

# SOCIAL EXPENDITURES (CZECH – AUSTRIAN COMPARISON)

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## Abstract:

This paper describes and evaluates the development of social expenditures in the Czech Republic and Austria during the nineties. The authors compare social systems of both countries with the aim to show the main differences as well as some identical and concurring features, and to take lecture from them for future reforms. In the first part, a short comparison of the main macroeconomic indicators and their development as the bases of social systems is presented. Factors influencing the level and structure of social expenditures in both countries are mentioned: different economic level, demographic, systemic, and governmental factors. In the second part, the structure of social expenditures and its development is analysed in detail. Current reforms of pension systems in both countries are mentioned. The growing role of personal expenditures in the Czech Republic in covering different kinds of social needs is demonstrated on the health care expenditures.

**Keywords:** social expenditures, structure of social expenditures, pension systems, international comparison.

**JEL Classification:** H530, H550, N300

## 1. Introduction

Two jointed tasks related to public expenditures and their sources in general were formulated already at the beginning of transition from totalitarian regime to market economy in the Czech Republic:

- a) to create a new social system, strengthening the responsibility of individuals and households, invoking the principle of merits in incomes and focusing on the truly needy and, at the same time, to provide greater scope for individual choice,
- b) to reduce the rate of redistribution through public budgets and thus decrease the role of state in regulation of the economy.

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Scenarios of both the economic and social reforms were worked out at the very beginning of the transformation, that is, in 1990. During the last ten or more years, the performance of these two tasks turned out to be very difficult and long-term. As for the first task, most of the population, accustomed to social egalitarianism, have suffered from growing income inequality and unusually growing living costs and additionally, in later years, from previously unknown unemployment. To maintain the necessary social peace, a social safety net with a system of minimum income categories (wages, pensions, subsistence level) was established. As for the second task, most of the difficulties of transformation have gradually concentrated in the growing deficits of public budgets and growing public and foreign indebtedness. The scarcity of sources has been growing in the situation of stagnating and even declining economic growth, when the GDP for the year 2001 in real terms has hardly reached the level of the year 1989.

In this paper – which covers mostly the last ten years – more attention has been paid to the first task: to describe and evaluate the development of social system. In connection with this, it also aims to assess social policy measures. Although this is an extensive task, we are aware that it is relatively limited in order to provide adequate answers to questions such as the impact of changing social expenditures on economic growth and/or on the living standard of the population. Both of these areas depend on many factors, which may operate in different ways. In any case, we are aware of this context when solving our task.

The period of social and economic reforms in the transition countries has been concurrent with the period of the social system reforms in many developed European countries, where the welfare state system has been suffering, for some time already, from scarcity of sources for covering the previously built-up rich system of various kinds of social benefits. Therefore, the transition countries can use the experiences of these countries and learn their social policy measures and their impact on the social development and assess them with respect to applicability in concrete conditions.

In our study, we have chosen the Austrian system of social expenditures to compare it with the Czech one because Austria and the Czech Republic are countries situated near to each other with a similar territory size and with similar number of inhabitants. They are both open economies with intensive mutual trade and traditional mutual relations. Besides, both countries were parts of a common state in the distant past, with tight-knit cultural and social relations. However, there is a significant difference between Austria and the Czech Republic in the economic level today. In contrast to the transformation problems, which were addressed in the Czech economy, Austria is a developed country, which joined the EU six years ago, with performance, expressed chiefly in gross domestic product (GDP) per capita in Purchasing Power Parity (PPP) and other economic indicators, higher than the average of the 15 EU countries. To show the main differences as well as some identical and concurring features of the Czech and Austrian economies as the bases of respective social systems, a short comparison of the main macroeconomic indicators is presented in the first part of this paper. The following part deals with the social expenditure systems.

## **2. Macroeconomic Scope of Social Expenditures and their Sources in Comparison with Austria**

The main factor, which influences the differences between the parameters of the Austrian and Czech social systems, is the difference in economic performance and its efficiency of the two countries. The retardation in economic development that

grew during the totalitarian regime in the Czech Republic deepened during the nineties. The result of this development can generally be seen in the GDP per capita, based on the current purchasing power parities, reaching USD 24,668 in Austria and USD 13,203 in the Czech Republic in 1999. This means that in 1999 the economic level of the Czech Republic measured by means of this indicator reached 53.5 % of the Austrian level and 58.7 % of the EU-15 level, which was USD 22,507.

While the Austrian economy was characterised by a moderate but steady growth during the nineties, the Czech economy struggled with the numberless problems associated with the transition steps to the market economy. The development of the main macroeconomic indicators (see Table 1 and Figure 1) reflects both the main transition steps and difficulties.

**The volume of GDP** in the Czech Republic in the real terms of the national currency practically reached the level of 1989 as late as in 2000, while the Austrian GDP increased by more than a quarter (by 25.4 %) in the real terms during 1990 – 2000. During 1990 – 2000, the average annual real change of GDP was 2.3 % in Austria and –0.2 % in the Czech Republic (see OECD in Figures, 2001). In the Czech Republic, there were two main decreases in GDP: at the beginning of transformation, there was a deep decline due to transformational circumstances: pre-privatization situation, when the management of state enterprises stopped taking care of them (“pre-privatization agony”), disintegration of old institutions and delay in the formation of new ones, disintegration of the previous markets and other events, and the second decline took place in 1997 – 1999 as a consequence of unbalanced development of the economy (wages growing faster than labour productivity; growing negative balances both the foreign trade and state budget; delayed response to high appreciation of real exchange rate). The economic growth revived as late as in 2000, and growth acceleration 2001.<sup>1)</sup>

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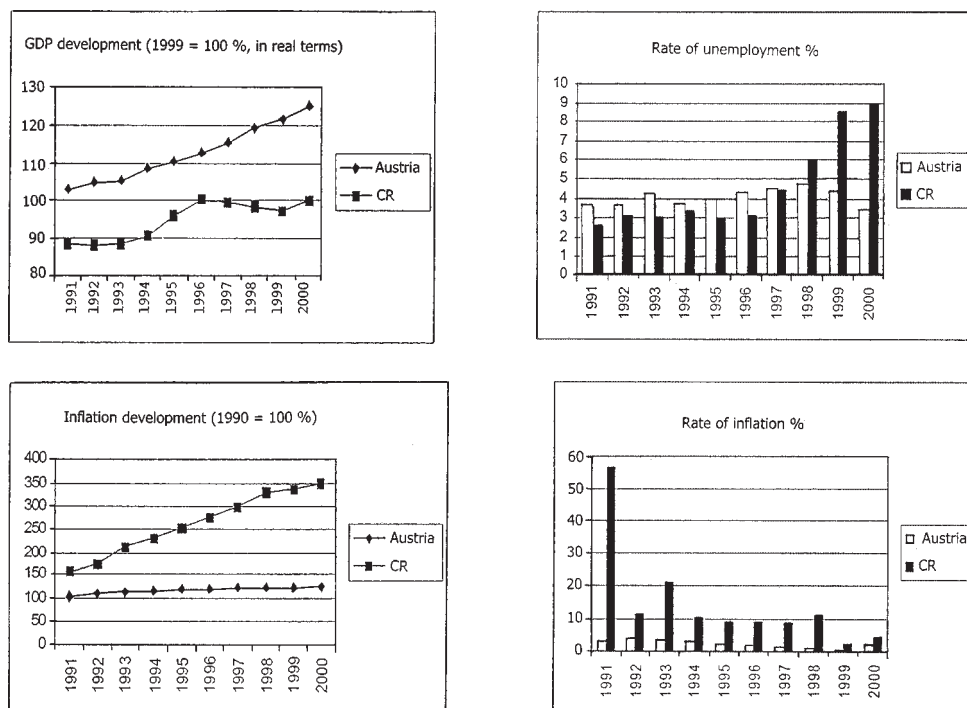
1) There may be some uncertainty in calculation of the true value of GDP, and in the derived indicators. The changes that took place during the transformation period were very intensive, especially in the beginning, and did not allow to record all impacts on economic indicators, namely the qualitative changes of them. They were reflected both in the nominal and real values of GDP. Besides that, the statistics themselves have been transformed. It seems to be very likely that the GDP development recorded in official statistics has been underestimated. Many factors, including the personal experience of those, who have experienced the transition period, confirm this supposition. Also the development of shadow economy was difficult to estimate. Therefore it is possible to take the data about macroeconomic development during the first years of the nineties as a somewhat pessimistic version. The accuracy of GDP calculations cannot be confirmed up to the present days; we are witnesses of running recounting and the process of making the GDP time series more accurate. Unfortunately, these changes are not always screened into the derived indicators. Therefore we can find, unlike with the Austrian statistical data, different values of GDP, imports, exports and other indicators in different sources and at different times. Nevertheless, these facts cannot change the general trend of the past development of economic reality in any substantial way.

Table 1  
Selected Macroeconomic Indicators

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP Growth % (real terms,y/y)										
Austria	2.8	2.0	0.4	3.0	1.8	2.0	2.5	3.3	2.2	2.9
Czech Republic	-11.6	-0.5	0.5	2.2	5.9	4.8	-1.0	-1.2	-1.4	2.9
Social quota (%)										
Austria	27.0	27.6	9.0	29.7	29.7	29.5	28.8	28.5	28.8	28.7
Czech Republic	19.8	19.2	19.8	20.0	19.7	19.4	20.3	20.5	21.8	22.6
Rate of inflation (%)										
Austria	3.3	4.1	3.6	3.0	2.2	1.9	1.3	0.9	0.6	2.3
Czech Republic	56.6	11.1	20.8	10.1	9.1	8.8	8.5	10.7	2.1	3.9
Rate of unemployment (%)										
Austria	3.5	3.6	4.2	3.7	3.9	4.3	4.5	4.5	3.8	3.3
Czech Republic	2.6	3.1	3.0	3.3	3.0	3.1	4.3	6.0	8.5	9.0
Overall real wage increase (%)										
Austria	3.4	1.6	0.7	0.2	-1.0	-1.3	-0.4	2.6	1.7	0.7
Czech Republic	-26.3	10.3	3.7	7.7	8.7	8.8	1.9	-1.2	6.0	2.6
Public budget's balance										
Austria (ATS bill.)	-58.8	-41.1	-91.6	-113.0	121.4	-93.7	-43.8	-60.0	-57.4	.
% of GDP	-3.0	-2.0	-4.2	-5.0	-5.1	-3.8	-1.7	-2.3	-2.2	-1.1
Czech Republic (CZK bill.)			23.3	5.5	2.9	-21.9	-27.8	-27.8	-10.7	-11.2
% of GDP			2.3	0.5	0.2	-1.4	-1.7	-1.6	-1.6	-4.3
Public debt										
Austria (% of GDP)	58.8	58.1	62.9	65.9	69.1	69.1	64.5	64.0	65.2	63.1
Czech Republic (% of GDP)			15.8	14.2	11.5	10.6	10.0	.	16.2	17.3
Foreign debt										
Austria ATS bill.			.	.	239.4	214.2	325.5	478.5	670.9	801.8
EUR bill.			.	.	17.4	15.6	23.7	34.8	48.7	58.3
Czech Republic CZK bill.			287.7	342.5	457.3	578.9	748.7	726.9	822.5	814.0
EUR bill.			8.6	10.0	3.9	17.1	19.6	20.8	22.8	23.2
Trade balance										
Austria ATS bill. Goods			-75.3	-90.0	-67.1	-77.0	-51.9	-45.3	-46.5	41.1
Services			87.8	84.1	46.5	48.2	12.0	29.2	22.7	14.4
Czech Rep. CZK bill. Goods			-15.3	-39.7	-97.6	-160.0	-144.0	-82.4	-65.8	-126.8
Services			29.5	14.1	48.9	52.2	55.9	57.8	38.1	53.9
Trade balance										
Czech Republic with Austria			-7.3	-7.2	8.7	7.9	-6.1	-0.9	3.7	5.6

Source: Statistical data of the Austrian Statistical Office (Statistisches Jahrbuch Oesterreichs, 2001); data of the Austrian Ministry of Finances; Statistical data of the Czech Statistical Office; data of the Czech National Bank; OECD: Main Economic Indicators, December 2000.

Figure 1  
Selected Macroeconomic Indicators



The economic level of the Czech Republic is (together with Slovenia) one of the top ones among the candidate countries, thanks to the well-known historical progress in economic development. It is also necessary to emphasize that during the transformation process the contents of GDP gained a new quality – it changed from a more or less obsolete range of products and great amounts of products produced for the sake of production itself to the structure and quality, which gradually approaches developed European countries, including Austria.

**Inflation rate** development in Austria and the Czech Republic reflects the same dissimilarities as the GDP development. The movement in consumer prices in Austria is moderate, and their increase is one of the lowest ones in the EU Member States. In the Czech Republic there were two exceptional increases in consumer prices during the nineties: in 1991 (by 56.6 %), resulting from liberalisation of prices at the beginning of transformation, and in 1993 (by 20.8 %) due to introduction of a new tax system. The rate of inflation that was remarkably higher in comparison with Austria in the second half of the nineties also involved the administered improvements in price relations existing in the past. Therefore, in the second half of the nineties, the highest increase in consumer prices was in fuel (in this case, the acceleration in the growth of world fuel prices was another factor influencing CPI), electricity, and rents; the lowest increase was in food.

The delayed rectification of the consumer prices of fuel and electricity (e.g. in comparison with Hungary) has, together with the growing costs of housing, a remarkable impact on family budgets today.

Table 2

**Selected Commodities and Service Price Growth (in %)**

	Year	Total	Food	Fuel, electricity	Rents
Czech Republic	1995	100.0	100.0	100.0	100.0
	1999	140.2	114.0	192.6	188.7
Austria	1995	100.0	100.0	100.0	100.0
	1999	108.2	104.0	107.1	115.9

Source: Statistical Yearbook of the Czech Republic 2001 (Consumer price indices: goods and services); Statistisches Jahrbuch Oesterreichs, 2001 (Index der verbrauchter Preise).

In comparison with other candidate countries, the inflation level in the Czech Republic was one of the lowest ones during the nineties. The rate of net inflation (net of administered prices, which were higher mostly in the second half of the nineties) was (in %):

1995	1996	1997	1998	1999	2000
7.3	6.6	6.8	1.7	1.5	3.0

(Compare with Table 1, inflation rate, where, of course, the rates are higher because they involve the rectification of the regulated prices.)

The faster growth of prices, including consumer prices, will continue in the future because of the great differences between the price level of the EU Member States and the price level of the Czech Republic. The comparative price level in relation to Austria, measured as the ratio of PPP/ ATS 100 to the exchange rate CZK/ ATS, was 30 % (75.5/2.51) in 1993 and 42 % in 2000.

**The unemployment rate** in both countries was remarkably low. In the Czech Republic it was the lowest one among the transition countries. There were many reasons for this.

At the beginning of the transition, after liberalization of business activities, many employees from big state-owned enterprises started their own small businesses, which had not been allowed in the old regime. Later on, the number of small businessmen decreased and, at present time, it is on the level of Austria (13 – 15 % of the entire employment). The second reason was the persisting over-employment in big state-owned enterprises. However, since 1998, due to acceleration of the process of restructuring the economy, the unemployment rate has begun to increase, especially in the regions with previous high presence of mining and metallurgic industries (the North-West Bohemian and North-Moravian regions), and it is increasingly concentrated among low-skilled workers. On the other hand, there was practically no unemployment in the Prague region during the first half of the nineties, and at the end of the nineties, the rate of unemployment amounted to a half of the average rate of unemployment in the country. The situation is opposite in the Vienna region, namely the share of the unemployed is higher in comparison with the rest of Austria. In 1990 the unemployment rate in Vienna reached 6.2 %; in 1999 it increased to 8.8 %. The relevant figures for Austria as a whole are lower: 5.7 and 7.1 respectively. (These data are based on national methodology so they are not comparable with the data on unemployment rate in Table 1, which are based on the ILO

methodology, comparable with the Czech data.) So the average rate of unemployment does not fully reflect the problems of unemployment, especially the long-term one (the share of long-term unemployment, which means one year and more, was higher in the Czech Republic (37.1 %) than in Austria (31.7 %) in 1999. The age structure of the unemployed was also more favourable in Austria than in the Czech Republic. In Austria, the ratio of the unemployed young people (under 25 years) to the total youth labour force was 6.4 % for women and 5.5 % for men. In the Czech Republic, it was 18.5 % for women and 15.9 % for men. Many employers have not been willing to employ inexperienced labour force. Therefore, the Czech government has tried to introduce some measures to help young people get the first job, which is especially important. Although the recent revival of the dynamic characteristics of the Czech economy has started to influence the labour market, alleviation of the mentioned regional differences in unemployment rates cannot be expected in the near future.

**Real wage** in the Czech Republic developed oppositely to the inflation rate. Only in the period of the last three years, the growth of real wages was slightly lower than the growth of labour productivity. In comparison with Austria the real wage increase in the Czech Republic was faster and in the future it will also be necessary to overcome gradually the difference in labour costs, of course, in accordance with the growth of labour productivity, which was not always the case in the past.

**The balance of the public budget:** for the purpose of this paper it is only possible to state the existing deficits in both countries, showing the trends in their development. There are different concepts and measures of the balance, influenced by transformation processes (privatization revenues, voucher transactions, balances of extra-budgetary funds, etc.) on the Czech part. Since the budget is also highly political matter, there is no consensus between the government and the opposition on evaluation of the contents and development of the deficit time series. Therefore, even at present, there are discussions about the deficit concept and amount between the Czech authorities and international organizations, namely the OECD experts (see OECD Economic Surveys, Czech Republic, 2001).

Another problem which both countries have in common is the deficit of foreign trade balance, which has some similar features: prevailing negative balance in goods and positive balance in services. The deep deterioration of the Czech trade balance in 2000 resulted mostly from energy price increase. The balance of the mutual Czech-Austrian trade was negative on the Czech part; it has been positive only in the last two years (see Table 1).

The figures on the public debt seem to be much higher in Austria. They have been exceeding the Maastricht criterion, which is 60 % of the GDP, since 1994. (The average for the OECD countries is 69 %, which is the case of Austria, too.) On the opposite, the Czech data seem to be very favourable. But if we took into account the "hidden" public liabilities, the picture would be different. Besides the quickly growing foreign debt, which increased 3.6 times during the period 1992 – 2000, the indebtedness would also be enormous. This also means that the Czech economy is encumbered by high interest on this debt and this escalates the deficit. In 2000 this interest amounted to almost CZK 20 billions, which was higher than the pension account deficit (CZK 17 billions). The recent trend in the public and foreign debt development is alarming and, in combination with the deficit of trade balance, it could jeopardise the economic growth. Even though incomes are being expected from the already prepared further privatization in the banking, communication and energy sectors, which are supposed to cover a certain part of the hidden liabilities, the warnings must be taken into consideration by the fiscal policy. The impact of the



deficits of the public budget and the state indebtedness on social expenditures is grave at present and it might be even more grave in the future.

The developments in selected macroeconomic indicators presented above and in Table 1 (especially the GDP growth and the level of social quota) indicate, in relation to social expenditures and their sources, that the situation in the Czech Republic is more strained and the possibilities of favourable development of its social system are more problematic in comparison with Austria.

Concluding this part of our study it is necessary to establish, that even if the economic level is the main factor influencing the level and structure of social expenditures, there are other factors which must be taken into account in comparative analysis, namely:

- demographic factors and health status of the population, influencing both amount and structure of social expenditures to cover the needs of different groups of the population. The growing share of elderly presses for solution because of the lack of means for pension benefits and determines the necessity of pension reforms;
- systemic factors, expressed in statutory rules, and governing principals of distribution of particular benefits to particular groups of the population;
- government policy factors (reflected in fiscal and social policy), which particularises basic statutory rules.

All these and also other factors operate together in mutual relations and also compete one with another. This demands handling the everlasting discord between equity and efficiency in social programs.

### **3. Social Expenditures, Comparison of the Austrian and Czech Systems**

#### **3. 1 *The Aim of the Comparison from the Viewpoint of the Future Mission of the Social System***

The difficulties in the economic development during the past decade of the transformation have delayed the process of approximating the economic level of the Czech Republic to the European developed countries, including Austria, have deepened the scarcity of financial resources and have increased the fiscal pressure. The quickly growing income inequality has strengthened the threat of growing poverty, which affects mostly the low-income households with more dependent children and households of pensioners. At present, the threat of growing poverty concerns many countries and the transition countries in particular. These circumstances make implementation of social reforms particularly difficult. In addition to that, both the transition countries and the developed EU Member States must deal with difficulties brought by the latest developments in the society in general:

- the strongly discussed problem of ageing of the society, impacting the sustainability of present social systems in general and pension systems in particular;
- changes in the family structure; the growing share of incomplete families with growing demands on the social system;
- the persisting problems with unemployment;
- new patterns in geographical mobility of the population and labour force;
- threat to the peaceful development and exigency of redistribution of limited resources for protection it.

The combination of these topical issues has deepened the scarcity of resources and has made it necessary to mobilise both public and private resources as well as to exploit them economically and to curb the wastage.



### 3.2 *Limits of the Comparison Possibilities Determined by the Limited Database and Incomparable Statistics*

First of all, the limits are given by the Czech statistics, that experienced a process of transformation. The main limits are:

- the harmonized ESSPROSS (European System of Integrated Social Protection Statistics) methodology has been introduced by the Czech Statistical Office now and has only been introduced partially. Consequently, the individual types of social benefits are not harmonized, which affects the possibilities of our comparisons. For these reasons, some of them are only carried out in broader aggregates (pensions, for instance), others in selected items (sickness benefits in the total health care expenditure);

- time series are not quite comparable due to price changes and methodological changes in the indicators themselves. Many of the indicators were not updated at the appropriate points of time, which means that we often could not create time series for the whole period of the nineties (this applies to both compared countries and in each such case we used the OECD data);

- lack of data about the recent changes in income distribution hamper the possibilities of evaluating the real position of the various households, which limits the possibilities of establishing the differentiation of the social measures for different strata of the population.

Nevertheless, these imperfections of the database used cannot discourage us in our attempt to find out the main differences and correspondences of the two systems and to assess their poor as well as efficient features.

### 3.3 *Main Indicators, their Comparison and Problems*

The most general quantitative characteristics of social expenditure level is its share in GDP expressed in percentage (SE/GDP), so-called social quota. The data in the Table 3 demonstrate a higher level of the Austrian social quota and at the same time some convergence among them (see also Figure 2).

Table 3  
**Social Quota** (in %)

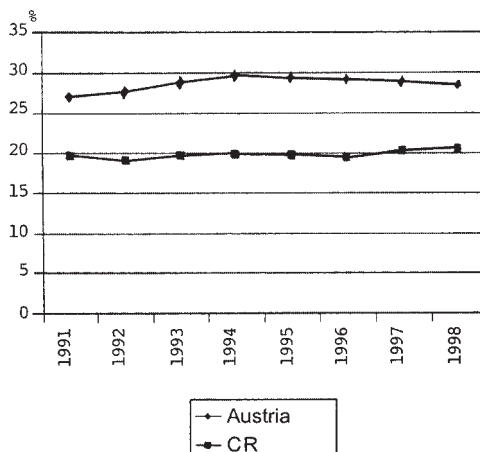
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Austria	27.1	27.7	28.9	29.7	29.3	29.1	28.8	28.5	28.8	28.8.
CR	19.8	19.2	19.8	20.0	19.7	19.4	20.3	20.5	21.8	22.6
EU – 15	25.4 <sup>1)</sup>	28.9	28.6	22.0	.	.	27.7	.	.	.

1) Year 1990.

Source: see Table 1.

In general, more developed countries show a higher social quota as a result of the growth of social expenditure over a long period of time. From the 15 EU countries, only Ireland, Portugal and Spain – the countries with the lowest economic levels among the EU countries – are approaching the Czech level (the Irish level being the lowest one of them). However, to specify the Czech quota, the different methodology must be taken into account: pensions, as well as none of the other social benefits are taxed in the Czech Republic. For better comparison we should

Figure 2  
Social Quota



deduct the tax applied in the EU countries. For instance, in 1996 the tax on the pensions in Austria reached ATS 30.8 billion. In this case, the comparable social quota will be 28.8 %, not 29.1 %. But the difference is not too remarkable and confirms the fact that the main difference is given by the different economic level. There are discussions about the pension taxation. There are some arguments saying that pensions should be taxed because the contributions are tax-exempted. On the other hand, it is in fact the same income and expenditure of the state budget. In any case, this is a question of comparable methodology of the EU countries and the candidate countries.

Another matter is the cyclical variation of social quota or its changes from year to year. It is composed of two components, which may move in different directions. In general, the social quota is higher in the period of sluggish GDP growth and lower in the period of economic boom. This is quite understandable because there are certain expenditures, which cannot be cut or have to be increased due to a changing social situation (growing amount of unemployment benefits, pensions for the growing number of pensioners, especial the ones who retired early) and to avoid negative changes in the poverty line. For example, this was the case of the Czech Republic in 1997 and 1998. The SE/GDP ratio grew when there was negative growth of GDP.

Therefore, examination of social quota development requires a specific analysis of both of its components otherwise it will provide us with very little information.

Up until now, we have been examining the European conditions and public social expenditures. Most of the countries here have similar distribution and redistribution of incomes and mutual comparisons are possible. There is a different system, for example, in the USA, a highly developed country, whose SE/GDP was as low as 17.1 % in 1995. However, together with the private expenditures, the percentage of the net social expenditure reached 24.5 %. In the European social systems, the private elements of social expenditures are now being strengthened because in the historically developed rich systems of social protection, the strain is growing and the different systems – European and American – will probably come closer to each other in the future.

Five great groups make up the manifold and numerous types of social benefits, with the following percentage shares in the total social expenditures in 1998.

Table 4

**Structure of the Social Expenditures (in %)**

	Pensions	Sickness/ Health care and disability	Family/ children	Unemployment	Housing and others
CR	40.7	41.3	12.2	0.9	4.9
Austria	48.2	34.9	10.0	5.5	1.4
EU 15	45.7	35.1	8.3	7.2	3.7

Source: Austrian data: EUROSTAT, 2000; Czech Republic data: OECD, Economic Surveys, Czech Republic, 2000.

The structure of social expenditures is very similar. Whatever European country we take, pensions represent the greatest share in the social expenditures (see also the average of EU 15). The Czech Republic is the only country where the share of sickness and health care on the one hand and that of pensions on the other hand are very similar whereas there is a remarkable difference between the EU countries and Austria. However, these data are not quite comparable with the OECD data presented above).<sup>2)</sup>

There are mutual relations and dependences among the various types of social benefits and among them and the parameters of labour market, financial market and economic situation in general. Therefore social reforms must be carried out as a complex of measures and procedures, which take into account all significant direct as well as indirect impacts. This makes the reforms of social systems very difficult. In the following part we introduce the main features of the individual types of social expenditures and their parameters.

**Pensions present situation.** Pensions are the main item of social expenditures, nearly one half of public social expenditures. There are many similarities but also many differences between the Czech and Austrian pension systems. They are both pay-as-you-go (PAYG) systems with the possibility of supplementary voluntary insurance. In both countries, new pension systems are being prepared for the reason of shortage of resources and broad discussions about the pros and cons of both the PAYG and funded systems are taking place.

In principle, the types of pensions in both countries are the same: there are old-age pensions, widow's pensions, widower's pensions, orphan's pensions and disability pensions. In Austria, there are still other types of pensions such as war casualty pensions, low rents and others. The shares of different kinds of pensions are, however, not quite comparable because of the different benefits included in several types of pensions (the Austrian old-age pension also includes some other benefits, which are included in sickness or family benefits in the Czech Republic).

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2) For the development of social and health systems expenditures in absolute figures, see Main Economic and Social Indicators ..., 2001. For the corresponding figures on Austria, see Bericht über die ..., 2001.

The eligibility age for a pension is higher in Austria – 65 for men and 60 for women with the possibility of a premature pension at the age of 60 and 55 respectively, under the condition that the beneficiary either has worked for 35 years or has been unemployed or sick for one year and was insured for a minimum of 15 years. However, the possibility of taking advantage of the early pension resulted in a decrease in the actual age of retirement and the need for benefits consequently increased drastically. For example, in the year 2000, 91 % of new male pensioners and 65 % of new female pensioners, who together represented 79 %, started to receive pensions on a premature basis and the actual age at which one starts to receive his/her own pension averaged 57.7 in that year (58.4 for men and 56.8 for women); for old age pensions: 58.9 on the average (59.8 for men and 57.9 for women). Therefore, one of the efforts of the pension reforms in Austria is to reduce the possibility of early retirement by prolonging the required insurance time.

There are more differences in both countries' systems. For example, in Austria the period of time for which a person is at a high school or a university is not included in the work period but this time can be "bought" for a certain sum of money, which is, however, quite high and cannot be paid by everyone. A similar prospect exists in the Czech Republic.

In the Czech Republic, the pension eligibility age was lower than in Austria (60 for men and 55 – 59 for women depending on the number of their children) but it is now being adjusted upward every year by two months for men and by four months for women. This will continue until the year 2007 when the eligibility age of 62 will be reached for men and 57 – 61 for women. The problem with early retirement is the same as in Austria.

For historical reasons, Austria has different pension systems for some professions. State officials (civil servants) and a part of the railway employees in particular, have notably higher pensions and other advantages; among other benefits, the pensions are only derived from the last salary. Other officers and employees in the mining industry also have their own pension system. However, unification of pensions for all professions is being prepared.

The Czech pension system is uniform for all kinds of professions; all exceptions, which existed in the old regime, were cancelled during 1990 – 1992.

**Quantitative comparison of the figures on pensions.** For general survey of the Austrian and Czech situation in pension expenditures, we have used here (and also at other kinds of social expenditures) the only comparable data that are at our disposal, the OECD data, (unfortunately only to the year 1998) in current prices and PPPs (USD) per capita and the main kind of pensions, the old age pensions.

Table 5

**Old Age Pension in Comparable Units** (in USD per capita, current prices, PPPs)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Austria	1603.9	1694.7	1815.1	1948.9	2074.0	2195.8	2296.5	2315.1	2347.2	.
Czech Rep.	627.9	571.3	595.7	588.2	601.0	662.7	720.5	829.6	829.9	905.2

Source for Tables 5 – 10: OECD Social Expenditure database (SOCX), 3rd edition 1980 – 1998 (CD ROM Windows).

The ratio of the Czech expenditure for old age pension per capita to the Austrian one was 39.1 % in 1990; it dropped to 35.4 % in 1998. Also, the dynamics of the

Czech pensions were lower. These data indicate the great difference in the standard of living of the Czech pensioner in comparison with the Austrian ones.

The average pension in per cent of the average net earnings (net replacement rate) in the Czech Republic decreased from 66 % in 1990 to 57.7 % in 1999. The net replacement rate was 78 % for new pensions in Austria in 1998 (the latest calculations by the Ministry). This figures does not include the pensions for civil servants (their net replacement rate approaches 100 %). In general, the findings in most of the developed countries of OECD have shown that the ratio of the median disposable income of the people aged 65 and more to the median disposable income of all ages amounts to approximately 80 % (see OECD: *Reforms for an Ageing Society*, 2000). Such a ratio should be the goal for the Czech Republic in the future.

Both in Austria and the Czech Republic the average old age pensions of women are lower than the pensions of men, which is, of course, determined by the lower wages of women and by shorter insurance period. In 1999, the average pension of a woman represented 85 % of the pension of a man in the Czech Republic; in Austria it represented merely 52 %. The reason for this difference can be found also in the high share of part-time employment of women in Austria. Here also the share of women who retire prematurely is higher. It must be added that the threat of poverty of old lone women is very topical. The different conditions and interests of women in family life must be taken into account by the pension reforms.

In both countries, pensions are valorised every year. In the Czech Republic, revaluation has taken place when the inflation rate exceeds 5 %, with some time lag; now, a new law has been adopted in accordance with it the valorisation of pensions will take place at the beginning of every year, dependent on the rate of inflation and partially on the growth of average wage. In Austria, revaluation is determined by the government so that it closely follows the development of the gross wage; the valorisation is usually a little lower. If we take into account the development of inflation or the living costs, the result is that the real average pension in Austria increased by 12 % in the period 1990 – 1998, while it has not reached the level of the year 1990 in the Czech Republic.

In summary, if we take into account the higher replacement rate and the fact that Austrian pensioners receive the thirteenth and fourteenth pensions and, moreover, that the real income of the Austrian pensioners grows while the Czech one has decreased and has been stagnating recently, the situation of the Austrian pensioners is better than that of the Czech ones due to the higher economic level of the country but also due to the more favourable pension system. This may also be the reason why the introduction of the funded pension system in Austria is not so urgent as it is discussed in the Czech Republic. Nevertheless, in the Austrian pension system, we can find also some conservative features. For example, we have in mind high pensions and specific pension system of the civil servants; on the other hand a part of Austrian women have not their own pension and are very dependent on their husbands. Both these problems are the matter of discussions of future pension reforms.

**The future of the pension systems.** The main factor determining the inevitability of changes in the pension system of all European, and not only European countries, is supposed to be the ageing of the society (see OECD: *Reforms for an Ageing Society*, 2000). However, the ageing of the society will be retarded by better living conditions of old people (the present sexagenarian is much “younger” than twenty or more years ago). This is a reason for prolonging the eligibility age. Besides that, even today, many countries, among them Austria, pursue the active policy of offering half-time employment, schooling, etc. to old people. Also, the birth rate will begin to grow in those societies where many families decide to postpone the birth of the

first child, which is far from being a bad tendency. And those families, who will decide to have less children or no children at all, will have to their disposal relatively greater amount of finances to provide for their own old age than families with children.

The necessity of pension system reforms has already been the subject of never-ending discussions and publications both in economical and sociological circles for a long time. The majority of European discussants admit the necessity of looking for complementary sources to PAYG system, some of them prefer the PAYG system and call for its conservation, some of them prefer a funded system, especially the occupational one and call for its introduction. In some countries the latter is of a great meaning (in Great Britain and in Netherlands). In the ongoing discussion we can hear voices pointing out marginalisation of the importance of the productivity of labour and hi-tech in compensating for the deteriorating age structure of the population. These arguments can serve as substantiation of sustainability of the PAYG system or as substantiation of the possibility of maintaining the growth of the living standard of the population, including pensioners.

It seems that everything about pension reforms has already been said and all ongoing reforms in different countries have been evaluated. However, the main difficulties of introducing any pension reforms lie with the already mentioned complex character of the matter. Changes of the system have a great impact on and consequences for both economic and social life of the society as a whole. Special difficulties are perceived in transition countries. The scarcity of sources is higher, income inequality is greater and the financial market is underdeveloped. No wonder that a great part of the population has the tendency to rely on the state as before and prefers the PAYG system. However, the situation is not quite so unequivocal. Clarification of the demographic situation development and the limits of a PAYG system has brought some results, which can be seen, for example, in the growing interest in voluntary pension savings and other forms of savings of the population.

Austria, in addition to its PAYG system, created a new government-subsidised savings scheme. People, who pay up to EUR 1000 per year as a pension contribution under the private insurance or occupational pension programmes, voluntarily upgraded the statutory insurance schemes and the funds known as "pension investment funds" will be credited a government premium of 4.5 % of the saved total. Investment earnings and pension benefits are tax-exempted.

The Czech Republic introduced supplementary voluntary savings with state contributions in 1994 and, in 1999, strengthened this mechanism by a minor amendment, which allows for providing employers and employees with tax benefit, if they contribute to the existing voluntary savings system with state contributions. This individual voluntary pension insurance has developed very quickly during the recent period. There are now 19 private pension funds operating in the pension and life insurance business. Today, there are 2.4 millions of savers, which means that more than a half of employees are participants of this form of pension insurance. The minimum duration of saving required for receiving the state contribution is now 5 years. Nevertheless, this form of saving is not a pure pension saving. Rather than young people, people of middle and older age, even the pensioners, prevail among the participants because everybody knows that this is the most efficient way of saving in a situation of negative interest rate on term deposits, due to a relevant inflation rate. Discussions about the efficiency of the state contribution are taking place; it is being pointed out that this is a subsidy to the richer part of population.

It should be added that the housing savings scheme is a competitor to the pension insurance among young people. However, from the point of view of future pensioners, it is the choice between having their own home or flat and not paying rent

or paying rent and having a higher income. From the point of security, having one's own immovable property is perhaps the better alternative today.

These steps introduced to improve the pension systems in both countries are only the beginning of comprehensive pension reforms.

**Sickness benefits, health care and disability-related expenditures.** This type of benefits is not quite comparable. The Czech concept of the sickness insurance is different; the data include various maternity benefits, benefits for treatment by a family member and some others. In the Austrian concept, some of these items are included in family benefits. Because the positions are separable, we can treat sickness money as such. Also, the periods of sickness expressed in the number of days per person are not comparable because the Austrian statistics distinguish between blue-collar and white-collar employees. But we can estimate the total and derive the trend of development. The period of sickness in the Czech Republic is longer than in Austria and it has a downward trend here, especially with younger workers.

The indicator of sickness in the Czech Republic during transition has reflected not only the real sickness but also the relation between wages and sickness benefit as well as the situation on labour market. Especially the workers in the very-low-wage brackets used to be ill, often with the help of a physician. A sick person gets 50 % of his/her labour daily income for the first 3 days and, starting from the 4th day, the rate is 69 %.

However, from 1. 1. 2000, the daily base has been limited to CZK 400, and for amounts ranging from CZK 400 to 590, the limit has been lowered to 60 % (it was lower previously). Valorization depends on the development of the average wage. In reality, there is a sizeable redistribution of financial means to the low-income workers and this is the reason why it is convenient for them to be sick. On the other hand, the workers in high-income brackets prefer to work even when they are really sick. In the last two years, the amount of sickness benefits has stagnated and even has decreased. In this case, the growing unemployment and the fear of losing one's job doubtless play their roles.

The comparable OECD data in PPP (USD per capita) only for the sickness benefit indicate richer Austrian sickness benefits in comparison with the Czech ones.

Table 6

**Sickness Benefit** (in USD per capita, PPPs)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Austria	201.4	215.0	232.5	232.7	238.1	247.1	242.1	231.9	.	.
Czech Rep.	140.4	99.0	101.1	105.6	134.3	146.0	154.1	139.4	117.5	114.2

However, the balance of the whole sickness insurance money in the CR is positive. It is perhaps the question of lowering the contributions rather than the question to higher the sickness benefit. The sickness benefit is a small part of the whole system of health care. In Austria, it has represented 4 % in the last two years. It is, however, higher in the Czech Republic (in 1999 its share was 11.7 %). Here it was treated separately because it is financed from different types of contributions, in the Czech Republic from social contributions. Nevertheless, it is a part of the total health care system.

**Health care system.** This part of social expenditures represents the second greatest item after pensions. Some of the factual (non-financial) indicators in the field



of health care are quite identical in the Czech Republic and Austria, for example, 3 physicians per 1000 inhabitants and 8.9 beds per 1000 inhabitants in 1998. The average number of days spent in in-patient care was remarkably higher in the Czech Republic, especially in 1988, which reflected the situation in the previous regime. In the last years, the number of days in the Czech Republic has strongly decreased due to the very strained budgets of hospitals.

The financial expenditures on health care in both countries differs substantially. Considering the comparable OECD data for the year 1998, the total expenditures per capita in PPP amounted to USD 1,968 in Austria and USD 930 in the Czech Republic, which means mere 47 %. The main factor of this difference is again the economic level, expressed as GDP per capita. The shares of health care expenditures in GDPs expressed in national currency are much closer: 8.2 % in Austria and 7.2 % in the Czech Republic. The growth of health care expenditure in the Czech Republic is lower than in Austria and this means that the retardation continues.

Table 7

**Expenditures on Health Care** (in USD per capita, PPPs)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Austria	886.1	932.4	1049.2	1146.1	1200.8	1344.6	1388.6	1338.0	1361.1	.
Czech Rep.	553.2	484.8	505.5	708.6	755.5	835.3	849.1	852.1	851.9	889.9

The share of the Czech expenditure on health remained the same – about 62.5 % of the Austrian expenditures, but we must take in account, as in other cases, the inflation rate in the Czech Republic, which was in 1998 more than 10 %, and in Austria less than 1%. In addition to the aggregate expenditure on health care, it will be useful to present the comparable data on services for people of old age and disabled persons.

Table 8

**Expenditures on Services for People of Old Age and Disabled** (in USD, per capita, PPPs)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Austria	43.4	47.1	55.3	59.5	77.0	75.5	94.7	106.0	.	.
Czech Rep.	43.7	38.5	46.7	56.6	59.3	65.7	63.9	65.3	63.0	67.8

While this expenditure increased by 144.2 % in Austria over this period, it only increased by 49.4 % in the Czech Republic over the same period.

The in-patient care represented the greatest share in the total expenditure on health care. It was about 45 % in both countries. Other items are incomparable due to different contents. (We would need very detailed data, which are not available within the published information.)

The method of financing health care in the Czech Republic changed substantially. Prior to 1993, all expenses on health care in the Czech Republic were paid from the state budget covered by taxes. Since 1993, the largest part of these services has been financed by health insurance corporations from collected insurance premiums. Now a small part of health care is financed from the state budget, which only covers selected activities of health facilities, which are not covered by insurance (medical research and education, AIDS problems, drug control, etc.). The share of

public budgets in health care financing decreases continuously. Nevertheless, the amounts of these expenditures grow. This is also one of the factors, which increases tension in the financial sources of public budgets and forces the state to look for new financial means for covering the growing expenditures.

One of the characteristic features of the transformation period connected with the social situation of the population on the one hand and the situation in public finances on the other hand is the shift from public services, financed fully from public budgets in the previous regime, to services paid by the population. Health care services are the most expressive example, which reflects this shift the most. Therefore, a significant and growing contribution has been coming from direct patients' participation in the recent years. From 1991 to 2000, the direct personal expenditures increased from CZK 1.3 to 12.3 bill. which means 9.4 times. At the same time, the public expenditures on health care (from public budgets and insurance companies) increased from CZK 43.5 bill. to CZK 129.626 bill. which means 3 times. In 2000 the share of direct personal expenditures in the total sum of expenditures reached 8.6 %. The expenditures on medicines, whose prices are extremely growing, have played the main role in the increase of direct personal expenditures (expenditures of households). Some of medicine prices must be shared by patients and, in addition to that, many new and expensive imported drugs, which were not previously available, are now demanded by clients with a higher income level, who buy them. But we must take into account that the expenditures on drugs in the period 1991 – 1999 in current prices increased 4.7 times, but in DDD/1000/d (DDD/1000/d = defined daily doses per 1000 inhabitants per day), as indicator, which can substitute the real consumption of drugs, only 1.6 times.

In spite of the high growth of the direct personal participation, the share is still very low in comparison with the Austrian one, in which case the participation of households in health care reached more than 25 %. The reason is that in the Czech Republic, the development started practically from zero.

In the last years, discussion about the approach of physicians to a patient has taken place. It has been emphasised that a psychosomatic approach should be adopted instead of merely prescribing large quantities of medicines, which is the hangover from the old regime, in which great wastage of medicines took place and most patients had a pharmacy consisting of unused drugs at their homes. With the current scarcity of financial means, this is a field where substantial economies may be found.

**Family benefits.** This is the third largest package of many kinds of benefits, very different in kinds, and not much comparable on the whole as well as individually. The aggregate data used are the data from EUROSTAT 2000 and OECD for general comparison. We will again direct our attention at the time series of comparable OECD data like with the above-analysed items. (We will only compare family benefits because the Czech data on services are not at our disposal to date.)

Table 9

**Family Benefits** (in USD per capita, PPPs)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Austria	356.4	361.8	395.3	429.1	515.4	493.4	486.3	463.6	453.1	.
Czech Rep.	300.6	273.1	266.6	233.7	234.4	242.4	242.2	234.7	209.3	219.1

At the beginning of the examined period, the share of the family benefits in the total social expenditure was 15.5 % and in relation to the Austrian amount of family benefit, it represented 84.3 %. In 1998, the last year, which is at our disposal for comparison, the share in the total social expenditure dropped from 15 % to 9.6 % and the share in relation to Austria decreased from 84.3 % to 46.2 %.

The greatest volume of the family benefits in the Czech Republic is provided in the form of state social support. The greatest part of this support is the "child" money. Up until 1995 this money was given to all children, like in Austria, from 1995 to 2001 it was only given to lower-income families. In 1994 this sum represented 53 % of all family allowances; in 1997, it represented 39.8 %. This sum is continuously decreasing because of the declining number of children and growing real wages. There are different opinions on the question of whether to give the support to all children or not. Of course, with such limited resources as in the Czech Republic, it is wastage to give support to the rich and very rich households. On the other hand, there is the question of the amount of costs incurred in administration of selectively paid allowances. However, these costs are difficult to calculate.

The total sum of family allowances amounted to CZK 31.85 billion in 2000, and from 1994 it increased by 35 %. The parental allowance, the second largest item, is characterised by the highest increase from CZK 5.2 to 7.7 bill. (Other allowances such as allowances for transport and habitation, etc., also depend on the income of the family. There are also new allowances, which are related to the increasing prices of fuel and rents.) In this case, the minimum subsistence level and its valorisation is the limiting level. The parental and foster allowances are paid on an across-the-board basis to all.

Both in Austria and in the Czech Republic reserves have been looked for in this field of allowances to rationalise the expenditures. But in the Czech Republic these kinds of expenditures seem to have a growing trend last time.

**Unemployment benefit and employment policy expenditures.** In the first part of this study and in Table 1, we have already presented the development of unemployment rate. The comparable OECD data, which we use for our purposes, only record the period, in which the rates were very similar in both countries. However, they show the remarkably higher financial means for unemployment benefits and employment policy in Austria in that period.

Table 10

**Unemployment Benefit and Employment Policy Expenditures** (in USD per capita, PPPs)

Austria	1990	1991	1992	1993	1994	1995	1996	1997	1998
Benefit	144.1	169.9	192.5	271.4	287.7	226.1	231.6	211.4	214.4
Policy	51.7	61.3	54.6	62.8	71.2	76.9	87.4	103.0	104.3
Czech Rep.									
Benefit	.	21.3	16.6	14.5	17.2	16.0	17.5	26.8	29.9
Policy	.	16.3	27.4	17.2	17.0	17.2	16.0	15.1	16.6

The amounts of Austrian unemployment benefits were not only incomparably higher but their growth was also higher. From 1991 to 1998, the unemployment benefits grew at 148.8 %, the Czech one at 140.4 %. But since 1998 the unemployment benefit in the Czech Republic has grown many times in connection with

growing unemployment rate. (In 2000 it amounted to CZK 9.1 bill. and increased in comparison with 1997 3.5 times.)

When comparing the two countries in this field, we must take into account the specific situation in the Czech Republic given by the transformation impacts. Retraining, for example, is of special importance because of the deep structural changes in the economy, where some professions will not find work any more. Therefore a great part of the money spent on the employment policy is used for retraining. The special circumstances of the transition also increase the number of premature pensions because, for instance, a coal miner or metallurgist of an older age is not interested in retraining.

This was the comparison of main kinds of social expenditures in the Czech Republic and Austria. If we generalise our findings, we must admit not only higher level of Austrian social expenditures, but also their higher growth during nineties. This is really a memento for the Czech social policy to look for measures stimulating positive features in labour market development on the one hand, on the other hand to look for economies and elimination of wastage in different kinds of expenditures.

In connection with social expenditures, we have investigated the sources for covering them both in Austria and the Czech Republic. But this has not been the subject of this article. (For more details both of social expenditures and their sources see Vavřejnová, Wörster, 2002).

#### **4. Conclusion**

The comparison across countries has been limited by a partly incomparable database, especially in the detailed indicators, which calls for harmonization of the statistical methodology on the Czech part, where ESSPROS has not been fully introduced. In spite of these obstacles, we can draw some conclusions about the social systems especially about the categories and structure of social expenditures in the compared countries.

Our investigation has confirmed the assumption that the main factor of the greater wealth of the Austrian social system is the markedly higher economic level of the country. The superior social care in Austria, expressed in a notably higher social quota, results from greater efficiency of its economy: higher real GDP per capita and higher productivity of labour.

The used comparable data expressed in PPPs help compare different kinds of social expenditures and their structure, although they do not cover the entire investigated period. If the ratio of the Czech GDP to the Austrian one is about 54 %, then we can liken the different kinds of expenditures to this share. The structure of the social expenditure in Austria is in favour of pensions, its share is also higher than the EU average. Perhaps this is one of the reasons why a deep reform of the pension system is not as urgent as it is in the Czech Republic, even though it is also necessary. The Czech pensions only amount to 35.4 % of the Austrian ones. The percentage of the health care expenditure amounts to 63.7 % of the Austrian expenditure, which may indicate some wastage in the use of finances in the Czech Republic. The percentage of the sickness benefit in the Czech Republic as well as the expenditure on the disabled amounts to 60 % of the Austrian sickness benefit and expenditure on the disabled. The percentage of the family benefit is about 46 % of the Austrian one. The percentage of the unemployment benefit and employment policy expenditure was very low, namely 14 % and 16 %, respectively of the Austrian one to 1998. But later on it has increased in relation to the increased unemployment rate.

Both countries are experiencing a shortage of finances for covering social expenditures, expressed in the shortage of means from social and health contributions and in deficits of their public budgets. Both countries are seeking means and economies to cover the growing social expenditures. In Austria there is a greater share of participation of the population in various payments for public services. In the Czech Republic, this share will doubtless grow but it will depend among others on the changing rate of income distribution.

An important fact following from analysis of the income and expenditure sides of the public finances must be noted. In the Czech Republic, there are not still implemented enough alternative non-governmental forms of social help, especially social services on the level of municipalities and social civil institutions. These alternative forms could create a broad and efficient area for solidarity and help to the needy. The survey, carried out by research and public estimation organizations in 1998, confirms that population strata with low incomes (pensioners, families with little children) prefer enlargement of social services (52 %) to an increase in financial benefit (48 %). This may perhaps be certain softness or lack of initiative on a part of this segment of population, acquired in the previous regime. On the other hand, the development of alternative forms of social help would contribute to social conciliation and would create broader space for more liberal social policy.

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