unemployment figures during the

<sup>1</sup>  $AL = 5,800 - 0.47 B + 0.26 AA$ ,

$R^2 = 0.77$  (period 1980-1998),

$AL$ ... absolute change of unemployment against year before,  $B$ ... absolute change of employment against year before,  $AA$ ... absolute change of employable population against year before.

Table 2: Unemployment by age groups

Age groups	Total		Men		Women	
	1997	1998	1997	1998	1997	1998
	Changes from previous year					
15 to 49	+ 300	-1,200	- 900	-2,700	+1,200	+1,500
50 and over	+2,600	+5,700	+1,400	+3,600	+1,100	+2,100
Total	+2,800	+4,400	+ 600	+ 800	+2,300	+3,600

Source: Labour Market Service.

past two years. While unemployment of persons aged over 50 fell by around 4,000 between 1994 and 1996 despite sluggish economic activity, it increased by 8,000 in the period between 1996 and 1998.

It appears that political and, to some extent, demographic factors are playing a decisive role in this context. Before the entry into force of the "1996 Structural Adjustment Act", a rise in unemployment had been prevented, at least

*Demographic factors and the effects of budget consolidation measures constitute the most important causes of rising unemployment among persons aged over 50 years. People who would have taken early retirement and lived on their old-age pension in previous years are now registered unemployed.*

partially, through a growing number of people taking early retirement or qualifying for invalidity pensions and other special benefits (not registered in the unemployment statistics). Following restrictive budget policy, access to such transfer payments was greatly restricted and the true level of unemployment has been revealed. Thus, groups with a marginal presence on the labour market no longer derive their income from the old-age pension system, but from another source, i.e., unemployment benefits. Following the expiry of the special benefit scheme (for people nearing retirement age), a large number of persons approaching retirement again appear in the unemployment statistics: the number of persons qualifying for special benefits fell from 14,000 in 1995 to 2,000 in 1998.

Thus, the steep rise of unemployment among the older work force is due, not least, to the elimination of the special benefit scheme and the measures adopted in 1996 to increase retirement age (Wörister, 1998). The number of persons retiring for reasons of age in 1997 (Table 2) was one third (-14,200) below that of the year before and remained more or less constant in 1998.

The number of unemployed did not change substantially in 1998, but the shift from younger to older persons re-

Table 3: Persons retiring and recipients of special benefits

	Persons retiring for reasons of			Recipients of special benefits	
	Age		Invalidity	Persons	Changes from previous year
	Total <sup>1</sup>	Early retirement <sup>2</sup> Number			
1994	41,200	16,900	17,200	14,000	+2,900
1995	43,600	19,600	15,400	14,200	+ 200
1996	41,200	21,600	14,100	9,100	-5,200
1997	27,000	12,600	14,400	3,700	-5,300
1998	26,200	12,500	15,500	2,100	-1,600

Source: Labour Market Service, Federation of Austrian Social Security Institutions. - <sup>1</sup> Excluding widow's, widower's and orphan's pensions. - <sup>2</sup> For diminished working capacity.

sulted in an increase in the average duration of unemployment. People aged over 50 years tend to remain unemployed for periods way above the average.

Legislative reform has resulted, above all, in a sharp reduction of the number of persons taking early retirement for reasons of diminished employability. (The age limit for men was increased from 55 to 57 years). To a certain extent, the resulting rise of unemployment among older people can therefore be qualified as a form of "relabelling" and should not be interpreted as a deterioration of the labour market situation.

The number of younger unemployed decreased between 1996 and 1998, as did the number of adolescents looking for apprenticeships (who are not included in the unemployment statistics). As of the end of 1998, the number of people on record as looking for apprenticeships had fallen by 2,700 from the figure reported at the end of 1996. During the earlier part of the decade, the number of apprenticeships available had been declining sharply, but the trend was reversed by the 1997 "apprenticeship promotion scheme".

## RISING FEMALE UNEMPLOYMENT

*The increase of unemployment among women is attributable, to a certain extent, to the shortened period of entitlement to parental leave allowance. At the same time, many women are also affected by the more restrictive early retirement policy.*

The majority of those affected by rising unemployment between 1996 and 1998 were women. The trend was strongest in 1998, with four fifths of the newly unemployed being female. This was partly due the shortening of the period of entitlement to parental leave allowance to 18 months, effective as of July 1996, which clearly increased the supply of female labour. The number of persons re-

Table 4: Unemployment by gender

	Total	Men Persons	Women
1996	230,500	128,000	102,500
1997	233,300	128,600	104,800
1998	237,800	129,400	108,400

Source: Labour Market Service.

ceiving parental leave allowance on the basis of an effective employment contract fell by 8,000 in 1998; including the unemployed, the figure even dropped by 23,000.

A breakdown of the unemployed population by sex and age groups shows that the new parental leave regulation contributed towards the increase of unemployment, particularly as older employees tend to be eliminated from the labour market. In 1998, unemployment among women aged 20 to 30 declined, the effect of the new parental leave regulation obviously being more than compensated by a positive cyclical development. Among women aged 30 to 40, the number of unemployed increased by 1,500, which is assumed to be related to the new regulation on parental leave. However, the sharp increase in the supply of female labour also contributed towards pushing more and more older women into unemployment.

At the same time, the number of women who are hard to place in the labour market for reasons of impaired mobility grew sharply in 1998. In fact, about 50 percent of all women aged 25 to 39 are difficult to place. The shortening of the period of entitlement to parental leave allowance increased the number of recipients of special emergency benefits (+2,700).

Besides the new parental leave regulation, the more restrictive policy on early retirement (mainly for persons aged 55 to 59) has also had an impact on female unemployment. Between 1996 and 1997, the rate of unemployment among women aged 55 to 59 increased from 6.2 percent to 7.6 percent. This is attributable, at least partly, to the fact that it has become more difficult for the unemployed to take early retirement, an option which appears to be more popular with women than men (the majority of men taking early retirement receive an invalidity pension). In 1998, the rate of unemployment among women of this age group increased further to 8.9 percent.

## RISE OF UNEMPLOYMENT IS STRONGEST IN VIENNA

While Vienna accounted for no more than a quarter of the total increase of unemployment in Austria during the first half of the 1990s, much of the more recent rise in the number of unemployed was concentrated on the Austrian

Table 5: Persons on parental leave

	Total	With effective employment contract	Unemployed	Total	With effective employment contract	Unemployed
		Persons	Persons		Changes from previous year	
1994	115,900	85,400	30,500			
1995	115,600	83,000	32,600	- 300	- 2,400	+ 2,100
1996	113,200	78,900	34,300	- 2,400	- 4,100	+ 1,700
1997	111,300	75,100	36,200	- 1,900	- 3,800	+ 1,900
1998	88,500	67,200	21,300	-22,800	- 7,900	-14,900

Source: Federation of Austrian Social Security Institutions.

capital. Between 1996 and 1998, the growth of unemployment was limited to Vienna, Lower Austria, Salzburg, the Tyrol and Burgenland. In Vienna alone, the number of

*Vienna has been particularly affected by the recent rise of unemployment. This is due, above all, to the considerable importance of the public and private service sectors.*

unemployed increased by 8,400 during that period, while the average of the other provinces fell by 1,200.

Rising unemployment in Vienna is due to several reasons:

- The performance of the economy in Vienna (and, consequently, the development of employment) remains below the Austrian average.
- Vienna-based industrial enterprises are relocating to the periphery and the headquarters of service enterprises are moving out of Vienna.
- Vienna was particularly affected by the halt on new recruitment in the public sector.
- Unemployment in the private service sector, which is of special importance in Vienna, hardly reacts to employment growth, as outlined above. This is partly due to the

Table 6: Unemployment by states

	Unemployment			Unemployment rate	
	1998 Persons	1997 Changes from previous year	1998	1997	1998
				As a percentage of dependent labour force	
Vienna	73,300	+3,900	+4,500	8.3	8.7
Lower Austria	37,800	+ 200	+ 600	6.8	6.9
Styria	37,000	-1,100	+ 500	8.1	8.1
Burgenland	7,700	+ 400	+ 100	9.0	9.0
Tyrol	16,900	+ 500	+ 100	6.3	6.3
Salzburg	10,900	+ 600	+ 100	4.9	4.9
Vorarlberg	8,000	+ 300	- 300	6.1	5.8
Carinthia	18,300	- 800	- 400	9.0	8.8
Upper Austria	27,900	-1,200	- 800	5.3	5.1
Austria	237,800	+2,800	+4,400	7.1	7.2

Source: Labour Market Service.

Table 7: Employment in the public sector

	Dependent employment <sup>1</sup> in the public sector			
	Austria		Vienna	
	Persons	Changes from previous year	Persons	Changes from previous year
1990	717,600		221,300	
1991	737,900	+20,300	227,400	+6,100
1992	755,800	+17,900	233,200	+5,700
1993	782,100	+26,300	241,400	+8,300
1994	804,600	+22,500	246,400	+5,000
1995	832,100		246,000	
1996	838,600	+ 6,500	247,500	+1,400
1997	848,400	+ 9,800	248,000	+ 600
1998	860,600	+12,200	248,100	+ 100

Source: Association of Austrian Social Security Institutions. – <sup>1</sup> Public administration, education, health care and social services, other public person-related services; new statistical definitions effective as of 1995.

fact that the sector experienced a strong growth of part-time employment, whereas the majority of unemployed are looking for full-time employment.

- The “streamlining” of services in the wake of Austria’s accession to the European Union was particularly effective at business headquarters, most of which are located in Vienna. The central offices of banks, insurance companies, wholesalers and transport enterprises all reduced their staff.
- The few Labour Market Service establishments existing in Vienna, working with a limited number of staff, are taking care of a growing number of unemployed. Hence, a further decentralisation of the Labour Market Service in Vienna was decided in January 1999 as a matter of considerable urgency in order to ensure intensive care and placement services for the unemployed (mainly in white-collar occupations).

## THE IMPACT OF BUDGET CONSOLIDATION

The policy of budget consolidation did not affect economic growth in Austria as much as had been expected, with the favourable development of the world economy and the drop of the savings ratio counteracting the restrictive measures taken<sup>2</sup>.

During the first half of the 1990s, employment growth in the public sector was a major factor contributing to the improvement of the labour market situation. In its effort to consolidate the public budget, the Federal government imposed a halt on new recruitment, which was largely complied with. Thus, employment growth was slowed down in 1996 and 1997, above all in Vienna. Compared

<sup>2</sup> An analysis of the macroeconomic impact of the policy of budget consolidation in Europe is published in this issue.

Table 8: Training programmes and active labour market measures

	Persons undergoing training	Expenditure for active labour market policies Billion ATS
1995	15,500	5.4
1996	18,000	5.6
1997	22,200	6.9
1998	20,900	7.1

Source: Labour Market Service.

with the upward trend of the years before, the shortfall amounted to between 10,000 and 15,000 jobs per year.

Without any doubt, the cost-cutting measures taken by the Federal government were indispensable and successful, as the development of the public budget shows. However, they had some side effects, which meant a drastic cut and changes in social benefits. Above all, persons about to retire from working life or persons with family obligations are affected by the new regulations: early retirement was made more difficult, special benefits for persons nearing retirement age were abolished, and the period of entitlement to parental leave allowance was shortened.

Older employees who are made redundant no longer derive their income from the old-age pension system, but from unemployment benefits. Thus, the number of unemployed on record with the Labour Market Service is increasing, with the statistically identifiable supply of labour going up at the same time. The number of persons granted early retirement dropped sharply in 1997, and the number of persons eligible for parental leave allowance (on the basis of an effective employment contract) fell by about 8,000 in 1998. At the same time, the number of unemployed undergoing training also dropped in 1998, as funds available within the framework of active labour market policies were transferred to the apprenticeship promotion scheme.

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*Determinants of the Rise of Unemployment in Austria – Summary*

The unfavourable development of the Austrian labour market in the 1990s is attributable to a number of macroeconomic factors. The rise of unemployment is a reflection of the relatively low average rate of economic growth and the 1993 recession. The productivity of labour increased at an accelerated pace in the course of Austria's growing integration with the economies of Western and Eastern Europe. Unemployment failed to decline even during the period of relative boom in 1997-98. This development is due, above all, to the following causes:

- increased supply of labour as a result of the shortened period of entitlement to parental leave allowance, and a more restrictive policy with regard to early retirement;
- the rate of unemployment has not reacted noticeably to high employment growth in the service sector, because the quality of the new jobs created fails to meet the expectations of the unemployed in terms of working hours and wages. (Many part-time jobs have been created in retail trade and other service sectors, but the majority of job-seekers are looking for full-time employment.)
- A persistently high rate of unemployment in Vienna, a region particularly affected by staff cuts in the public sector, restructuring measures taken by major industrial and service enterprises and subsequent reloca-

tion, and a high share of private-sector service enterprises.

The rise of unemployment between 1996 and 1998 was most pronounced in three areas: higher age groups, women, and Vienna. It should not, however, be taken as an indication of a general deterioration of the labour-market situation: finding a job was certainly easier in 1998 than before, as is indicated not only by the development of employment, but also by the number of vacant jobs.

The rise of unemployment was due, above all, to institutional factors. Cuts of special support measures and a more restrictive policy with regard to early retirement meant that older job-seekers remained on record as unemployed, instead of retiring from working life. At the same time, the shortened period of entitlement to parental leave allowance resulted in a strong increase in the number of women wanting to re-enter the labour market. Hence, the rise of unemployment in 1997 and 1998 is primarily attributable to the fact that beneficiaries of social services, whose availability to the labour market is very limited or non-existent, have become more highly dependent on unemployment benefits for their subsistence since the adoption of the "austerity package". The impact on unemployment figures has been largely statistical in nature and can therefore be qualified as a form of "re-labelling".