

Adi Buxbaum (ed.)

PERSPECTIVES FOR SOCIAL PROGRESS

SOCIAL INVESTMENTS

HAVE MULTIPLE BENEFITS

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Social policy in discussion – issue 16

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PREFACE

A few years ago, the European Commission (EC) adopted a new perspective on the importance and effects of social policy. Social distortions in Europe due to the recent financial and economic crisis surely contributed to this changed view.

The Austrian Federal Chamber of Labour has always been committed to a strong welfare state, as well as to securing and developing it – and for good reason. The merits of social policy and protection through the welfare state are manifold – and usually underestimated. Examples are:

- A strong welfare state guarantees social protection and fair opportunities for participation for all population groups.
- At the same time, a strong welfare state is an indispensable element in sustainable economic success and the sustainable consolidation of public budgets.
- Social investments have multiple benefits – from both an economic and a societal perspective.
- The “social question” is becoming more and more pressing and needs “social responses”.

The Federal Chamber of Labour hence shares the EC’s – increasing – realisation that European countries with the most effective social systems and the best developed social partnerships are among the most successful and competitive in the world (see J.M. Barroso, “State of the Union” Speech 2012) and are more resilient to economic crises. The latter is a crucial finding of the report “Employment and Social Developments in Europe 2014” (EC 2015), which points out that “Countries providing high quality jobs and effective social protection and investing in human capital have proved to be more resilient to the economic crisis”.

Hope remains that the Commission under President Jean-Claude Juncker will argue more strongly for a “renaissance of social policy” at European level – not only because of the consistently high demand for social benefits due to the continuing labour market tragedy in Europe, but also from a progressive and evidence-based conviction that effective welfare systems and economic competitiveness do not mutually exclude but reinforce each other.

Social investment can make an important contribution to consolidating public budgets – not in the short term, but all the more so from a medium- and long-term (and therefore sustainable) perspective. By resolving structural problems (educational deficits, lack of work/family balance, increasing demand for social infrastructure, e.g. in the field of care) and stimulating growth and employment, investment and preventive approaches in social policy ultimately benefit public budgets.

While taking measures to stabilise and enhance welfare state protection in Europe, social investment must not be allowed to fail because of budgetary policies primarily aimed at achieving immediate effects. This requires a paradigm change that is essential for positive development of our society and, on the individual level, for people’s lives, especially since the costs of inaction are significantly higher in the long run.

In this publication, by presenting selected examples, the Federal Chamber of Labour aims to highlight the economic and social need to eliminate austerity policies and to point out the medium- and long-term benefits of social investment for the member states and Europe as a whole.

*Rudi Kaske
AK President*

INTRODUCTION

Social problems demand social responses. These require a strong welfare state.¹ Despite that, the European Commission and most ministers of finance are in favour of austerity programmes. However, these only aim at short-term effects and do not solve existing problems. This should be common sense for all relevant actors. But the reality is different: For years in a row, organised labour has warned repeatedly against massive social distortions and low economic growth. Nevertheless, the austerity regime which was established after the financial and economic crisis is still hegemonic.

AUSTERITY HAS FAILED IN EUROPE

Such an assessment is empirically supported even by EU analyses and standard reports, such as the European Employment and Social Development report 2013 (European Commission 2014a) or the sobering “taking stock” communication on the implementation of the EU 2020 strategy (European Commission 2014b).

Austerity measures have not only put social cohesion at immense risk but also restrained the growth dynamic in Europe and massively shaken the confidence of citizens in reliable institutions.

Recent trend analyses (European Commission 2014a) show that social conditions in Europe have in no way improved even in 2013 and the first half of 2014: more than five years after the onset of the financial and economic crisis. On the contrary: About 10 million more people are unemployed than in 2008; and precarious employment, which usually does not guarantee a living wage, is on the rise, as are inequality and poverty. In 16 out of 28 EU member states, especially countries on the periphery, already high levels of social risk have been further exacerbated. The failure of crisis management is most evident in the fact that unemployment has reached record highs beyond the 26 million mark. This has happened despite “embellishing” methods: In the concept used in the Labour Force Survey, an individual counts as employed if she worked and got paid for one (!) hour per reference week (Biehl 2013).

RAYS OF HOPE ON THE WAY TO A MORE SOCIAL EUROPE?

Recently, several signs of a re-thinking of and a new perspective on the meaning and effects of social policy have been observable. A variety of actors have articulated an understanding of human-centred, active (in contrast to the neoliberal concept of “activating”) social policy as having positive multiple dividends. The following statements serve as examples:

1. State of the Union address by the (then) President of the European Commission, José Manuel Barroso (European Commission 2012):

¹ In this publication, we use the term “social investment (welfare) state”. A social investment state is sometimes seen as a rather weak welfare state with means-tested “poor services for the poor” and a very selective approach to social expenditure in terms of reducing expenditures to those that “pay off”. In contrast, we understand such a welfare state as a) strong, b) active, c) well-funded, and d) widely accepted as an important social achievement. We therefore have a broad concept of a social investment state, which also ensures social protection, high social standards and legal entitlements.

“Yes, we need to reform our economies and modernise our social protection systems. But an effective social protection system that helps those in need is not an obstacle to prosperity. It is indeed an indispensable element of it. Indeed, it is precisely those European countries with the most effective social protection systems and with the most developed social partnerships, that are among the most successful and competitive economies in the world.”

2. “Social investment package” of the European Commission (European Commission 2013a, 3):

“Welfare systems fulfil three functions: social investment, social protection and stabilisation of the economy. Social investment involves strengthening people’s current and future capacities. In other words, as well as having immediate effects, social policies also have lasting impacts by offering economic and social returns over time, notably in terms of employment prospects or labour incomes.”

3. Communication of the European Commission on Strengthening the social dimension of the economic and monetary union (European Commission 2013b, 3):

“Without collective action to ensure that employment and social challenges are tackled in a timely and effective manner, long-lasting disparities may develop.”

4. The OECD, referring to the negative social impact of inequality and the recent crisis (OECD 2014, 11):

“The capacity of governments to meet these challenges is constrained by fiscal consolidation. However, cuts in social spending risk adding to the hardship of the most vulnerable groups and could create problems for the future.”

5. Statement by the European Economic and Social Committee on the social investment package of the European Commission (European Economic and Social Committee 2014, 1):

“The better social investment is embedded within a credible macroeconomic and institutional framework, the higher the economic, fiscal and social benefits, i.e., the ‘multiple dividends’ of those investments will be.”

Statements like these – especially the “realisation” that the countries with the best social security systems and the most developed systems of social partnership are the ones which are most successful economically (see Barroso quote) – give cause for hope. The reference to the so-called “automatic stabilisers”, that is, in particular the supporting effect of public pensions and unemployment benefits on consumption, is also to be noted positively. The empirical evidence behind these assessments shows again that stable and reliable social security systems and social institutions are needed precisely in times of crisis.

Furthermore, the statement of the European Economic and Social Council (2014) – which was passed with an overwhelming majority, meaning it was also supported by employers’ representatives (!) – is remarkably progressive. It describes important causal chains of social policy. At the same time it makes clear that different security systems should not be pitted against each other and that social expenditure should not only be made in areas where it “pays off”.

Recent academic research (e.g. Hemerijck 2014) also found that progress in welfare policy in no way stands against economic progress or growth. On the contrary: Crowding-in effects

can be seen, which means that public policies support the initiative of individuals and enable them to actively – here only in an economic sense – engage in the economic system.

WAITING FOR A PARADIGM SHIFT

Those who had hoped that this appreciation of the benefits of good social policies would result in credible steps towards programs to combat unemployment and other social problems have so far been disappointed. A paradigm shift away from neoliberalism and austerity is still not in sight.

There are legally non-binding recommendations on social investments, strengthening the social dimension, etc. on the one hand, and legally binding strategies to continue or even intensify the course of the last years (Fiscal Compact, Sixpack, etc.) on the other. As far as we can see right now, it will be these flawed strategies which will continue to determine the direction of EU policies in the coming years. Among other things, the continuing attempts to further dismantle existing social and labour rights standards are a case in point. These strategies are presented as a supposedly appropriate answer to the problems which have arisen in the wake of the financial and economic crisis.

HOW WILL DISCURSIVE AND SYSTEMIC CONTRADICTIONS BE RESOLVED?

In principle, organised labour sees both the “social investment package” and the initiative by the European Commission to “strengthen the social dimension” as positive first steps towards a necessary paradigm change. As mentioned earlier, however, it is clear that these steps are in conflict with the general orientation of EU policies.

In the political debate, discursive opposites become visible. The way these are resolved will significantly influence the future of social security in Europe. The debate about possible approaches and reasonable balancing of social politics is, depending on the specific interests of the individual groups, characterised by competing views, including the following:

- Pro-cyclical austerity policies vs anti-cyclical focus on, e.g., achieving the employment and poverty reduction goals of the EU 2020 strategy
- Binding fiscal goals vs non-binding social goals
- A short-term accounting logic (“zero budget deficit” as soon as possible) vs sustainable medium- to long-term consolidation of public budgets
- A welfare state reduced to avoiding poverty (“poor services for the poor”) vs a strong welfare state with a high level of protection, a preventive focus, and a universal character
- Selective “investments in the future” financed by cuts in social welfare vs an inclusive social policy embedded in a strong, well funded welfare state, including protection in different situations of risk over the life cycle (such as educational deficits, unemployment, poverty, old age, sickness, etc.)
- “Structural reforms” in terms of weakening labour rights vs positive further development of existing protective provisions in order to master new challenges.

Which perspective will eventually succeed – discursively, but more importantly in terms of designing policies in practice – is not least a question of who succeeds in defining how social policies should function. Even more, it is a question of (political, economic, institutional, etc.) power relations and the constitutional reality both at the European and national level.

INVESTING IN THE WELFARE STATE - EXAMPLES

This publication demonstrates the social and economic significance and necessity of social investments using several examples.

- Topics such as childcare, apprenticeships in public training centres, and all-day schools show that well-designed investments in the welfare state not only help to address social problems, but can also significantly contribute to a sustainable consolidation of the public budget. When structural problems are solved and growth and employment are stimulated, public budgets can be permanently unburdened.
- This publication also shows that inaction – and therefore accepting the persistence of problems – is usually an expensive option resulting in substantial long-term individual and social damage and corresponding costs (such as not removing qualification deficits [see NEET issue; NEET = person under 24 years who is not in employment, education, or training] or health risks). In this context, one contribution examines the expensive consequences that misallocations and a non-existent care infrastructure in Vienna would have.
- When we look at the budget effects of achieving or not achieving the employment goal of the EU 2020 strategy, the huge monetary dimensions at stake become apparent. These were calculated in a European Policy Center study, which has been summarised for this publication.

CAN SOCIAL POLICY IN EUROPE BE RE-ORIENTATED AND CONSISTENTLY EMBEDDED IN THE RELEVANT INSTITUTIONS?

To sustainably and successfully implement a broad social investment package, a credible macroeconomic, legal, and institutional embedding of social policy is required. One of the crucial preconditions is appropriate budgetary room for manoeuvre, which arguably can currently only be achieved by turning away from the austerity regime and by implementing a target-oriented redistribution policy. This is the only way to both sustainably strengthen the social dimension and consolidate public budgets (in the medium to long run). To implement such a strategy would also make it considerably easier to position European and national institutions as believable and reliable once more.

If European policy instead remains headed in the current direction, there is a serious risk that not only will the EU initiative on social investments be a waste of paper, but also that this will further exacerbate social problems in Europe.

A broad commitment to, or a paradigm change by the European political elites towards, a strong, well funded welfare state is preferable. Such a state would contribute to securing Europe's future sustainability and enable economic and social participation on an individual level.

It is important to clarify that a strong welfare state does not necessarily require an economic justification. Its successes are primarily measured in terms of criteria such as the establishment of justice, equality or social cohesion. At the same time, it should not be overlooked that the welfare state is also of great significance for a sustainable functioning of the economy.

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THE COSTS OF INACTION: WHAT DOES IT COST TO DO NOTHING?

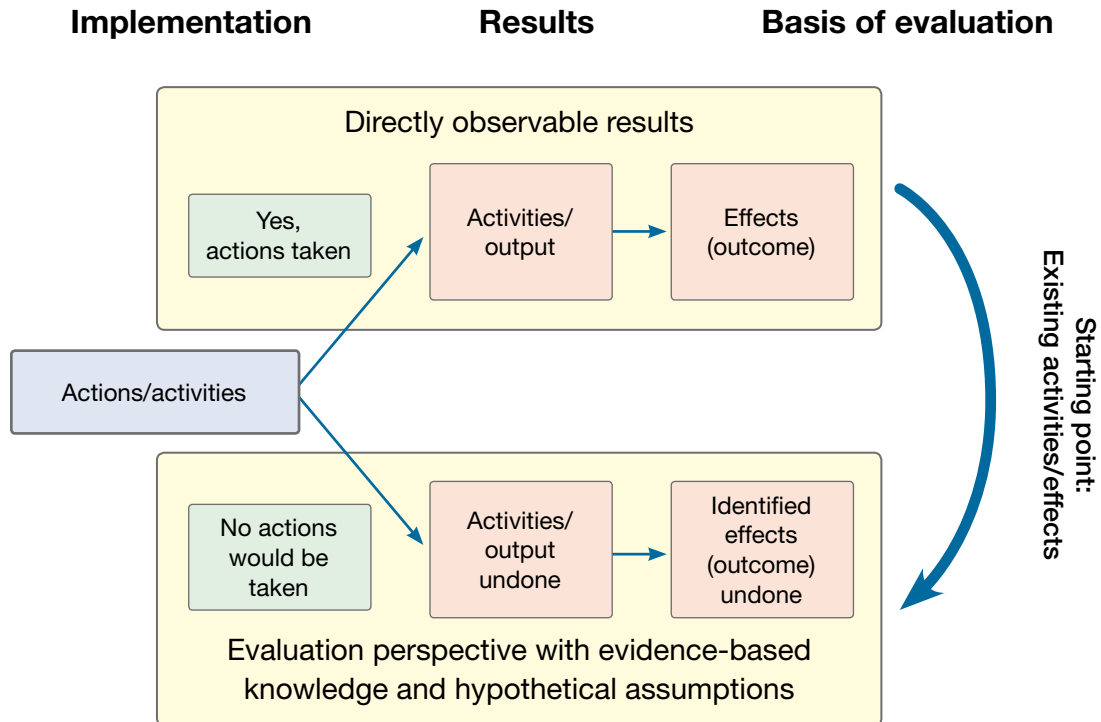
1. ACTIONS AND THEIR EFFECTS

All of us take actions continuously: We go out, we have conversations, we produce things. Each of these actions, such as inviting somebody somewhere or providing a service, changes something for other people, the environment, or ourselves. Yet, the same is also true of not taking action, for instance, not providing support to certain groups or not going on a planned trip.

Put more generally, every action, and every non-action, has effects. This might sound trivial, but it is crucial for understanding that doing nothing also has an impact. Deciding to do nothing in case of doubt can relieve the burden in the moment, but can have (un)intended effects. Analytically it is irrelevant whether we look at an action or inaction. Yet to identify the effects of inaction is disproportionately more difficult. In this case, the first question to be answered is whether it was really “nothing” that was done, or rather if something was done somewhere else (alternative effect). The next question is whether inaction might have freed up resources for a future, more effective action (time effect). In the case of inaction, we have to hypothetically assume the activity and the effects if an action had taken place. Here, more assumptions are required than in the reverse case, in which an action has led to identifiable effects and these “only” have to be theoretically undone.

Figure 1 shows scenario A, in which actions were taken. In order to analytically evaluate them (evaluation perspective), it is assumed that these actions were not taken in the alternative scenario. Accordingly, activities and the resulting effects must be theoretically undone. This is less problematic insofar as real activities in a real context have taken place. The effects had these activities not taken place are easier to estimate than in scenario B (Figure 2).

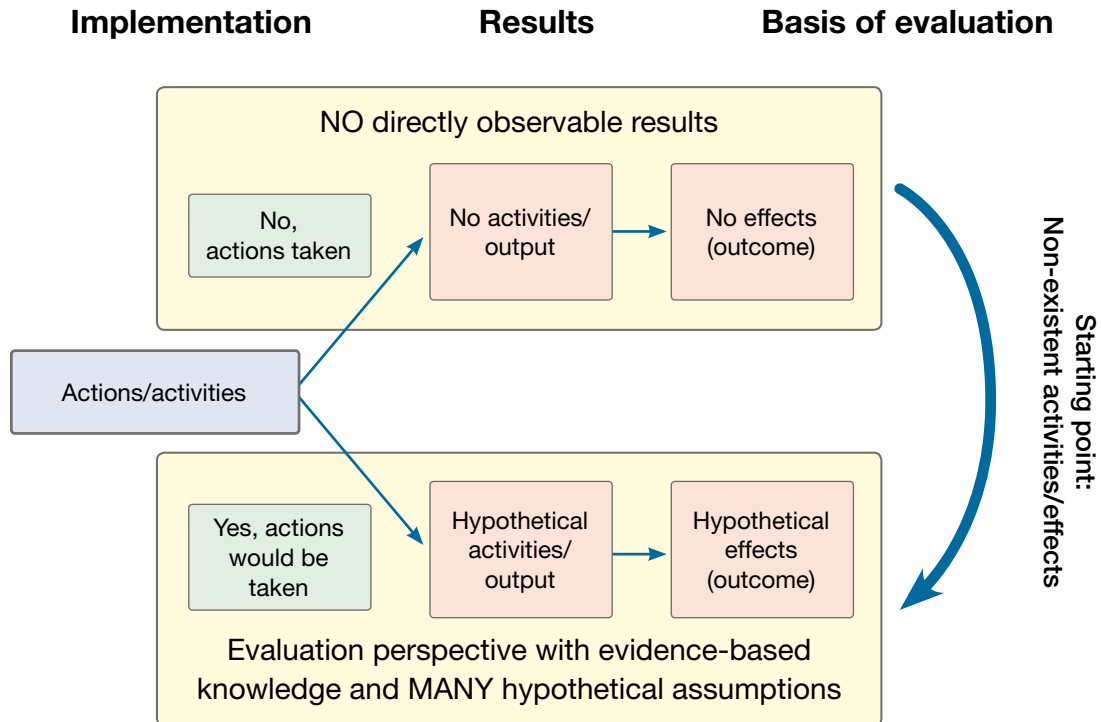
Figure 1: Scenario A – Starting point: Actions are taken



Authors' illustration.

In scenario B, actions were not taken. The analytical task is to assess the effects of this inaction. Here, we have to build a completely hypothetical scenario without the basis of existing activities. The necessary assumptions need to include the kind and scope of the activities not established due to inaction. Which activities would that be? What would be their scope if there were corresponding actions? As a next step, hypothetical effects must be derived from these hypothetical activities. This requires further assumptions about the reaction of those affected by the activities, possible changed structures, etc. The analytical task is easier to complete when evidence-based knowledge, such as existing studies, is available. However, this knowledge can – as in scenario A – only be applied to the logical relation of activities and effects. The kind, quality, and scope of the real activities remain connected with hypothetical assumptions.

Figure 2: Scenario B – Starting point: No actions are taken



Authors' illustration.

To summarise: It is disproportionately more difficult to draw conclusions on the effects of actions not taken and non-existent activities than the reverse.

2. WHAT ARE "COSTS OF INACTION"?

So far, we have only talked about actions (which have not been taken), activities resulting from them, and their effects. These actions (which have not been taken, and are rather to be referred to as "inaction"), ensuing activities and effects can be described qualitatively, as well as quantified and sometimes also expressed in cost terms. This is the focus when considering costs of inaction. What are the costs of the effects of not taking action? Can they be measured adequately? Usually, costs are shown in monetary units. That is, the relevant field is economics, or rather economic evaluation (Schober/Rauscher/Millner 2013, 451–470).

But is it always about costs, which is a negatively connoted concept? In principle: no. Costs presume a consumption of value, which here is not necessarily the case. There might just as well be positive effects, measured in monetary units, i.e., gains or – if they are higher than the costs – profits.

But let us take a step back. From an economic perspective, most of the time actions are based on decisions as to which areas to invest in and from which to disinvest. A perspective of pure economics of finance focuses on capital owners who, using capital budgeting and expecting future financial gains, make investment decisions, for instance based on the present discounted value of future cash flows. An investment is profitable when a positive financial

return on investment is achieved. Comparing several alternatives, the one with the largest financial return will be selected. The capital which was invested is now increased. The costs of inaction in this case are the financial gains or profits not achieved.

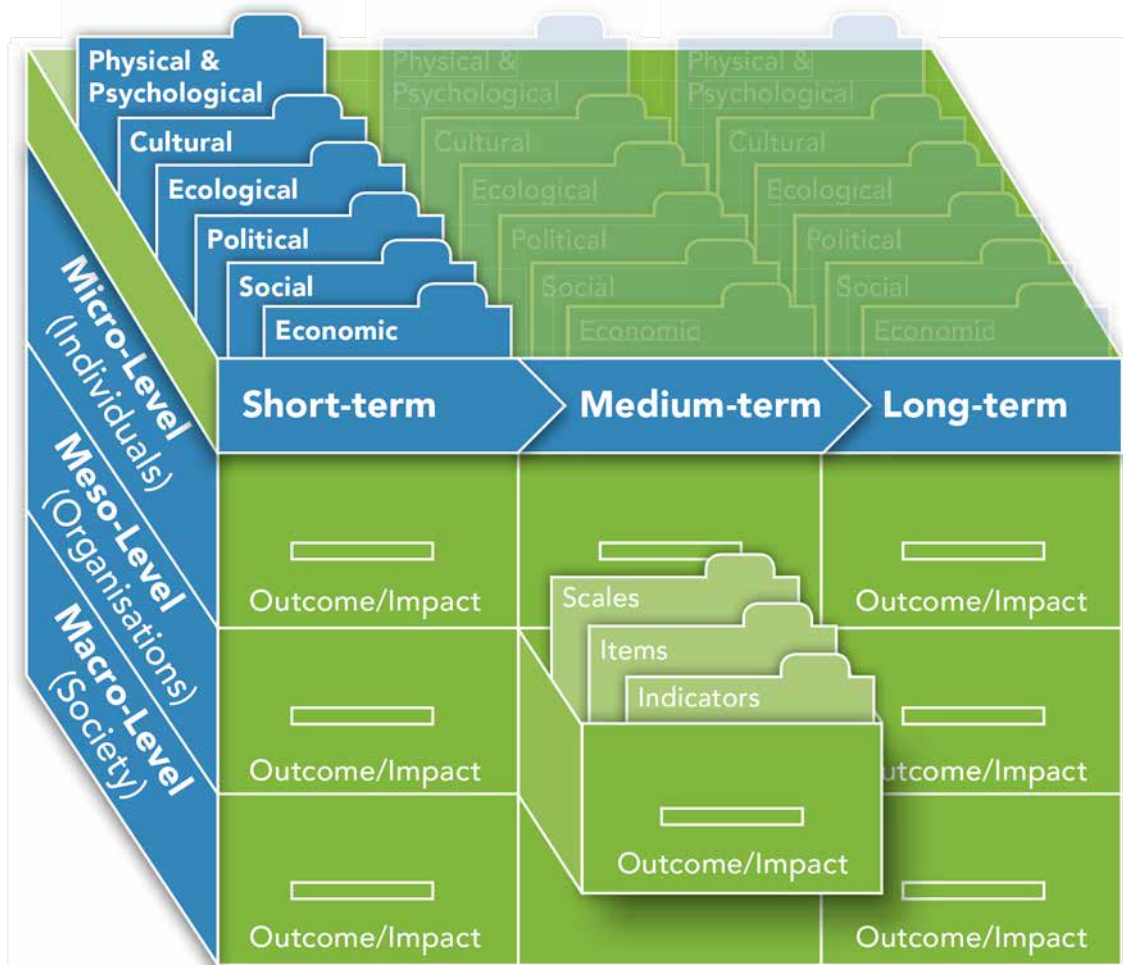
On a business level however, these investment decisions have consequences for customers, employees and other stakeholders of businesses, and sometimes for the general public and society as a whole. Jobs are created or lost, products and services are created or discontinued, taxes and contributions are paid or not, business contacts are made or not, the environment is polluted or stays intact, etc. On an aggregated level this results in macro-economic effects which may be considered economic costs of inaction. Taking all these effects into account enables us to think about impact value chains more broadly and to logically connect inputs, activities, output, and outcomes/impacts (Schober/Rauscher/Millner 2013).

Much more interesting, but also more complex, are investments in areas which do not primarily (or at all) result in financial returns or direct economic effects. Socially, these investments have more or less important effects which, however, are harder to grasp empirically. These effects are social, cultural, political, indirectly economic and ecological. But can we speak of investments in this context, or should we not be talking about costs? From a business point of view, investments refer to “the purchase of capital goods, such as plant and machinery in a factory in order to produce goods for future consumption” (Law 2009: 309). The invested capital should at least be preserved and a capital return (profit) is aimed at. In contrast, costs are an “expenditure, usually of money, for the purchase of goods or services” (Law 2009: 146). They are valued consumption and a financial return is not in focus. But in a broader, not just financial, context, costs can indeed be seen as investments. This holds true in the case of social investments which are expected to attain a return other than a conventional financial return (Then/Kehl 2012, 42f; Schober/Rauscher/Millner 2013, 464). Social investments refer to investing in the immaterial wealth of a society and therefore achieving a social return. This is the case when a financial investment has effects on other forms of capital. For instance, financial capital can be transformed into and tied up as social, political or cultural capital. It is not easily re-transformed into financial capital, but can be more important for sustaining the capability and prosperity of a society. Costs of inaction, therefore, can also arise due to a lack of investment in socially important areas, the existence of which primarily rests on capital forms other than the financial. Potentially, long-term social deficits can result from inaction. One example is the lack of (financial) investment in different forms of voluntary services, which can result in a lack of community building and social capital in the medium or long run.

Figure 3 shows a broader logic of thinking about causality. Effects can occur in different dimensions with regard to content, can have different time frames, and can be relevant for individuals, organisations, or society as a whole. Furthermore, in every category, they can be measured using indicators, which mostly consist of scales and items.

Another crucial point is the question of which effects can actually be attributed to individual activities. Effects which would have happened anyway even without an intervention are called “deadweight.” The evaluation literature also speaks of “programme effects” in this context (Rossi/Lipse/Freeman 2004, 207). These effects need to be subtracted from the gross effects (outcome), in order to get to the effects which are generated through activities only (impact).

Figure 3: Social impact matrix



$$\text{IMPACT} = \text{OUTCOME} - \text{DEADWEIGHT}$$

Authors' illustration.

From this point of view, costs of inaction, understood as foregone positive effects or higher negative effects, can occur on many levels. The question is now how to measure and evaluate them.

3. HOW ARE COSTS OF INACTION MEASURED AND ASSESSED?

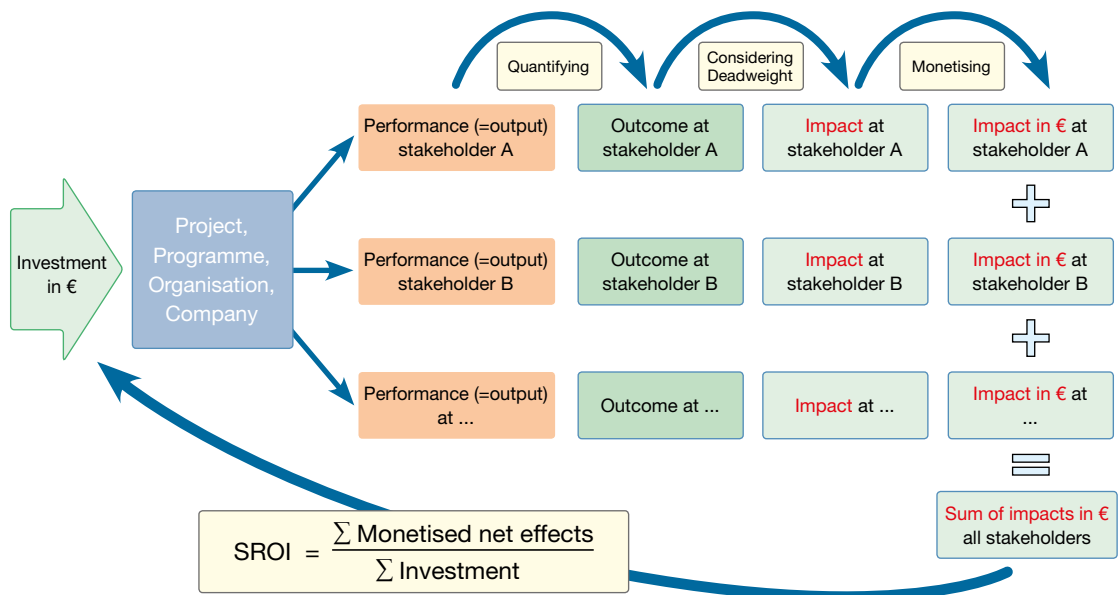
If decisions about investments are to be made on the basis of non-financial effects, this raises problems of measurement and valuation. Which concrete effects in which dimension are actually caused by an investment and the products and activities created by it? What is the scope of the effects? How is an effect related to other effects? How long does the effect last? What would be a substitute for a concrete service with similar effects? How much is social cohesion or heightened trust in social institutions worth in comparison to saved human lives or less pollution? Only with a standard to compare to can one effect be converted into another.

Monetary units can be seen as an universal standard of comparison. By expressing effects in monetary units, they can be compared or added up. This is the logic of conventional cost-benefit analyses (CBA) and of the newer social-return-on-investment analysis (SROI analysis) which operates with a slightly different terminology and is broader in scope.

Both methods are useful for identifying costs of inaction. In both methods, effects are quantified and translated into monetary units. The SROI analysis goes a little further here, in that more effects are taken into account, especially non-financial ones which are not easily monetised. This is clearly a case of commensuration (Espeland/Stevens 1998), that is, of comparing different qualities using the same metrics.

SROI analyses furthermore contrast the monetised impacts with the investments (input) and at least take into account the main stakeholders of the analysed object (organisation, programme, project). Figure 4 illustrates this principle.

Figure 4: Basic logic of SROI analysis



Authors' illustration.

The alternative scenario in an SROI analysis is usually the hypothetical assumption that an organisation, a project, etc. would otherwise not exist. This way it can easily be shown which effects an investment not made would have; the costs of inaction become apparent. However, we should in this case not speak of “costs” but of “foregone social profit” or of “foregone social return”.

In view of the scenarios outlined in chapter 1, for scenario B (“no actions taken”), the SROI analysis demands a lot more assumptions than in the case of scenario A (in which an existing organisation or intervention needs to be theoretically undone). In principle, however, the analysis is applicable in both cases.

Cost-benefit analyses (CBA) usually speak of costs on the input side and not investments. They hence assume a value consumption, which at least creates benefits or indeed effects, which can then be evaluated in monetary terms. Usually the focus is on a particular dimension of the effect and/or a particular stakeholder group, such as the beneficiaries. Depending on how the analysis is designed, different alternatives are compared, or it is assumed that actions/activities which create costs are not taken. This procedure corresponds to scenario A sketched

above. Sometimes, benefit-cost ratios (BCR) are calculated; these show the ratio of effects and input (costs or investments), similar to an SROI value.

So are SROI or cost-benefit analyses the solution to questions of (re-)distribution? Can they tell us where to invest in order to have the highest social impact possible? Can these approaches show the costs of inaction in certain areas? They do offer the right approach, if one is not opposed to utilitarian thinking in principle. However, putting the analyses into practice is not without problems, as we will illustrate in the next section.

4. PROBLEM AREAS OF SROI AND COST-BENEFIT ANALYSES

4.1 SROI values and benefit-cost ratios alone have only limited significance and comparability

Even though many funding bodies and non-profit organisations (NPOs) think that the SROI analysis in particular can measure the success of an organisation with one single number (Gair 2009, 2; Jardine/Whyte 2013, 28; Nicholls/Lawlor/Neitzert/Goodspeed 2009, 11) and many SROI studies focus very strongly on this one figure, individual SROI values only have limited comparability. The same holds for benefit-cost ratios. Firstly, the breadth and depth of the analysis on which the number is based must be taken into account. Whether an analysis is looking at many or just a few effect dimensions and stakeholders, and whether it has consistently monetised the effects or not, can make a considerable difference.

Furthermore, the deadweight can change with the definition of the object of the analysis (Simsa/Millner/Maier/Schober/Rauscher 2012; Maier/Millner/Rauscher/Schober/Simsa 2013). For example, when analysing a single nursing home, the deadweight will be higher than when analysing an association of care providers. Other homes can compensate for the closure of one home using their own free capacities, but if all homes close, there can be no compensation. Therefore, when interpreting and comparing SROI values the object of the analysis needs to be taken into account. Furthermore, different levels of income and costs of living influence the analysis. In many cases these differences concern both the input (e.g. salaries of NPO employees) and the effect (e.g. increases generated in salaries of the beneficiaries), and therefore are of little significance in sum. However, larger amounts of non-cash benefits or raw materials can lead to systematic distortions. For instance, if both Romania and Austria were to distribute sleeping bags to save homeless people from freezing, the cost of sleeping bags would be approximately the same in both countries, but the human lives saved in Romania would be worth less in monetary terms, because of the difference in savings on hospital costs, expected future incomes, etc. Here, different methods of monetising have a significant impact. In cost-based monetisation approaches, the welfare state level and context are of importance, since the benefit of interventions is often calculated in terms of savings in social benefits. If the analysed area has a strong public safety net, there are a lot of costs to be saved by NPOs, which is reflected in high SROIs.

Furthermore, the validity of using the same methodology to compare activities or organisations pursuing different goals is debatable. A prominent example of such a comparison is the Copenhagen Consensus Project, which, in comparing cost-benefit analyses, concluded that the fight against HIV should have priority over measures for containing climate change.

In this context we can also see that the following NPO activities have lower SROIs or BCRs: those which lead to indirect effects, the effects of which only have a relatively low probability, or which will occur in the distant future. In terms of NPO functions (Neumayr 2010), this means that voice and community building are significantly more difficult to assess than service provision.

4.2 Subjective assumptions

As mentioned earlier, impact analyses require assumptions: from deciding on the scope of the analysis in terms of space, time, and content, choosing a corresponding research design and social-scientific methods and deciding which stakeholders to take into account, to selecting the approach to monetisation.

In terms of research designs, purists demand experimental designs as the “gold standard”. However, in social-scientific contexts, these often cannot be implemented – or can be implemented only by investing a lot of resources. Where it is impossible to take direct measurements, proxies are used to quantify and monetise effects. Here, researchers can choose from a relatively wide selection of approaches and data sources.

As a consequence, the criterion of objectivity, and, further, the validity and reliability of results of SROI and cost-benefit analyses are to be questioned. For a well-founded analysis, researchers should therefore draw on quality criteria used in interpretative social sciences, such as inter-subjective transparency of the research process, adequacy of the selected approach, empirical grounding of the impact value chain, identifying limits, and reflection of (the researcher’s) subjectivity (Steinke 2004).

4.3 Time effects

Time effects are of particular importance for non-monetary effects. In the literature, this is discussed in terms of different discounting rates (Polonsky/Grau 2011, 202). Several topics are connected with temporal effects: inflation, attribution of effects to individual interventions, opportunity costs or time preference, and linearity. As a general rule, social effects should not be simply discounted.

Provided that an intervention has a financial effect in the future, it is useful to take into account inflation and to discount accordingly. This does not make sense in the case of (non-financial) values.

In terms of attribution it seems logical that the further intended effects lie in the future, the smaller is the probability of them actually occurring – a longer timeframe bears more risks. Meaningful discount rates can in most cases only be found by looking at existing empirical evidence. The question of whether relevant studies exist for the topic at hand needs to be researched on a case-by-case basis.

Discounting equivalently to alternative, e.g., risk-less, investment options, as proposed in conventional, opportunity cost-based investment approaches, only makes sense in the case of social investments when the social return is included in the discount factors. Financial return, after all, is not the focus here. Looking at interest rates, which are relevant for financial return (e.g. interest on 10-year government bonds), is a narrow view of the financial dimension only, which is in contradiction precisely to the principle of social investments. However, in

most cases a social return does not exist. Since in principle social investors therefore only have one chance of investing their capital, they can only decide between investing now or at a later point (see also Klausner 2003).

Instead of drawing on the business logic of opportunity costs, it is therefore advisable to use the economic approach of the social time preference rate (Marini/Scaramozzino 2000; Feldstein 1964). In this context, and in terms of intergenerational justice, researchers need to decide carefully under which aspects investments in and corresponding social effects on the present generation are preferable to investments in and effects on future generations.

In addition, we should question the linearity of social returns, which is often assumed uncritically. Increasing investment in a certain area will not necessarily lead to an equivalent increase in the social return. For instance, the return will decrease when social needs are increasingly met (Cheney/Merchant/Killins 2012) or motivation and engagement for a cause are declining. On the other hand, effects can be increased disproportionately due to learning effects (Arvidson/Lyon 2013, 13).

There remain many questions which need to be answered in SROI and cost-benefit analyses. What makes good analyses stand out is that they address the problem areas mentioned and provide a comprehensible argumentation for decisions made in the research and valuation process.

If these analyses are implemented in a serious way and take into account the problem areas mentioned, they can be very helpful in allocating resources in a meaningful way and in finding out where and how much social return is generated. Further standardisation in the methodological implementation and basic research as a basis for evidence-based approaches can help to increase the quality of analyses in the future.

5. EXAMPLES OF SROI ANALYSES

Despite the limitations outlined above, many SROI analyses in different areas have been performed to date. Among the dominant topics are labour market integration, counselling, environment, education and training, and social integration (Krliv/Münscher/Mülbert 2013).

The authors of this chapter have carried out a number of SROI analyses (Rauscher/Pervan-Al Soqauer 2012; Rauscher/Schober/More-Hollerweger/Pervan-Al Soqauer 2011; Schober/More-Hollerweger/Rauscher 2012; Schober/Schober/Perić/Pervan 2012) and cost-benefit analyses (Schober/Sprajcer/Schober 2012) themselves. Reasons for the popularity of SROI analyses are that they help legitimise a project or an organisation within an economic paradigm, that they can provide guidance when deciding about allocating resources, and that the key performance indicator is easy to communicate while at the same time maintaining a broad and deep consideration of underlying effect dimensions.

In the following, the example of an SROI analysis of mobile long-term care services in Vienna, to which the authors were leading contributors (Schober/Schober/Perić/Pervan 2012), shows the procedure and which SROI value was calculated. We also outline which social costs – or rather, in the language of SROI analyses, which forgone returns – would have been created without investing in the field.

We analysed the effects of three different assistance and care services provided by all 25 NPOs accredited and offering these services in Vienna in 2010. In total, these NPOs serviced 20,347 clients over approximately 5.6 million hours.

The study shows the wide variety of tasks and activities provided by mobile long-term care services in Vienna. Furthermore, it identifies impacts for different stakeholders, which are shown in table 1. These effects are mostly positive, but can also be negative, for instance increased psycho-mental stress in employees. The effects identified were translated into suitable indicators and data was assigned to the indicators, in order to calculate the SROI value. The assumed alternative scenario was that no mobile care services existed in Vienna, other things being equal.

We outline two procedures as examples: For the general population in Vienna, we assumed as an effect a feeling of safety in terms of care provision in old age. For a certain percentage of persons over 40, we used the annual administrative costs of care insurance as a value for monetisation, since insurance also gives a feeling of safety. For the patients, we valued the possibility of staying in their own home at the cost of a 24-hour assistance service for one year. The basic assumption is that those persons would otherwise have to go into a hospital or nursing home, and hence could no longer live at home.

The final result, the stakeholders included, and some important effects (profits, in the terminology of the SROI) are shown in table 1.

In total, the research and calculations show monetised effects of about 660 million euros in 2010. On the other side, the financial investment amounted to 178 million euros, mostly consisting of payments by the Viennese Social Fund [Fonds Soziales Wien] and client fees. The result is an SROI value of 3.70. That means that every euro invested in mobile services in 2010 created effects of the monetised equivalent of 3.70 euros.

The highest profit is created for hospitals, followed by clients, the general population in Vienna, and relatives. The lowest profit is created for suppliers. The owners have a small negative benefit, that is, essentially a loss. Hospitals profit because of lower costs due to a smaller number of misallocations (referred to as “procuratio cases”).

Table 1: SROI analysis of mobile care services in Vienna 2010 – Overview: Investments and profits

Stakeholders	Investments in mobile care services (MCS) in €		Profits from mobile care services (MCS) in €		Percentage of profit
Hospitals	Referral to MCS	--	Fewer misallocations, less administrative expense	262,725,874	39.9%
Clients	Fees	48,117,388	E.g. improved general health condition, saved costs, restriction of self-determination because of paternalism	162,531,990	24.7%
General population in Vienna	Donations, other revenue	1,234,814	Feeling of safety	97,937,170	14.9%

Stakeholders	Investments in mobile care services (MCS) in €		Profits from mobile care services (MCS) in €		Percentage of profit
Relatives	Time and readiness to contribute to care	--	E.g. less social/physical/psychological stress	67,577,253	10.3%
Social insurance agencies severance funds	n/a	--	Additional payments for social security and severance funds	19,953,375	3.0%
Employees	Time, skills (social skills, acquired knowledge, training, etc.)	--	E.g. permanent position and regular income, positive feeling (fulfilment, doing good)	16,599,070	2.5%
Public employment service	Integration subsidies for the long-term unemployed	890,118	E.g. savings on unemployment benefits/emergency benefits, savings on expenses for (re-)qualification measures	13,810,757	2.1%
Federal government	Cost refunds for civilian service	141,836	E.g. additional tax revenues and contributions, savings on funds for 24-hour assistance	6,931,344	1.1%
Custodial guardians	Organisational tasks	--	Saving of time	3,105,317	0.5%
Emergency response organisations	n/a	--	Fewer operations	1,313,516	0.2%

Source: Schober et al. 2012, 67.

In summary, the mobile care services in Vienna are working successfully. In 2010, their positive effects on the society were 3.7 times higher than what was invested in them.

What does this mean for costs of inaction? The results of the SROI analyses show that if the mobile care services did not exist, 178 million euros would not have been spent, but a welfare gain of 659 million euros would not have been realised. The costs of inaction would therefore amount to 481 million euros. Note that non-monetary effects have been monetised and included in the analysis. Hence, the SROI analysis is useful for illustrating the costs of inaction.

6. EXAMPLES OF COST-BENEFIT ANALYSES

As mentioned above, cost-benefit analyses are older than SROI analyses. Especially in the 1970s, many cost-benefits analyses were carried out in the USA to evaluate programmes in areas such as education (Froomkin 1969; Levin 1983), people with mental or intellectual disabilities (Sorensen/Grove 1977; Cummings/Follette 1976), and health (Drummond/McGuire 2001). The US Army has been using cost-benefit analyses in the context of flood protection since the 1930s (Yates 2009). The vast majority of studies, however, can be attributed to scenario A, that is, they focus on actions taken. These cost-benefit analyses only take into account a limited set of effects. Economic effects with direct and indirect costs are the focus. Social, political, and cultural effects are not addressed at all, or only in a limited way.

In the area of environmental protection and climate change, too, a lot of cost-benefit analyses have been carried out. For instance, Scapecchi (2008), using a number of studies, shows the health-related follow-up costs of air pollution.

In recent years, several studies have looked explicitly at the costs of inaction regarding climate change (Hunt/Watkiss 2011; Ruth 2010; Kemfert/Schumacher 2005). For instance, Ackerman/Stanton (2008) found that the costs of climate change in the USA, assuming a “business as usual” scenario until 2100, are 1.8 per cent of GDP. Note that they only calculated changes in costs regarding hurricanes, real estate, energy, and water. In an alternative scenario, which assumes an ambitious global fight against CO₂ emissions, the value is 0.3 per cent of GDP. Therefore, 1.5 per cent of US GDP, the difference between 1.8 and 0.3 per cent, should be seen as the costs of inaction.

Ruth (2010) shows the costs of inaction for selected areas such as apple production in the US or the rising of sea levels in Boston. In the case of Boston, the costs of inaction would amount to 200 million USD (Ruth 2010, 391).

Generally, however, these cost-benefit analyses are based on macro data and focus on certain dimensions of effects, the selection of which is not always comprehensible. Furthermore, scenario B (see chapter 1) is not consistently used the starting point of the analysis. Sometimes the studies start from actions that have taken place, which are then theoretically undone (scenario A). Nonetheless, these analyses are successful in illustrating the costly effects of inaction.

7. CONCLUSION

It is more than justified to ask about the consequences of inaction and to look at its social effects as far as possible. To do this, however, entails a substantially more difficult research process which operates with more assumptions than simply subtracting actions and their effects.

Especially regarding investments in areas which do not generate a direct financial return but, for instance, aim primarily at social, cultural, or ecological effects, it is significantly more interesting to analyse which effects would have resulted and to give them a measure of value. The methods of SROI and cost-benefit analyses presented use an approach of monetising effects. The basic difference between the two forms of analysis is the range of effects considered and

the fact that the SROI analysis takes substitutes into account slightly more consistently. Both forms of analysis are suitable for asking about the effects and potential costs of inaction.

This undertaking might be complex and use a number of assumptions, but it is worthwhile, especially when looking at effects on the basis of society, i.e. its basic values and aims. These are usually difficult to capture and measure and generally are not already expressed in monetary units. Thus, many analyses merely mention them, if they address them at all. Monetising them in a sensible way can show, however, that they are relevant values, especially in light of the current economic approaches. This permits the legitimisation of funds for projects, organisations, and issues which are socially relevant but, from a finance and business perspective, only constitute costs with diffuse benefits. This is true especially when decisions about the valuation of interventions are not made on the basis of democratic processes because this is considered too tedious, or decision-makers lack knowledge about or interest in the respective issues.

Existing analyses are often characterised by varying approaches and sometimes questionable validity of assumptions. But this should not keep us from investing in impact analyses and promoting the way of thinking they represent. With increasing research activity regarding effects and better availability of data, it will eventually become easier to make valid, evidence-based assumptions. This is a crucial step on the way from a society based on performance to a society based on effects.

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ON THE ECONOMIC NECESSITY OF A SOCIAL INVESTMENT STATE

1. ECONOMIC EFFECTS OF WELFARE POLICIES

From an economic perspective, many welfare policy measures are either investments in social development or contribute to stabilising the economic development of a society. The first group most importantly includes measures relating to early childhood education (“childcare”) and later education (schools, universities, education parallel to work), but also to health protection. The second group most importantly includes retirement and unemployment benefits. The recent financial and economic crisis has shown that such “automatic stabilisers” have worked against a decline in private consumption and contributed to stabilising the economy. Welfare policy works not only through social transfers but also through the tax system, public provision and promotion of social infrastructure, and legal regulations in areas such as the labour market, family policy, and education policy. In addition, a welfare state supports modernisation processes, when modernisation is accompanied by social security.

Welfare policy influences the economic performance of a country through several mechanisms. First, measures in the area of education, family, and labour market policy, which aim at increasing labour market participation and hence have an activating effect, have direct effects on the output of an economy. A high rate of labour market participation is not only the most effective way to reduce poverty, but also increases opportunities to participate in society. In doing so, it contributes to social stability and sustainable public revenues. Second, measures in the areas of family and care as well as education policy which expand public infrastructure also have direct and indirect effects on job creation. Third, welfare policy measures improve the distributional situation in a national economy, which has positive effects on economic growth. Fourth, recipients of social transfers spend a large part of their income on consumption; hence, transfers have a stabilising effect. Fifth, education expenditure is a significant determinant of productivity and hence economic growth. Sixth, for marginalised groups transfers lead to increased social integration and participation, which can reduce intergenerational transmission and promote intergenerational mobility (Bock-Schappelwein/Eppel/Mühlberger 2009).

2. DEVELOPMENT OF THE SOCIAL INVESTMENT STATE

Since they were broadly established in the 1950s, welfare states have been subject to constant change and reflect both economic and political conditions. Even though Europe has different types of welfare state (Mau/Verwiebe 2010; Crouch 2005; Hall/Soskice 2001; Castles 1993; Esping-Andersen 1990), each of which is subject to different developments, three phases can be discerned for welfare states in the EU-15.

In the first phase – from the 1950s to the 1970s – comprehensive welfare state services were established for the first time and then continuously expanded. The second phase – from the 1980s to the mid-90s – was characterised by the state retreating from important economic areas as well as by a remodelling and, in parts, cutting of welfare benefits. Nevertheless, due to various reasons (e.g. rising unemployment, demographic development), public social spending as a percentage of GDP remained stable in most and even increased in some countries (Castles 2005). In part because of these experiences, in the mid- and late 1990s, many EU countries shifted towards activating and mobilising their citizens to labour market participation, as well as towards a stronger focus on education policy (cf. Bonoli/Natali 2012; Hemerijck 2012; Allmendinger/Nikolai 2010; Taylor-Gooby 2008; Palier 2006).

In the third phase – since the mid-1990s – the European welfare states have been affected by significant qualitative changes: wage restraint, low corporate tax rates, weaker labour protection, more flexible laws on working hours, activating employment policies (i.e. more occupational (re)training), raising of the retirement age, shorter duration of unemployment benefits, tightening of eligibility rules and sanctions for persons seeking employment, “flexicurity” (employer-friendly termination provisions combined with protective unemployment benefits and activating labour market policies). At the same time, an expansion of social benefits (assistance for families, kindergartens, services for persons in need of care) and expenditure on education and research is a development typical for many European welfare states, Austria among them.

3. CHARACTERISTICS OF A SOCIAL INVESTMENT STATE

Some of these developments reflect the insight that a transfer-oriented welfare state alone cannot adequately address changes towards highly qualified jobs and the demographic ageing of society. Funding problems of some welfare states cause additional pressure by restricting financial room for manoeuvre. Training and advanced training move to the centre, as do mobilisation and activation of persons who do not participate in the labour market or participate only to a minor degree (Allmendinger/Nikolai 2010).

The empirical interrelation of education and welfare policy led to an interlocking of the two areas: Education policies of today significantly influence social policies of tomorrow. Well-trained persons have better chances on the labour market, are unemployed less often, are generally more satisfied with their work, and, because they earn more, pay higher taxes and social insurance contributions (OECD 2012). However, for a couple of years now, Europe has hardly made any progress in decreasing the school dropout rate and in increasing the proportion of graduates. In 2013, 13% of Europeans between the age of 15 and 24 were not in employment, education or training (Austria: 8.7%). Youth unemployment has risen in almost all countries and stands at 23.5% in 2013 (EU-28). Even though Austria is among the countries with the lowest youth unemployment, 8.7% of the labour force between 15 and 24 are unemployed (cf. European Commission 2013a).

Education policy in a wider sense – comprising school and higher education as well as early childhood education and re-training – is an essential part of the social investment state. Such a state is characterised by complementing policy measures on the demand side with instruments on the supply side – beyond wage restraint and incentive systems for unemployed persons to take up low-wage work. The focus here is on higher qualification of young

and unemployed persons with the aim of increasing their chances of social participation (Hemerijck 2012, 27). Social investment is relevant in areas such as active and activating employment policy, high-quality childcare and early childhood education, all aspects of education and research, as well as health-related prevention and rehabilitation measures.

The paradigm change towards a social investment state has its roots in the economic approach of endogenous growth theory (Romer 1990; Aghion/Howitt 1997), which essentially states that long-term economic growth is mostly determined by human capital. In political theory, the social investment state is based on the idea of a “Third Way” (Giddens 1998), which propagates a preventive, investing, instead of a caring, protecting welfare state. This approach was first implemented by the British Labour government, starting in the late 1990s. Especially in the context of labour market policy, the British government aimed at activation by tightening the regulations for unemployment benefits and by linking social transfers to labour market participation (“workfare” or “welfare to work”). Another basis for new welfare policy approaches are recent theories of the welfare state (Esping-Andersen 1999; Esping-Andersen/Gallie/Hemerijck/Myles 2002) which apply a life-cycle perspective to discuss a successor to the “male breadwinner model” and see the social investment state as a complement to the classic welfare state (see also European Commission 2012). From a welfare policy practice perspective, however, the narrow definition of the social investment state has been extensively criticised.

Against the background of this conflict between political theory and practice it not surprising that there is no universally accepted definition of social investment. Hemerijck (2012) defines “social investment(s)” as public expenditure on active labour market programmes, childcare, education, research, and rehabilitation of the disabled. He illustrates the changes in social investments in Europe relative to GDP between 1997 and 2007. His analysis shows increased social investment in many, but not all EU countries. Austria, together with Belgium, Great Britain, Poland, Ireland, and Finland, belongs to the countries in which investments increased most strongly. Sweden (on a very high level), Greece, and Hungary, on the other hand, have reduced their social investments over these ten years. In Denmark, Germany, France, the Netherlands, Spain, Italy, Portugal, and the Czech Republic, social investments remained more or less constant relative to GDP.

Between 2000 and 2012, Austria increased public expenditure on research as well as on active and activating employment policy, while education expenditure (including (partial) expenditure on kindergartens) remained relatively constant.

**Overview 1: Public expenditure in selected welfare policy areas in Austria
(in % of GDP)**

	2000	2005	2010	2012
Education	5.6	5.2	5.7	5.6
Research	0.6	0.9	1.2	1.2
Active and activating employment policy	0.4	0.7	0.8	0.7
Total	6.6	6.8	7.7	7.5

Source: Statistik Austria (COFOG), Austrian Federal Ministry of Labour, Social Affairs and Consumer Protection (BMASK), calculations by Austrian Institute of Economic Research (WIFO).

Overview 2: Public expenditure on social protection in Austria (in % of GDP)

	2000	2005	2010
Sickness/healthcare	7.0	6.9	7.4
Disability	2.7	2.3	2.2
Old age	10.9	11.3	12.7
Survivors	2.3	2.0	2.0
Family/children	2.9	2.8	3.1
Unemployment	1.3	1.6	1.7
Housing	0.1	0.1	0.1
Social exclusion	0.2	0.3	0.3
Total (social expenditure share)	28.3	28.2	30.4

Source: Eurostat (ESSPROS).

Austria's public social protection expenditure has of course increased with the financial and economic crisis. At the same time, the crisis has shown the importance of public expenditure on social protection as an automatic stabiliser. As overview 2 shows, public expenditure on social protection includes areas which can in part be seen as social investments. It is therefore not possible to strictly distinguish between social protection and social investment. As already mentioned, today's social investments strongly influence tomorrow's expenditure on social protection. Social investments can only complement, and not replace, public expenditure on social protection. Social protection is a necessary condition for social investments to be effective (Solga 2012).

4. THE ECONOMIC LOGIC OF THE SOCIAL INVESTMENT STATE: THE EXAMPLE OF INVESTING IN EDUCATION

Education has far-reaching impacts on employment histories, social integration and mobility, income, and financial security. Education is related to health, life expectancy, participation in society, and low crime, and is an important indicator for the economic development of a country. Furthermore, the level of education of parents has effects on the level of education of their children (Heckman/Raut 2013; OECD 2012; Oreopoulos/Salvanes 2011; Vandenbussche/Aghion/Meghir 2006; de la Fuente 2003).

Across all OECD countries, data show that employment chances increase with educational attainment: "On average, employment rates are 18 percentage points higher for those with an upper secondary education and 28 percentage points higher for those with a tertiary education, compared to individuals who have not completed an upper secondary education" (OECD 2012, 118). Higher educational attainment also decreases the probability of unemployment (Riddell/Song 2011). Across the OECD, on average, men who have not completed upper secondary education are almost twice as likely to become unemployed as men with an upper

secondary education and three times as likely as men with a tertiary educational qualification (with strong variations depending on age groups) (OECD 2012, 118).

Individual returns on education are – in contrast to capital investment on financial markets – very high, but vary strongly depending on educational level. Across the OECD countries, on average, a person with a tertiary educational qualification earns 55 per cent more than a person with an upper secondary education, with the difference increasing with age. Between persons with and without an upper secondary education the difference is 23% (OECD 2012, 140). For men, the rate of return of a private investment in attaining an upper secondary education is 13.4% on average across the OECD and 12.4% in Austria (for women: 13% OECD, 9.3% Austria) (OECD 2012, 208f).¹

But there are not only individual but also social returns on education. Investment in education increases productivity as well as tax and social insurance contributions. OECD calculations on the rates of return of public education expenditure show that, on average, the return of a public investment in upper secondary education is 7.8%, and even 9.4% in Austria (for men; women: 6.6% OECD, 7.2% Austria).² According to calculations by de la Fuente (2003), an additional year of education means a short-term increase in productivity in the EU of 6.2%. In the long run, because of its contribution to accelerating technological progress, the increase is an additional 3.1%. Furthermore, Vandenbussche/Aghion/Meghir (2006) show that higher education has a stronger effect on economic growth than secondary education and that with increasing income per capita education becomes even more important for the economic growth of a country.

The ability to learn is predominantly shaped in early childhood. Thus, education policy measures during this period are most effective. Early childhood education not only stimulates social and cognitive development, but also integration into the education system and later on the labour market (Almond/Currie 2011). According to Heckman/Moon/Pinto/Savelyev/Yavitz (2010), early childhood education measures have much higher returns than later investment in education (see also Heckman/Raut 2013 and Cunha/Heckman 2008). Using US data, Heckman/Raut (2013) show that high-quality early childhood education that is publicly funded and free of charge has positive net returns especially for children from families with a lower socio-economic status, but also for society as a whole. These net returns mostly present themselves in the form of higher future earnings, higher intergenerational income mobility, and mobility towards better education attainment. Several German studies conclude that attending a nursery – that is, formal early childhood education and care – increases the probability of children attending an academic secondary school later on (Seyda 2009; Fritschi/Oesch 2008; Büchner/Spieß 2007; Landvoigt/Mühler/Pfeiffer 2007). Felfe/Lalive (2013) and Schlotter (2011) show that attending a nursery has a positive effect on cognitive and non-cognitive skills. These positive effects are particularly high for children from socially disadvantaged and migrant families (Felfe/Lalive 2013; Becker 2010). Similar effects of early childhood education and care were found by Bauchmüller/Gørtz/Würtz/Rasmussen (2011) for Denmark, Bauer/Riphan (2010) for Switzerland, Brilli/Del Boca/Pronzato (2011) for Italy, Dumas/Lefranc (2012) for France, Havnes/Mogstad (2010) for Norway, and OECD (2012) for OECD countries. See Müller et al. (2013) for a recent and Bock-Schappelwein/Eppel/Mühlberger (2009) for an older literature review.

¹ The return on a private investment in attaining tertiary education is 12.4% (OECD average)/10.6% (Austria) for men and 11.4 (OECD)/8.6% (Austria) for women.

² The return on public investment in attaining tertiary education is 10.8% (OECD average)/8.8% (Austria) for men and 8.8% (OECD)/7.2% (Austria) for women.

Conti/Heckman (2012, 41), who have summarised the empirical evidence, conclude that investments in a solid basis of early childhood education make later investments more “profitable”: “From a purely economic standpoint, the highest return to a unit dollar invested is at the beginning of the lifecycle since it builds the base that makes later returns possible.” Accordingly, the economic return is highest in early childhood education and decreases in later stages of life (that is, school and post-school education). This does not mean that later investments in education have no returns at all (see above), but that returns of early childhood education are higher.

Evidence shows that children with a high-quality early education develop considerably better cognitive and non-cognitive skills and, as a consequence, have higher returns over their life cycle than those who did not have access to this education (Heckman/Pinto/Savelyev 2013). These positive effects are particularly strong for children from low-income and migrant families, since they often have poorer capacities to foster their children’s learning capabilities. Hence, tax-funded early childhood education reduces the inheritability of social status and promotes intergenerational mobility (Heckman/Raut 2013). A high pedagogical quality is a crucial precondition for these positive effects.³ These findings support the argument that it is necessary to expand tax-funded, high-quality early childhood education and care institutions like nurseries and kindergartens. Furthermore, the time which children spend with their parents is essential for their development; hence, reconciliation of family and working life is another success factor (OECD 2007).

In addition, expanding high-quality early childhood education gives parents – usually women – the opportunity to participate in the labour market (or participate more intensively). Survey data from Austria and other EU countries show that care responsibilities (concerning children and adults in need of care) are by far the most important reason for women in the prime working age group (25-49) not to participate in the labour market at all or to work part time (Budimir/Eppel/Famira-Mühlberger/Huemer/Mayrhuber 2010). While an employment rate among women of 70.3% (2012) seems high, the full time equivalent employment rate of 55.6% (2012) shows that Austria still has a significant potential for activation (European Commission 2013g, 4).⁴

Increasing the employment rate of women not only has positive effects on families (increase in household incomes, decrease in poverty risk, balancing power relations within the family by increasing women’s resources, decrease in domestic violence). It also affects the macro level, since better labour market integration of women contributes to sustainably securing a qualified labour force. It is also a necessary condition for future welfare state financing. Furthermore, providing monetary and non-monetary transfers for families and care creates jobs because services are partly transferred from private households to the market (with public, for-profit, and non-profit providers) (EUROFOUND 2013). Labour previously performed in households would then be transferred to the formal labour market and hence become relevant for GDP. From an economic perspective, because women increasingly attain qualifications which are higher than before, long maternal leave periods also lead to misallocation of qualifications (Bock-Schappelwein/Eppel/Mühlberger 2009).

In Europe, labour market participation of women has clearly been on the increase over recent decades, but is still lower than that of men. From a macroeconomic perspective, this means that the labour force potential – and therefore the potential for economic growth – is not used sufficiently. The concrete effects of welfare policy strategies are significantly determined by

³ Quality dimensions are: group size, child/care-taker ratio, stability of form of care, duration of use of care, comprehensiveness of care, pedagogical content, etc. (Roßbach 2005).

⁴ For women between 15 and 54 years of age.

the form the public intervention takes, e.g., cash benefits and tax credits/deductions, non-monetary transfers, and legal provisions on parental leave (and care). Austrian family policy currently focuses strongly on monetary transfers. From a strict economic point of view, this is efficient and can theoretically increase freedom of choice (as long as there are alternatives to choose from). At the same time, however, important steering effects are foregone.

Unconditional money transfers which do not depend on income give recipients a high degree of freedom of choice, but tend to reinforce traditional distributions of labour and roles, in that they negatively impact women's labour supply (Del Boca/Pasqua/Pronzato/Wetzels 2007). In contrast, policy measures which aim at increasing availability, quality, and affordability of formal childcare have a clear positive effect on women's employment (Haan/Wrohlich 2011; Del Boca/Pasqua 2005). Empirical studies show that the availability⁵ of formal childcare has a significant positive effect on women's employment, while the costs of childcare⁶ have a negative effect.

In a recent comprehensive evaluation of measures and transfers in the field of marriage and family (Müller et al. 2013), micro-simulations show that public subsidies of formal childcare have by far the largest impact on the choice of childcare arrangement and the labour supply of mothers. Without public subsidies to nurseries and kindergartens, mothers would (have to) restrict their labour force participation significantly. The effects are strongest for children between two and three years of age⁷ and for families in the lowest income quartile. These results show that "subsidising formal childcare has strong positive effects on the labour supply of mothers and the demand for formal day care"⁸ (Müller et al. 2013, 258). Reference scenarios clearly show that these effects are to be expected both if the availability of childcare is expanded and if fees are abolished.

Therefore, rather than generous money transfers, the key to increased labour market participation among women is securing universal access to high-quality formal childcare (alongside measures at company level to reconcile family and working life) (see also Riesenfelder 2013).

5. THE SOCIAL INVESTMENT STATE IN EUROPE

The EU also argues in favour of a social investment state and, in particular since establishing the Lisbon Strategy and its successor "Europe 2020", has promoted the social investment state (European Commission 2013a-f). The Europe 2020 initiative aims to advance reforms for smart (education, research, innovation), sustainable (environment, competitiveness), and inclusive (job creation, poverty reduction) growth. It has defined five targets for the EU in 2020:

- 1) Employment rate of 75%
- 2) 3% of the EU's GDP to be invested in research and development
- 3) Reducing greenhouse gas emissions by 20% and other environmental goals

⁵ See e.g. Del Boca/Sauer (2006) for Italy, Spain, and France; Del Boca/Pasqua/Pronzato/Wetzels (2007) for the EU-15; and Stadelmann-Steffen (2008) for 28 OECD countries.

⁶ See e.g. Mahringer/Zulehner (2013) for Austria, Wrohlich (2011) for Germany, and Del Boca/Vuri (2007) for Italy.

⁷ If the state completely retreated from subsidising nurseries and kindergartens, the labour supply of mothers with children between two and three years of age would decrease by ten percentage points.

⁸ Original quote: "von der Subvention der formalen Kinderbetreuung sehr große positive Effekte auf das Arbeitsangebot von Müttern und die Nachfrage nach formaler Kindertagesbetreuung ausgehen".

- 4) Reducing rates of early school leaving below 10% and at least 40% of 30-34-year-olds completing third level education
- 5) Reducing the number of people in or at risk of poverty by at least 20 million

The Europe 2020 strategy does not contain any legally binding targets, however. While the Open Method of Coordination (OMC) in the areas of social protection and social inclusion does allow for the initiation of policies in areas which are not regulated in EU treaties, it is not immediately binding (“soft law”). The OMC uses instruments of mutual learning, strategic comparisons, guidelines, benchmarks, and recommendations (Bock-Schappelwein/Eppel/Mühlberger 2009).

In February 2013, the EU Commission presented a Social Investment Package (European Commission 2013a-f), which includes guidelines for realising the Europe 2020 targets.⁹ The Package proposes an effective use of social expenditure; enhancing peoples’ qualifications; social transfers throughout an individual’s life; prevention; as well as investing in children and young people. The Commission’s most recent initiative to strengthen the social dimension (European Commission 2013h) in October 2013 must, for now, be viewed as a retreat: It only covers topics such as better monitoring of the employment situation, greater solidarity, and strengthening the social dialogue.

Implementation of the Social Investment Package is also hampered by the fact that in the existing treaties the EU does not have any legal capacity in the area of social investments. Moreover, the political ideas behind the Europe 2020 Strategy and the Social Investment Package on the one hand and the Fiscal Compact¹⁰, which entered into force in early 2013, on the other hand are difficult to reconcile. According to the Fiscal Compact, EU member states must reach structurally balanced budgets in a short period of time (2016). Countries with a public debt of more than 60% of GDP must reduce it as soon as possible – with structural reforms and (small) stimulus packages. It must be doubted whether the Compact for Growth and Jobs, passed in June 2012, can compensate for the restraining effect on economic growth of the Fiscal Compact. The above analysis clearly shows that social investments are long-term investments which can counter a “panic-driven austerity policy” (De Grauwe/Ji 2013).

In the meantime it is evident, and admitted by the European Commission, that the Europe 2020 targets will probably not be met, which will lead to considerable costs (Türk/Wöss/Zuleeg 2012). For this reason, increasing social investment becomes even more important. However, because of the financial crisis and the subsequent economic downturn in the EU, the discussion about the social investment state has moved into the background. For this reason, the voices emphasising the importance of social investments for future economic development are growing louder (EESC 2014; Aiginger 2012; Hemerijck 2012; Bonoli/Natali 2012; Vandenbroucke/Hemerijck/Palier 2011). In light of demographic trends and technological and structural shifts towards highly qualified jobs, raising the employment rate and investments in (continuing) education are essential. When citizens meet new qualification requirements and families are supported by high-quality childcare and early childhood education, this carries great potential for employment and productivity growth (cf. Hemerijck 2012). Investment in training and education and a supportive social system contributes to competitive capacity in the

⁹ This Package is complementary to the Employment Package, the White Paper on Pensions, and the Youth Employment Package (European Commission 2013a).

¹⁰ Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG).

long term too, if competitiveness is understood in a wider sense which includes incomes, social cohesion, and ecological excellence. In the project “WWWforEurope”,¹¹ Aiginger/Bärenthaler-Sieber/Vogel (2013) show that such a strategy is of importance precisely for highly developed EU countries, to enable them to compete against low-wage countries.

A social investment programme has the strongest effects when it is designed and implemented not just in one country but at EU level: On the one hand, both the costs and revenues of investment in education will be internationalised due to increased migration within the EU. On the other hand, higher welfare expenditure will increase consumption of imported goods and services and thus have an effect on other EU countries.

6. CONCLUSIONS

The social investments of today are important determining factors for the economic development and level of welfare expenditure of tomorrow. For example, if children of marginalised groups receive more support in the fields of education and labour market integration, welfare state expenditure for unemployment benefits, costs due to illness, and needs-based minimum benefits (and other transfers) will be lower for this group in the future. This long-term effect of social investment must be the focus, especially in times of fiscal consolidation, since budget cuts have long-term effects, too: Social investments which are too low produce long-term economic costs.

The paradigm of the social investment state, however, also implies a modernisation or adaptation of the welfare state to new conditions.¹² Social investment can cushion “new” social risks, such as decreasing half-lives of knowledge, reconciliation of working life and family, care for elder family members while in employment, rising divorce rates and individualisation of households, as well as fragmented employment histories. These challenges can be met by investing in high-quality childcare, school and post-school education, active employment policy (activation and mobilisation) as well as care services for the elderly, all of which contribute to economic growth (cf. Hemerijck 2012; Esping-Andersen/Gallie/Hemerijck/Myles 2002).

Education policy plays a key role in reducing social inequality, a successful migration policy, and sustainably financing the welfare state (Aiginger 2012). Effective education policy begins with what is usually called “childcare”, that is, in early childhood. The most effective use of education expenditure is during this phase. Therefore, education policy is tightly connected to gender and family policies. The approach of a passive, compensatory welfare policy is insufficient and needs to be expanded and complemented by active, preventive elements of policies on education, gender, families, labour market, and migration. However, social investment cannot replace social protection. Rather, basic social protection is a necessary condition for social investment to be effective (cf. Solga 2012; Allmendinger/Nikolai 2010; Esping-Andersen/Gallie/Hemerijck/Myles 2002).

¹¹ “WWWforEurope – Welfare, Wealth, Work” is funded by the 7th Framework Programme for EU Research and coordinated by the Austrian Institute of Economic Research (WIFO) (www.foreurope.eu).

¹² See www.foreurope.eu.

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SOCIAL INVESTMENT – GROWTH, EMPLOYMENT, AND FINANCIAL SUSTAINABILITY: ECONOMIC AND FISCAL EFFECTS OF THE IMPROVEMENT OF CHILDCARE FACILITIES IN AUSTRIA

1. UNEMPLOYMENT AND SOCIAL INEQUALITY IN EUROPE ARE ON THE RISE

By 2012, parts of the EU Commission (EC) had begun to worry about high unemployment levels (European Commission 2013a, 13). Even then, this “insight” – which came too late – included the fear of further exacerbating inequalities and social distortions in several European countries due to continued low growth expectations as well as austerity policies.

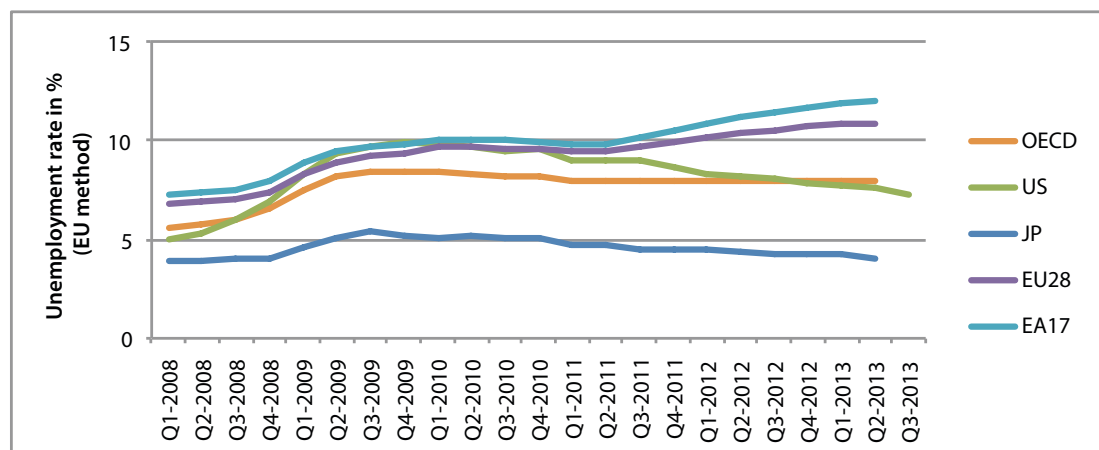
Recent data from the Employment and Social Development Report (European Commission 2014a) and Eurostat news releases show that even in 2013 and the first half of 2014, more than five years after the onset of the financial crisis, the general social situation has not improved. On the contrary: There are about 10 million more people unemployed compared to 2008; precarious employment, often for a non-living wage, and inequality are on the increase. Therefore, it comes as no surprise that an interim assessment of the realisation of the Europe 2020 targets (European Commission 2014b) shows unsatisfactory results.

Massive social cutbacks make it increasingly impossible for large parts of the population to meet their daily needs – from basic material needs to social assistance. Together with the rising unemployment rate, especially in Southern European countries and the periphery, such cutbacks lead to dangerous individual and social risks.

While unemployment is declining in comparable highly developed economic regions (e.g. USA, Japan), worrying trends continue in Europe: employment rates are falling in spite of noble Europe 2020 targets; and unemployment remains at an all-time high.

¹ This chapter is based on our 2013 study (Buxbaum/Pirklbauer 2013), to which the following individuals contributed: Markus Marterbauer, Miriam Rehm, Josef Wöss, Thomas Zotter, and Josef Zuckerstätter.

Figure 1: Unemployment trends since 2008 – EU, USA, Japan, OECD



Source: EU Commission 2014a, 18; authors' illustration.

Given that almost 27 million people are unemployed, the comment in a Eurostat press release on unemployment in Europe in early 2014, which mentions “stable” conditions, sounds especially cynical: “The euro area (EA17) seasonally-adjusted unemployment rate was 12.1% in November 2013, stable since April. The EU28 unemployment rate was 10.9%, stable since May” (Eurostat 2014, 1).

Progressive sections of the European Commission – in particular the Directorate-General for Employment, Social Affairs and Inclusion with its [former] Commissioner László Andor – point with increasing alarm to social imbalances and the desperate labour market situation in their reports and public statements. Within the EU Commission, however, there still seems to be no consensus that the fight against unemployment and the reduction of social inequality should be the top priority.

The playing down of unemployment in Europe, especially by the European Commission’s Directorate-General for Economic and Financial Affairs, is incomprehensible; all the more so since it is evident that an unemployment rate which is rising to threatening levels – and not just among young people – endangers social and regional cohesion. In addition, existing potentials and talents are not fully used and economic growth is slowed down. Special attention should be paid to the labour market situation in countries of the European South and the periphery. In the wake of the financial and economic crisis the situation has worsened in these already structurally weak areas even more than in other regions.

2. EU COMMISSION: “NEW RHETORIC” WITHOUT A BELIEVABLE CHANGE IN POLICY

Some parts of the [former] EU Commission seem to have learned some positive lessons from the misguided developments of recent years. With the presentation by László Andor of the “Social Investment Package” (SIP; European Commission 2013b),² the Commission tried to find initial responses to the question of how to address economic and social distortions.

² For further documents on this subject see <http://ec.europa.eu/social/main.jsp?langId=de&catId=1044>.

MAIN FINDINGS AT A GLANCE

Adi Buxbaum/Josef Wöss

- Austerity measures implemented in the wake of the economic and financial crisis have not only put social cohesion at immense risk but also restrained the growth dynamic in Europe and massively and lastingly shaken the confidence of citizens in public institutions.
- The most obvious evidence for this failure of “crisis management” is that unemployment in Europe has reached record levels, above the 26 million mark.
- A paradigm shift in terms of a course correction towards active and inclusive social policies does not seem very likely from today’s perspective. At the same time, prominent voices demanding a strengthening of the social dimension in Europe – including from an economic perspective(!) – are growing louder.
- Whether a Europe-wide “social investment package”, with all the potentials ascribed to it, can be realised in the EU member states will strongly depend on the way the social agenda is embedded macro-economically, legally and institutionally.
- As the individual contributions to this publication make clear, target-group-specific investments in the welfare state can address social problems and contribute to a sustainable balancing of budgets by stimulating growth and employment.
- In any case, it is undisputed that inaction and therefore acceptance of the continuing existence of problems is a very expensive option, associated with massive costs for the individual and society.

Christian Schober/Olivia Rauscher

- The contribution focuses on the question of how costs of inaction can be modelled and assessed.
- In general, cost-benefit analyses and social return on investment approaches (SROI) are useful methods for assessing the effects of certain actions/interventions and the effects of inaction in monetary terms.
- Impact value chains are depicted and assessed more comprehensively in SROI analyses than in cost-benefit analyses. Moreover, the monetised effects are contrasted with investments (input); and at least the main stakeholders in the analysis subject (organisation, programme, project) are taken into account.
- An SROI analysis of the effects of mobile care services in Vienna shows that every euro invested in mobile care services in 2010 created effects to a monetised equivalent of 3.70

euros (i.e. the ratio of investment costs to return was 1:3.7). The largest profit, or rather benefit, went to hospitals (due to lower costs), followed by clients, the general Viennese population, and family members.

Ulrike Famira-Mühlberger

- The effects of social policy are manifold: On the one hand, they can stabilise consumption and hence the economy (e.g. retirement and unemployment benefits), on the other hand, they can be seen as investments which make a positive contribution to growth and budgets in the medium and long term (e.g. health and education expenses).
- It is precisely the education policies of today which will strongly influence the social policies of tomorrow. Well-educated individuals have observably better chances on the labour market, are less affected by unemployment, and are usually healthier and more satisfied with their work.
- Education policy in a wider sense (concerning inter alia school and post-school education, re-training, etc.) is a central component of a social investment state. Effective education policy, however, starts with a field that is usually seen as “childcare”, that is, in early childhood.
- As well as having positive effects on children, the expansion of high-quality early childhood educational institutions also enables parents – usually women – to participate in the labour market to a greater extent.
- Alongside education policy, active gender and family policies as well as active labour market and migration policies are also important preventive elements within a modern social policy.
- However, social investments are not a substitute for social protection. Rather, basic social protection is a necessary condition for effective social investment.

Adi Buxbaum/Sybille Pirklbauer

- The fact that social progress and economic goals can be achieved simultaneously can be demonstrated very convincingly using the example of expansion of the social infrastructure. Precisely in terms of increasing employment, the expansion of social services has a greater effect than any other form of public expenditure.
- A lack of social infrastructure leads to distortions on the (regional) labour market to the point that qualified workers move to other areas. Qualified workers are an important factor in decisions on industry locations.
- The employment goal of 75% of 20- to 64-year olds defined in the Europe 2020 strategy necessitates among other things a corresponding increase in female employment. To this end it is essential that employment barriers are removed by unburdening women from unpaid family work.

- The expansion of institutional childcare provides for direct employment opportunities and a better framework for balancing work and family life, and therefore significant additional revenue for the state.
- Even under relatively pessimistic assumptions as regards economic and employment growth, the costs of more and better childcare will be at least neutralised – through additional revenue (contributions from employment and reduced expenditure on unemployment) – after just four years.

Silvia Hofbauer/Edith Kugi-Mazza/Lisa Sinowatz

- Even though the Austrian dual training system is widely recognised as a showcase model throughout Europe, the apprenticeship market has for quite some time faced a significant fall in the willingness on the part of companies to provide vocational training.
- Expanding the ÜBA system has helped to compensate for the massive decline in in-company apprenticeships. Many young people who, under increasingly difficult conditions, were unable to secure an apprenticeship have found a training position in a public training centre.
- Currently it is assumed that an annual average of 9,500 young people participate in such training schemes.
- Around 60% of the 9,500 participants leave the ÜBA system every year. They transfer either to an in-company apprenticeship, into employment, to unemployment or qualification measures, or into non-employment (e.g. military/civilian service or similar). The remaining 40% (around 3,800 persons) stay in the ÜBA system.
- Alongside positive effects for young people, the ÜBA system has a considerable “self-financing rate”. Chamber of Labour calculations show that, in an optimistic scenario, the ÜBA scheme “pays off” after just five years; in the medium scenario, this is the case after six years; and even under pessimistic assumptions, the returns exceed the running costs of the ÜBA system after only seven years.

Kurt Kremzar

- In its working programme (2013-2018), the Austrian federal government is pursuing the ambitious goal of creating 200,000 places in all-day schools starting with the 2018/19 school year, and thereby achieving a care rate of around 30% of all 6- to 14-year old pupils.
- The framework of all-day schools should offer pupils an age-appropriate sequence of phases for learning, studying, resting, playing, eating, and being tutored and thus optimally support them in their personal and performance-related development.
- At the same time the programme intends to significantly improve the conditions for reconciliation of work and family life. By creating new jobs and enabling parents – especially women – to enter employment or work more hours, the programme is expected to generate significant additional revenue for the state.

- Calculations by the Chamber of Labour – the first of their kind in Austria – on potential effects of planned investments in the area of all-day schools clearly show that expanding all-day schools benefits budgets in the medium term.
- In an optimistic scenario, the cumulated positive effects allow the running costs to “fund themselves” after only three years. Even in a pessimistic scenario, a positive budgetary effect occurs after six years.

Josef Wöss/Erik Türk

- It is evident that the aging of society is an enormous challenge – but views on what constitutes necessary adjustments and which measures are to be implemented as a result often differ substantially depending on the analytic concepts and often interest-driven paradigms applied.
- In its publications on this topic, the EU Commission increasingly points to the importance of so-called “economic dependency ratios” and, in doing so, adopts a perspective which focuses on the labour market and takes into account the economic context, thereby setting a counterpoint to relationships exclusively focused on age cohorts and the changes they undergo.
- The future development of the “economic” dependency ratio and the financial feasibility of welfare state protection (e.g. in areas such as old-age safety nets, health, and care) will not only be determined by demographic changes but substantially also by developments on the labour market.
- Simulations of the Austrian Federal Chamber of Labour show, among other things, that to accept social distortions on the European labour market would be particularly fatal: For instance, if in 2020 employment rates remained low and unemployment rates were still as high as in 2010 (= status quo scenario), the shrinking of the working age population would result in around three million fewer people in employment. Employment potentials in all age groups would remain untapped to a large extent.
- A completely different picture would emerge if the employment goal of the EU 2020 strategy were reached (= EU 2020 scenario). Because of higher employment rates, the number of persons in employment would – in spite of a shrinking working age population – increase by around 19 million.
- It is evident that a positive labour market trend would mean significant additional revenue for public budgets on the one hand and substantially lower expenditure (e.g. for unemployment benefits or other income replacement payments) on the other and should therefore be seen as a “double” positive effect.
- Ultimately, which labour market trends actually arise will strongly depend on the direction of future policies. The difference for public budgets is obvious: In addition to the human lives affected, around 1,000 billion euros are at stake.

With targeted investments in the welfare state – as proposed by the EU Commission – both existing and future structural problems were to be solved and a significant number of jobs were to be created. The underlying assumption of the European Commission is that, on a social level, these are investments in the future sustainability of our societies and therefore of the EU. On an individual level, these investments give people more opportunities for economic and social participation.

The [former] European Commission also made a striking reference to José Manuel Barroso’s “State of the Union” speech of September 12, 2012 (European Commission 2012). He had commented that countries with high levels of social protection and a working social partnership, that is, in essence, a welfare state of a continental European and Scandinavian type, are not only more successful in “crisis management”:

“Indeed, it is precisely those European countries with the most effective social protection systems and with the most developed social partnerships, that are among the most successful and competitive economies in the world” (European Commission 2012, quoted in European Commission 2013b, 2).

In contrast to myopic and one-sided recommendations for austerity, “progressive” approaches – which are certainly not to be considered as new – finally seemed to be informing the discourse in Brussels, at least for a few weeks. The following lines of argument were put forward not only by organisations close to trade unions but also by the European Commission in order to legitimise and support social investments:

- The alternative of not investing/not taking action would be significantly more expensive in the medium and long run: Structural problems would not be resolved, the Europe 2020 targets (in particularly those on employment and poverty reduction) would be missed by a large margin, unemployment would continue to rise, and room for manoeuvre for public budgets would shrink even further in the future.
- In the face of rising unemployment and low growth expectations, without an active employment and growth policy and the investments involved (among other things in expanding social infrastructure, maintaining employability, job training and continuing education, target-group-specific support programmes, poverty reduction), it would not be possible to tap currently unused potential, especially among young people, seniors, women, and migrants, to (re-)integrate these groups into the labour market, and to ensure adequate social participation for as many people as possible.

The initial euphoria about the Social Investment Package, which was seen as allowing for both social and economic progress (Buxbaum/Tempel 2013, 1-5), has now turned into huge disappointment. It is interesting that the merits of the welfare state were highly praised, but that ultimately the necessary budgetary leeway for investments was not made possible and practical implementation (European Commission 2013c) did not go beyond symbolic innovations, such as establishing a “social scoreboard” without much significance or effect.

Calls for radical so-called “structural reforms”, which generally only mean cuts to existing labour and social standards, unfortunately still outweigh calls for social investment more progressive approaches. Hence, the asymmetry between “social goals” and “austerity targets” – including in the context of the European Semester – remains intact. This currently prevailing contradiction between myopic austerity policies and the goal of reducing social imbalances in Europe could have been resolved in an intelligent and consensual way – unfortunately, this opportunity has so far been missed.

What such a more intelligent and progressive solution could have looked like is illustrated below, using the example of childcare. The basic mechanisms described here are also applicable to other examples of social investments.

3. CHAMBER OF LABOUR CALCULATIONS SHOW: “YES, WE CAN!”

Even though parts of the European Commission seemed to understand temporarily that social progress and economic goals can be reached simultaneously – a thought that is reflected in the Social Investment Package (see above) – this way of thinking has unfortunately not yet become commonly accepted. The idea of complementarity of different policy fields can be illustrated most clearly using the examples of investment in education or in expanding social services.

While the necessity of education expenditure is not a matter of dispute, the usefulness and significance of social infrastructure is undervalued – but for no good reason. In fact, investment in social services meets the high standard of an intelligent, sustainable, and integrative growth strategy in many ways – on the European level as well as in Austria.

In the coming years, a deceleration of the economic dynamic is to be expected, not least due to the consolidation packages in individual EU countries. This is why it is all the more important to stimulate sustainable economic growth by strengthening (domestic) demand, e.g. by improving the labour market integration of women. To be able to compete globally, it is necessary to utilise talents and skills of women and men equally. An intelligent employment strategy is needed, and this cannot function without social services:

- In terms of increasing employment, no form of public expenditure has as strong an effect as expanding social services.
- The employment target of 75% of all 20- to 64-year-olds in Europe requires increasing female employment accordingly. This in turn makes it necessary to remove barriers to employment by relieving women from unpaid care work.
- This is also a crucial prerequisite for managing demographic change in an economically sensible and socially acceptable way and for securing the financial viability of retirement systems.
- Missing social infrastructure leads to distortions on the (regional) labour market to the point that qualified workers move to other areas. Qualified workers are an important factor in decisions on industry locations.

3.1 Recommendations by the European Commission and recent studies by the Austrian Chamber of Labour

Using the example of childcare, even the EU Commission Recommendation “Investing in children: breaking the cycle of disadvantage” (European Commission 2013d) clearly shows that higher investments in childcare and social services in a broader sense (elderly care, education, etc.) are an option for reform. They enhance the institutional setting, the quality of a business location and competitiveness, have positive effects on the labour market participation of women and help reduce the need for benefits.

Family policy concepts which, in a Europe-wide comparison, are successful and progressive are characterised by a wide range of high-quality social services. They allow women in particular to better bring their potential and qualifications to the labour market, and they also boost economic growth. Moreover, the EU Commission emphasises that improved provision of childcare is one of a number of factors that can break structural patterns of disadvantage of children from an underprivileged socio-economic background.

Recent studies by the Austrian Chamber of Labour (Buxbaum/Pirklbauer 2013) go one step further and show that these investments do not just have the effects described above but also lead to a sustainable unburdening of public budgets in the medium and long run. How is this possible when in fact these investments involve significant spending?

These new calculations (Buxbaum/Pirklbauer 2013, 11) impressively demonstrate that investments in childcare not only help to remedy existing deficits in institutional childcare in terms of provision and quality, but also generate remarkable employment and budget effects. Expanding institutional childcare provides for direct employment opportunities and a better framework for balancing work and family life, and therefore – depending on the overall economic development – significant additional revenue for the state: even with relatively pessimistic assumptions about economic growth and growth of employment, additional revenue for the state (taxes on earnings and reduced expenditures on unemployment benefits) permits the costs of more and better childcare to be at least neutralised after only four years.

3.2 Results of Chamber of Labour calculation for Austria in detail

Despite the continuing expansion of pre-school age childcare facilities, Austria still has significant deficits. Hence, improvements are needed on several levels, namely in terms of the number of available places (especially in nurseries, i.e. for under-3-year-olds), opening hours (while there are enough places for 3-5-year-olds, there is a lack of options offering lunch, afternoon care and day-care during holiday seasons), and quality (good early-childhood care requires smaller groups and higher staff/child ratios).

Such investments have a variety of effects (Buxbaum/Pirklbauer 2013, 14ff).³ First, they have direct employment effects, which vary between different sectors: social services are very labour-intensive areas, i.e. investments have larger employment effects. Second, since physical infrastructure or required qualifications are often not readily available, investments in other areas such as construction and education become necessary. This again leads to more employment.

Also, in the area of childcare, greater ease in balancing working and family life for parents, especially mothers, allows them to engage in employment or to work more hours.

This additional employment results in positive effects through the channel of increased consumption, since the additional income generates demand, which in turn increases employment in other sectors (e.g. retail, personal services). The Chamber of Labour model actually underestimates these effects because it only considers earnings from direct employment in childcare and construction.

A possible counter-argument could be that in order for the labour market to be able to actually absorb the additional labour force, a macro-context that supports growth and employment

³ The Chamber of Labour model (2013) and the different parameters are described and explained in detail in the German version of the study.

is required. The effects implied in the Chamber of Labour study, however, are consistent with the medium-term employment forecast by the Institute of Economic Research (WIFO) (WIFO 2012). In addition, other assumptions in the Chamber of Labour model are based on empirical findings for Austria (e.g. macro-multipliers, preferences for working hours, etc.) and on real cost calculations (e.g. income levels, tax calculation).

Due to uncertain growth prospects, several scenarios (optimistic/medium/pessimistic) were presented in the study.

At the fiscal level, additional employment has positive effects both because of higher taxes and contributions (social insurance, taxes and contributions paid by employees/employers) and because of reduced unemployment insurance transfers. Here, too, the Chamber of Labour model used the conservative assumption that only a third of future childcare employees will receive such a transfer.

Corresponding to the three different scenarios in terms of employment, there are also three fiscal effect variants.

The calculations presented started from the deficits in childcare mentioned above. The aim was to implement measures for all three areas – provision, opening hours, and quality. With the funding assumed in the calculation, the following goals could be reached by 2018:

- a) 35,000 additional childcare places for infants and toddlers (= under 3 years of age),
- b) longer opening hours for 70,000 existing places, and
- c) an additional teacher for at least half the day for all infant and toddler groups.

All of these would mean a significant improvement in childcare quality.

The model assumes that the expansion takes place in stages: extending opening hours and employing more staff could be done in the first year. Creating additional places involves some leadtime for the provision of the necessary infrastructure; hence, these were only calculated from the second year on.

The model proposes that over the course of the coming four years, an average of 100 million euros is invested at federal level in the expansion of childcare facilities. The provinces and municipalities would need to contribute the same amount. They would also bear the running costs, since childcare is one of their competences. This logic is therefore in accordance with the joint agreement on the expansion of childcare between federal government and the provinces.

As Table 1 and Figure 2 show, the gross costs (= total costs without returns) develop with the stages of expansion. In year 2, they rise significantly as construction costs come into play. The gross costs peak in 2017 and amount to 591 million euros regardless of scenario. From 2018 on, they decrease significantly because investment in construction is complete, and only personnel and training costs are left.

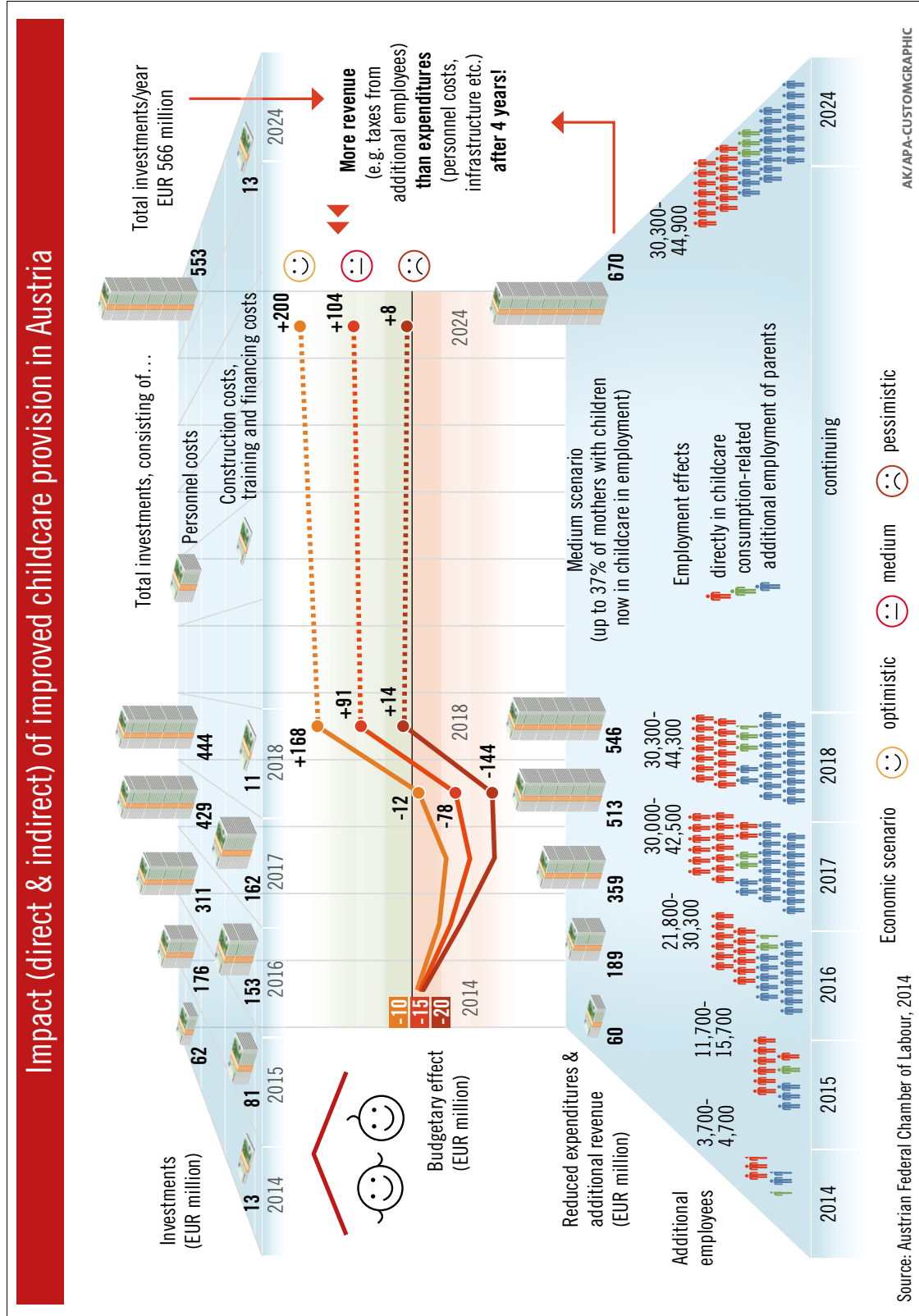
Depending on economic development and indirect employment effects assumed, net costs (= total costs minus returns) vary. They peak in 2016 and, depending on the scenario, total 61 to 148 million euros. After investment in construction ends in 2018, the returns from additional employment and from reduced expenditure on unemployment benefits eventually exceed the costs. Even in the worst economic scenario, the state has a surplus of 14 million euros per year. Using the slightly more positive assumptions in the medium scenario, returns exceed expenditure by 91 million euros, and in the most optimistic scenario by 168 million euros.

Table 1: Budgetary effects of developing childcare facilities

	2014	2015	2016	2017	2018	2019-23	2024
Improvement of childcare provision (places cumulated)							
New places for under 3-year-olds	0	7,500	22,500	35,000	35,000	↔	35,000
Longer opening hours	30,000	60,000	70,000	70,000	70,000	↔	70,000
Higher staff/child ratio	15,000	33,000	50,000	70,000	70,000	↔	70,000
Costs							
Annual personnel costs in millions – cumulated	62	176	311	429	444	↑	553
Annual construction costs in millions – including maintenance costs	0	45	91	80	2	↔	2
Training costs for additional staff	12	31	53	70	0	↔	0
Financing costs	2	5	9	12	9	↑	11
Total costs for expansion of childcare	75	257	464	591	455	↑	566
Employment effects (cumulated, by scenario)							
Direct employment effects in childcare, construction, training	2,400	6,800	11,700	15,300	14,000	↔	14,000
Consumption-related employment effects	300	900	1,600	2,200	2,300	↑	2,900
Additional employment of parents with childcare duties	1,000 to 2,000	4,000 to 8,000	8,500 to 17,000	12,500 to 25,000	14,000 to 28,000	↔	14,000 to 28,000
Total employment effects	3,700 to 4,700	11,700 to 15,700	21,800 to 30,300	30,000 to 42,500	30,300 to 44,300	↑	30,300 to 44,900
Reduced expenditures and higher returns (cumulated)							
Optimistic scenario: up to 50% of mothers in employment	65	209	403	579	624	↑	766
Medium scenario: up to 37% of mothers in employment	60	189	359	513	546	↑	670
Pessimistic scenario: up to 25% of mothers in employment	55	170	316	446	469	↑	574
Budget effect							
Optimistic scenario in million euros → “pays off” from 2018 on	-10	-48	-61	-12	168	↑	200
Medium scenario in million euros → “pays off” from 2018 on	-15	-68	-104	-78	91	↑	104
Pessimistic scenario in million euros → “pays off” from 2018 on	-20	-87	-148	-144	14	↓	8

Source: AK Vienna (2014), authors' calculations

Figure 2: Direct/indirect effects of developing childcare in Austria



Expanding childcare facilities on this scale creates significant additional employment effects. For instance, in the field of childcare itself, around 14,000 additional jobs are created. On top of this, investments in construction and the additional earnings of kindergarten teachers and staff permanently create more than 2,300 jobs in other sectors.

The effects of expanding individual working hours are also considerable. This is the case when part-time employment is extended to more hours and when individuals with care duties are enabled to enter gainful employment or work more hours. Even with very moderate economic growth, 14,000 additional jobs could be created in the coming four years alone. If the growth rate were higher, up to 28,000 parents, especially mothers, could take up employment. The potential exists in any case: in a recent survey, more than 140,000 parents (especially women) said that they were only working part-time or not at all because of a lack of day-care for their children (Statistik Austria 2010).

In sum, in the pessimistic scenario a little more than 30,000 people could engage in gainful employment, and in the optimistic scenario almost 45,000 people could do so. Via direct taxes and social security contributions (both by employees and employers), the state would gain significant returns. If reduced expenditure on unemployment benefits is also taken into account, annual returns already structurally exceed running costs in the fifth year after the start of investment activities.

In the long run, since it becomes easier to balance work and family life and due to other employment effects, even if economic growth is weak, public budgets will have a small surplus of about 14 million euros. But even if expanding childcare was “only” cost-neutral, balancing work and family would become much easier for thousands of parents and children would receive more early education and equal opportunities.

With better economic conditions (medium/optimistic scenario), the ongoing budget surplus from 2018 on would be between 91 and 168 million euros per year. The surplus will increase accordingly in the following years.

4. INSUFFICIENT FUNDING OF NECESSARY INVESTMENTS - ECONOMIC AND SOCIAL POLICY NEGLIGENCE

Even though some Directorates-General within the EU Commission increasingly emphasise the importance and positive effects of a broad social investment package on a declarative level, a corresponding focus in the multi-annual financial framework (2014-2020) is obviously missing. The European Union is missing out on the opportunity to use its budget to improve the economic and social conditions of its citizens and to prepare for future challenges precisely in areas of employment, social issues, and poverty reduction.

Furthermore, the decision on how to use a certain percentage of the money of the European Agricultural Fund for Rural Development (EAFRD) should be reconsidered and the Fund should be realigned in line with the focus areas already defined: employment, social inclusion, reduction of territorial inequality, active and healthy ageing, access to social, education and health services as well as life-long learning. After all, the greater part of the rural population does not work in agriculture. Such measures would also help to reduce rural-urban migration.

In view of the austerity regimes recently introduced, when thinking about how much of the enormous potential for growth and employment – which could contribute to a sustainable consolidation of public budgets – is wasted, the important question is whether we can afford to not invest.

A recent ray of hope – which might only be of minor institutional importance but should not be underestimated – is the own-initiative opinion “The impact of social investment on employment and public budgets” of the European Economic and Social Committee (EESC 2014). What discussions will be started by the political demands mentioned therein, and what real effects will result remains to be seen; in any case, as a consensual signal of the social partners at European level and an appeal to the European Commission, the EESC opinion is significant.

5. CONCLUSION

We can only speak of a believable paradigm change among the most important actors towards an investment and prevention strategy in crucial policy fields and areas of action (e.g. education, social, employment, and health policy; labour and companies organised in a way that maintains health, etc.) when the budgets of both the EU and its member states provide sufficient funds for these social investments.

In light of rising unemployment and weak growth prospects, without suitable investment (e.g. expansion of the social infrastructure, preservation of employability, training and continuing education, targeted support programmes), we will certainly not be able to tap currently unused potentials (especially of young people, seniors, women, and migrants), successfully integrate these groups into the labour market, and ensure adequate social participation for as large a part of society as possible.

The alternative of inaction or non-investment would be much more expensive in the medium and long run, since structural problems would remain unresolved, the Europe 2020 targets would be missed by a significant margin, and unemployment would not be reduced. Eventually, this path would only lead to even less room for manoeuvre in future public budgets.

Hence Europe does not need competitiveness pacts – the most recent proposal for disciplining EU member states regarding their fiscal policy – but investment in social security systems and in citizens.

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THE SUCCESS STORY OF APPRENTICESHIPS IN PUBLIC TRAINING CENTRES: ANALYSING THE EFFECTS ON PARTICIPATING YOUNG PEOPLE AND PUBLIC BUDGETS IN AUSTRIA

In Austria, 40% of all adolescents of any age-cohort start an apprenticeship after completing mandatory schooling (BMASK 2013b, 22). So as to teach both specific practical skills and specialised theoretical knowledge, apprenticeships have a dual structure and are completed in both companies and in training schools (at a ratio of about 80:20), which is similar to the structure of vocational training in Switzerland and Germany. The legal basis of apprenticeships is provided in the Vocational Training Act (Berufsausbildungsgesetz, BAG). Additionally, every industry has its own binding training regulations. Currently, around 250 industries are on what is known as the list of apprenticeship industries. Depending on the industry, the apprenticeship period varies between two and four years. For most industries, remuneration is governed by the relevant collective agreement.

Although the dual training system is widely recognised and employers' associations often call it a showcase model, the apprenticeship market has for quite some time faced a significant fall in willingness on the part of companies to provide job training. The number of first-year apprenticeship contracts in Austrian companies fell by around 8,700 (22.6%) between 2008 and 2014 (figures as at January 31) (AK Wien 2014a).

Faced with a constant increase in numbers of young people unable to secure an apprenticeship, the late 1990s saw the implementation of the first training programmes held in public training facilities. The aim of these measures was to help participating young people to transfer to an in-company training scheme and later to complete an apprenticeship. In 2008, Austrian policy-makers created the framework for a training guarantee for young people up to the age of 18. This guarantee includes a set of complementary measures, the goal of which is to prevent dropouts, provide support during (difficult) transitions, and ensure completion of training. Vocational training in public training centres (überbetriebliche Ausbildung, ÜBA) constitutes the centrepiece of the training guarantee.

There are two types of training programme: ÜBA 1 and ÜBA 2. The aim of both models is to place young people in an in-company apprenticeship. ÜBA 1 programmes either take place entirely within a dedicated ÜBA facility or training is combined with internships in companies. ÜBA 2 programmes offer temporary training in public ÜBA facilities with the goal of speedy transfer to in-company training. The ÜBA framework also includes an "integrative vocational training" element (*integrative Berufsausbildung*, IBA), which enables young people to attain a partial qualification or to extend the apprenticeship period.

ÜBA courses are available to everyone registered with the Public Employment Service (Arbeitsmarktservice, AMS) who has completed compulsory schooling but cannot find an apprenticeship. The aim of this measure is to help young people successfully complete an apprenticeship – this means either placing them in a company or facilitating their training as skilled workers within a ÜBA facility.

Table 1: ÜBA training programmes in Austria

	ÜBA 1	ÜBA 2	IBA
Target group	Persons without an apprenticeship position in a company	Persons without an apprenticeship position in a company	Disadvantaged persons without an apprenticeship position in a company (young people with special education needs, disabilities or social disadvantages)
Goal	Completion of an apprenticeship	Completion of an apprenticeship	Full or partial completion of an apprenticeship
Measure	Training with a training contract in a training facility or a training facility with a company internship	Training with a training contract in cooperation with a company	Training in terms of a partial qualification or an extended apprenticeship (either in a training facility or a training facility in cooperation with a company)

Source: AK Wien 2014, authors' illustration

Expanding the ÜBA system helped to compensate for the massive decline in in-company apprenticeships. Many young people who, under increasingly difficult conditions, were unable to secure a position have found a training position in a public training centre. Between January 2008 and January 2014, the number of participants in such training schemes increased by 20% (1,494 apprentices) (AK Wien 2014a).

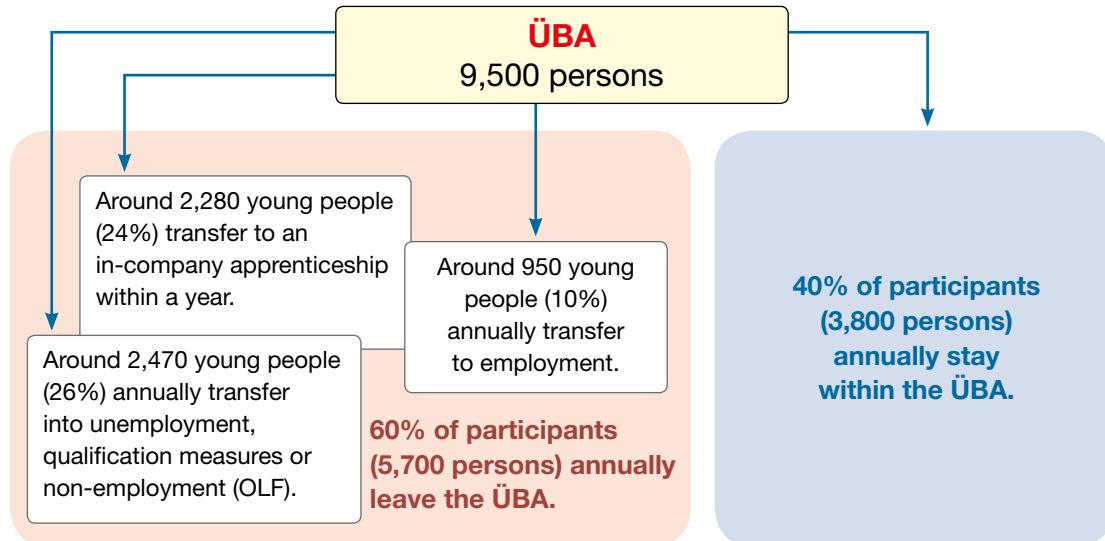
Taking into account the fact that some individuals appear in the annual AMS statistics on ÜBA programmes multiple times, and that the number of participants fluctuates greatly, we assume that an annual average of 9,500 young people participate in such training schemes. This number was calculated as the average over the years 2008 to 2012 (AMS 2013a)¹.

1. THE PRECARIOUS APPRENTICESHIP MARKET AND THE ROLE OF THE ÜBA FRAMEWORK

Around 60% of the 9,500 participants leave the ÜBA system every year. They transfer either to an in-company apprenticeship, into employment, to unemployment/qualification measures, or into non-employment (e.g. military/civilian service or similar). The remaining 40% (around 3,800 persons) stay in the ÜBA system. These assumptions on distribution are based on average numbers over recent years (AMS 2013b).

¹ In view of demographic change it can be assumed that from 2016 on, only 9,000 ÜBA positions will be needed instead of 9,500. This aspect was taken into account in all time series calculations.

Figure 1: Current structure of training and employment routes of ÜBA participants



Source: Chamber of Labour 2014, authors' illustration

2. PERFORMANCE OF THE ÜBA SYSTEM AS REGARDS PARTICIPANTS AND SUCCESSFUL FINISHERS

The Austrian model of dual training and the training guarantee have now become a model of good practice discussed internationally. However, to date, there has been no detailed research into the economic and social sustainability of this investment measure. Using models and taking average numbers as a basis, we are now attempting to close this gap and to sketch out realistic scenarios of the economic effects of the Austrian training guarantee in terms of apprenticeships in training facilities. As a disclaimer, these calculations only reflect those positive monetary effects which could be identified based on the currently available data. All underlying assumptions are deliberately very cautious.

To calculate the costs of the training guarantee, we took into account the ÜBA, subsidised apprenticeship and subsidised employment as cost factors. According to this calculation, the projected total costs would amount to 141 million euros in 2014, the year chosen as an example.

Table 2: Costs of training guarantee for the year 2014

Measure	Average costs per person and year	Persons per year (average)	Average costs per year
ÜBA (incl. 12% provinces contributions)	EUR 14,238	9,500	135,261,000
Subsidised apprenticeship	EUR 2,755	1,003	2,763,265
Subsidised employment	EUR 2,112	105	221,760
Subtotal			138,246,025
Financing costs 2%			2,764,921
Total costs			141,010,940

Source: Chamber of Labour 2014, authors' illustration.

On the basis of statistical data from the Public Employment Service and the Ministry of Social Affairs and Consumer Protection (BMASK), as a first step we estimated how many young people will either participate in a ÜBA course for a limited period or complete such a course (between 2014 and 2024). Considering these empirical data as well as individual and labour market-related factors, we identified the following training and employment routes, starting on January 1, 2014:

- a) ÜBA and transfer to apprenticeship
- b) ÜBA and transfer to apprenticeship + completion of apprenticeship + training-specific employment
- c) ÜBA and transfer to apprenticeship + no completion of apprenticeship + no training-specific employment
- d) ÜBA and transfer to low quality employment (without completion of apprenticeship)
- e) ÜBA and completion of apprenticeship + high quality employment

As a next step, we calculated the potential total income of those who participate in or successfully complete an ÜBA course between 2014 and 2024 and how much tax revenue this would produce. Taking as a basis salaries for skilled workers stipulated in collective bargaining agreements, we calculated the average annual income for the ten largest groups of apprenticeship industries over a period of ten years. In order to account for inflation adjustment and increases in collectively agreed salaries, we assumed an annual salary increase of 2.5%. For these salaries, we identified social insurance contributions and payroll taxes as well as employer contributions. The average taxes and contributions were multiplied by the relevant number of individuals. Future career steps (such as moving to a higher wage category under a collective bargaining agreement) were not taken into consideration.

Additionally, we took into account taxes and contributions paid by teachers and trainers as well as ÜBA administrative staff. Currently, this includes about 650 teachers and trainers and 70 administrators. Since the number of young people will decline for demographic reasons, we assumed a corresponding reduction in teachers, trainers, and administrative staff.

3. FISCAL EFFECTS OF THE ÜBA SYSTEM: EMPLOYMENT EFFECTS AND TAXES AND CONTRIBUTIONS PAID BY ÜBA PARTICIPANTS

Table 3 and figure 2 below show that every year people complete an ÜBA course and leave as skilled workers and, due to their employment, pay a constantly increasing amount of taxes and contributions. That is, the number of those who have successfully completed a ÜBA course who are employed as skilled workers is continually on the rise.

In order to illustrate different scenarios, we made three different assumptions (optimistic, medium, and pessimistic estimates regarding sustainable labour market integration due to participating in the ÜBA system). The resulting taxes and contributions were calculated separately.

Both table 3 and figure 2 show that, in an optimistic scenario, ÜBA participation “pays off” after five years and yields a surplus for public budgets after that time. According to the calculations, this surplus would amount to 11 million euros in the year 2019. In the medium scenario, this is the case after six years, and even in the pessimistic scenario, after seven years.

A look at the detailed results of the medium scenario (table 3) shows: According to the Chamber of Labour model, until 2018, around 5,700 skilled and 1,550 unskilled workers will transfer from the ÜBA system to the labour market. Additionally, ÜBA facilities will employ around 600 teachers and trainers and 60 administrators. Direct (teachers/trainers, administrators) and indirect (those who have participated in or completed courses) employment effects in terms of taxes and contributions yield total returns of 109 million euros, which can be broken down as follows:

- Teachers/trainers and administrators: 15 million euros
- Skilled workers who completed their apprenticeship in the ÜBA system: 32 million euros
- Skilled workers who transferred from the ÜBA system to an in-company training scheme and completed their apprenticeship there: 44 million euros
- Unskilled workers who participated in the ÜBA system but did not complete their apprenticeship: 6 million euros
- Unskilled workers who transferred from the ÜBA system to an in-company training scheme but did not complete the apprenticeship: 12 million euros
- Apprentices who transferred from the ÜBA system to a subsidised or non-subsidised apprenticeship: 1 million euros

Under optimistic assumptions, in 2019, the number of those who have successfully completed or participated in ÜBA courses who enter the labour market as skilled or unskilled workers would reach a level where the taxes and contributions they pay would exceed investment costs for the first time (by 11 million euros). This trend will continue in 2020-2023.

In the medium scenario, the positive budget effects of the ÜBA model would exceed its costs for the first time by 2020 and would structurally yield additional revenue for public budgets. The net surplus, which is based on taxes and contributions paid due to direct and indirect employment effects of the ÜBA system, further increases until 2024. In the medium scenario, the positive budget balance increases to almost 140 million euros (2014: 138 million euros) in 2024.

Under these conditions, the cumulated “employment balance” of the ÜBA system over the period under consideration (2014-2024) would be quite impressive overall. Not least thanks to their participation in the ÜBA system, almost 19,000 young people – whose labour market perspectives would otherwise probably be quite precarious – would be integrated into the labour market on a sustainable basis: around 15,000 young people would have realistic future prospects as skilled workers. An additional 3,700 individuals who did not complete an apprenticeship could gain a foothold in the labour market and hence lay the foundation for further (necessary) qualification steps.

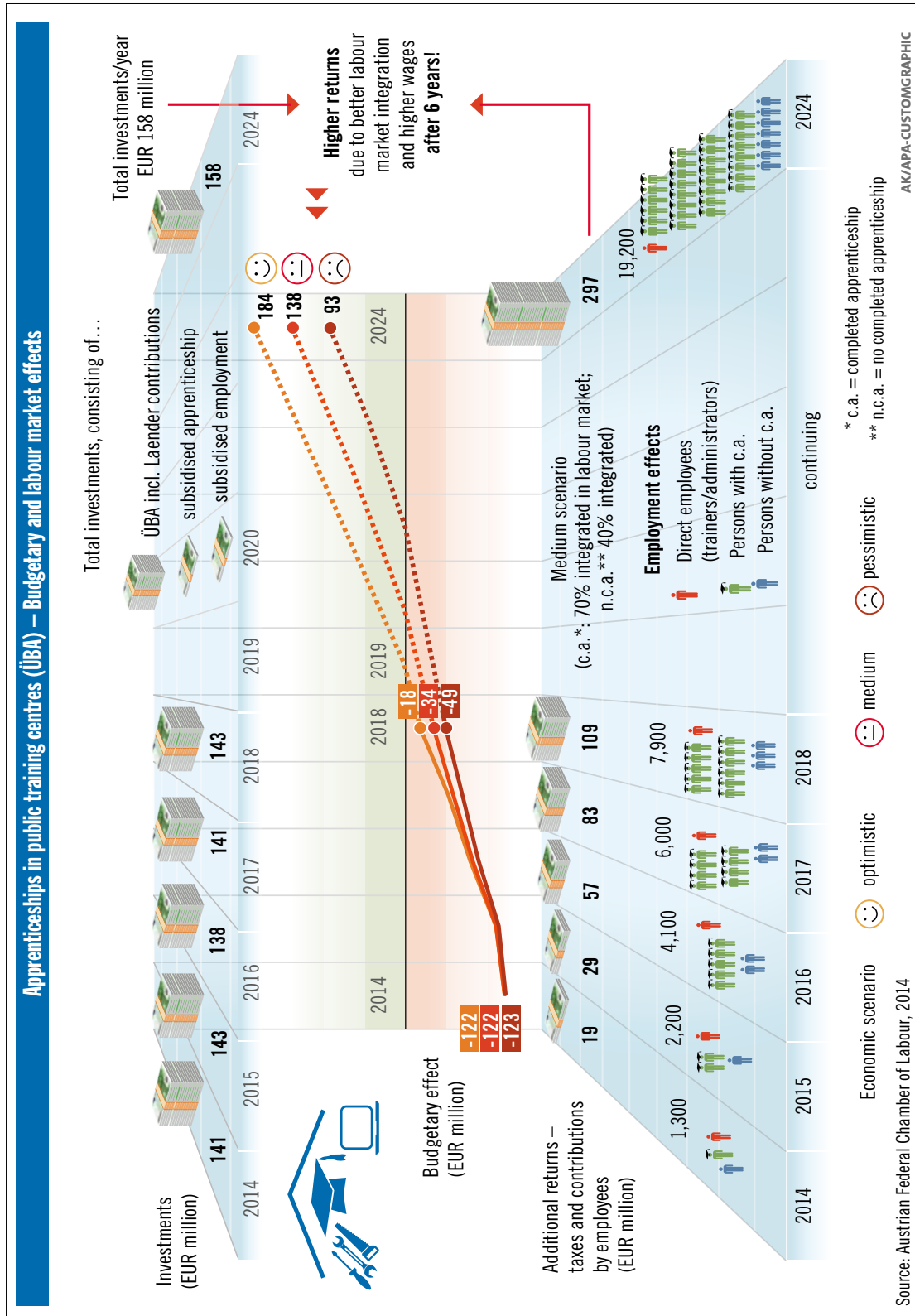
If, on top of this, Austria succeeded in improving the quality of ÜBA training and hence in increasing the probability that those completing ÜBA courses will transfer to the labour market successfully, the return to public budgets would be even higher, and the “self-financing rate” could be increased even further.

Table 3: Budgetary effects of investment in ÜBA

	2014	2015	2016	2017	2018	2019	2020-23	2024
in million euros (rounded values)								
Costs								
ÜBA positions	9,500	9,500	9,000	9,000	9,000	9,000	↔	9,000
ÜBA costs	135	138	133	135	137	139	↑	152
Subsidised apprenticeship/employment	3	3	3	3	3	3	↑	3
Financing costs	3	3	3	3	3	3	↑	3
Gross expenditures	141	143	138	141	143	145	↑	158
Employment effects (cumulated, by scenarios) (rounded values)								
Direct employment effects – trainers/teachers (1 per 15 ÜBA positions)	650	650	600	600	600	600	↔	600
Direct employment effects – administrative staff	70	70	60	60	60	60	↔	60
Employment effects ÜBA participants (by career path)								
Skilled workers (completed apprenticeship = c.a.) – medium scenario	490	980	2,590	4,170	5,690	7,210	↑	14,820
Unskilled workers (no completed apprenticeship = n.c.a.) – medium scenario	100	470	850	1,200	1,550	1,910	↑	3,670
Total employment effects – medium scenario	1,310	2,170	4,100	6,030	7,910	9,780	↑	19,160
Returns from employment (by career path) – medium scenario								
Trainers/teachers, administrative staff	14	15	14	14	15	15	↑	17
ÜBA graduates (ÜBA → c.a. → employment according to training)	3	9	19	25	32	39	↑	80
ÜBA graduates (ÜBA → apprenticeship → c.a. → employment according to training)	0	0	14	29	44	59	↑	149
ÜBA graduates (ÜBA → n.c.a. → unskilled employment)	1	2	3	5	6	7	↑	14
ÜBA graduates (ÜBA → apprenticeship → n.c.a. → unskilled employment)	0	3	6	9	12	16	↑	36
Apprentices (ÜBA → subsidised/non-subsidised apprenticeship)	0	0	0	0	1	1	↑	1
Total returns	19	29	57	83	109	137	↑	297
Budget effect – medium scenario								
Medium scenario in million euros → “pays off” from 2020 on	-122	-114	-82	-58	-34	-9	↑	138
Other scenarios calculated:								
Optimistic scenario in million euros → “pays off” from 2019 on	-122	-112	-75	-47	-18	11	↑	184
Pessimistic scenario in million euros → “pays off” from 2021 on	-123	-117	-89	-69	-49	-28	↑	93

Source: AK Vienna (2014), authors' calculations

Figure 2: ÜBA training programmes – Budget and labour market effects



4. UNQUANTIFIED POSITIVE BUDGET EFFECTS OF THE ÜBA SYSTEM

Alongside the returns in terms of taxes and contributions presented, there are a number of additional, unquantifiable or not easily quantifiable budget effects.

4.1 Decreasing and preventing youth unemployment

At 9.4%, Austria's youth unemployment rate determined according to the EU method is comparably low (EU-28: 23.7%) (BMASK 2014). For those who are affected by unemployment, however, these statistics are irrelevant: Because of their specific situation, they are burdened in multiple ways – by different negative financial, social, and psychological factors.

Thus investment in an effective vocational training system which – like the ÜBA system – does not leave any young person behind should not just be seen as a welfare measure for “stabilising” those who are affected. Rather, it should be seen as basic prevention work to minimise systemic problems such as persistent (youth) unemployment and all its unwanted effects.

4.2 Integration of individuals

Young people who are not adequately prepared to meet the changing requirements of the working world and daily life today are at risk of social exclusion in the future. Not least, they will struggle to become integrated into the labour market.

The ÜBA system acts as a compensatory measure that helps to address the shortage of apprenticeship places. It gives young people who, due to the precarious situation on the apprenticeship market, cannot find an in-company training place the opportunity to receive vocational training, or to complete an apprenticeship.

Thus the ÜBA system gives young people goals and perspectives and so significantly contributes to their personal stability in a situation of (often agonizing) insecurity. At the same time, it provides space for “maturing processes” and helps trainees attain educational qualifications.

4.3 Financial and psychological relief of families

Unemployed persons experience numerous problems and challenges of different kinds due to their situation (AK Wien 2014b). Especially in the case of young unemployed persons and “NEETs” – young people who are not in education, employment, or training – the closer social environment is particularly affected: because of the specific constellation of relationships, it is here that the bulk of financial and emotional support work is done. The former is the case especially when young people – due to their young age, that is, the fact that they have not yet made sufficient insurance contributions – are not eligible to receive social insurance benefits. The resulting additional financial stress on the (often shared) household, as well as psychological pressure (worries about the young person's future life chances), put stress on the affected young people and their families. Hence the ÜBA system provides relief in multiple ways, not only to young unemployed persons, but to their families too.

Not only does the ÜBA system provide an important support function for individuals, they without doubt also facilitate a (preventive) financial unburdening of social security systems.

4.4 Costs of inaction

The calculations do not account for costs that would arise if young people did not participate in training as provided by the ÜBA system, and long-term unemployment was the consequence instead. That these costs would arise is not a matter of debate; however, no reliable data on the length of unemployment and the amount of transfers exist for Austria. However, longitudinal panel studies carried out in European countries such as Denmark clearly show the massive social and economic effects of persistent youth unemployment (OFCE/ECLM/IMK 2012, 59-62).

5. CONCLUSIONS

The training guarantee provides young people who cannot secure an in-company training position in a tight domestic labour market with the opportunity to undergo vocational training. It gives them hope and stability, reduces youth unemployment, and has a sustainable positive influence on the working lives of the participants. It leads to more labour market participation and increases the total amount of taxes and contributions paid. Hence, it contributes to financing the welfare state.

ÜBA training programmes have now become a third training branch and have positive effects in terms of stabilising Austria as a business location, which relies on well-qualified employees. That the ÜBA system “pays off” is evidenced by recent Chamber of Labour calculations, among others: In the most optimistic scenario assumed, the ÜBA system pays off after five years, in the medium scenario after six years, and in the most pessimistic scenario after seven years.

When comparing the relatively good local labour and training market situation (thanks to investments in the ÜBA system and other instruments), it becomes apparent that Austria’s proactive strategy has significantly contributed to the fight against youth unemployment.

In view of so far quite vague plans of the Austrian government to introduce compulsory training or education until the age of 18, the future focus must be on effective and high-quality vocational training – both in-company and in public training facilities. Compulsory training is unthinkable without sufficient training opportunities.

Statutory enshrinement of professional quality management with binding standards for both in-company and ÜBA training schemes is a long overdue measure. This would be in the interests of apprentices and also benefit the economy. The goal must be to make the quality of training measurable and to further raise quality standards in order to release the full potential of the existing training system against the background of demographic change and enable it to meet the challenge of securing Austria as a business location in the future.

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THE POSITIVE EFFECTS OF AN EXPANSION OF ALL-DAY SCHOOLS IN AUSTRIA

This article is organised as follows: First, it describes the multiple positive effects connected to an expansion of all-day schools. Next, the current status is analysed and recent government plans are described. Finally, employment effects are estimated and a detailed cost-benefit analysis is presented – the first of its kind in Austria.

1. POTENTIAL EFFECTS OF EXPANDING ALL-DAY SCHOOLS

According to recent research findings (e.g. OECD 2013) high-quality all-day schools are, from a pedagogical point of view, the school type of the future. By expanding all-day schools, not only will pupils be optimally supported, but a number of additional positive effects will also result:

1.1 Effects in the field of educational policy

All-day schools, especially those where afternoon lessons are given, permit the implementation of a pedagogically well-founded concept, namely that of alternating learning units, tutoring units, sports, and free time. All-day schools are socially more just because private tutoring costs are lower, as has been shown multiple times – hence, in this type of school, the financial relief for parents is significant (IFES 2014). Additionally, all pupils can be supported in a better way (developing talent, addressing deficits). This contributes significantly to enhancing equality of opportunity of pupils from socially disadvantaged families.

1.2 Effects in the field of employment policy

All-day schools allow for better balancing of work and childcare, which – in light of the male breadwinner model still dominant in Austria – especially benefits women. Although the female employment rate has increased over the past few years, employment statistics still show lower labour market participation among women with childcare duties (Statistik Austria 2010). Currently, the employment rate of married women with children under the age of 15 is 65.1%; among single mothers it is 70.3% (excluding women on parental leave).

1.3 Effects in the field of integration policy

All-day schools facilitate integration of pupils with a migration background, since learning together and participating in collective leisure activities facilitates language acquisition. Also, diversity is lived in a way which allows cultural and social barriers to be broken down “through play”.

1.4 Effects in the fields of health and cultural policy

All-day schools create environments suitable for children and young people: instead of back-to-back lessons, there is time for sports, music and creativity, for talking to each other, for a shared healthy meal. All-day schools are the optimal basis for implementing daily exercise in schools, as well as, in cooperation with cultural and music associations, for developing the musical and creative talents of pupils.

1.5 Effects in the field of family policy

Ideally, a child gets home from an all-day school without a school bag. Because of the way in which the content of the curriculum and the corresponding practice units are organised, there is hardly any homework – except for reading exercises and studying for tests. This is what pupils and parents value most about all-day schools, since more time remains for family activities after school.

1.6 Effect in the field of local policy

Excellent all-day schools are an important locational advantage for every community. High-quality schools that parents, teachers, and pupils are happy with have a positive effect on the communal fabric.

1.7 Economic and fiscal effects

Investment in expanding all-day schools “pays off”: Creating new jobs and enabling women in particular to take up a job or to work more hours creates significant additional revenue for the state. Additional income earned by these women and by school teachers and staff result in more taxes and contributions (social insurance, payroll tax, municipal taxes, etc.). Thus expanding all-day schools can create a crucial impetus for employment and growth (see table 8).

Below is a presentation of quantifying the economic effects in particular. The other effects described above are only partly considered, since it is rather difficult to quantify them. Thus the positive effects are larger in reality.

2. DEVELOPMENT OF ALL-DAY SCHOOLS IN AUSTRIA

In the 2012/13 school year, 17.5% of all 6- to 14-year-old pupils went to some kind of all-day school (BMUKK 2013a and Table 1). All-day schools will be continually expanded over the coming years (Figure 1). 83.5% of academic lower secondary schools (AHS) at least offer after-school care, but only a third of schools providing compulsory education do so. However, it should be noted that half of the after-school care actually made use of in AHS schools is lunchtime supervision only. Additionally, 56,002 children attended an after-school care club in the 2012/13 school year. Thus, in 2012/13, a total of 174,788 children, or 25.8% of all pupils of compulsory school age, were in day care (BMUKK 2013a).

Table 1: Pupils of compulsory school age in day care (school year 2012/13)

2012/13	SCHOOL		AFTER-SCHOOL CARE CLUB		TOTAL	
	in after school care	in %	in after school care	in %	in after school care	in %
Burgenland	5,209	24.43%	863	4.05%	6,072	28.48%
Carinthia	4,813	11.21%	4,208	9.80%	9,021	21.01%
Lower Austria	16,669	12.69%	10,272	7.82%	26,941	20.51%
Upper Austria	11,350	9.33%	12,178	10.01%	23,528	19.34%
Salzburg	6,851	15.01%	1,059	2.32%	7,910	17.33%
Styria	12,898	14.37%	2,584	2.88%	15,482	17.25%
Tyrol	5,213	8.78%	2,522	4.25%	7,735	13.03%
Vorarlberg	8,559	24.44%	4,412	12.60%	12,971	37.04%
Vienna	47,224	35.96%	17,904	13.63%	65,128	49.59%
Total	118,786	17.51%	56,002	8.26%	174,788	25.77%

Source: BMUKK 2013a.

2.1 Ideal scenario of expanding all-day care in schools

The framework of all-day schools should offer pupils an age-appropriate sequence of phases for learning, studying, resting, playing, eating, and being tutored and thus optimally support them in their personal and performance-related development. The general pedagogical concept, which includes activities in the fields of art, culture, sciences, movement, and sports, stimulates interests, develops talent and creativity and strengthens the personality.

Table 2: Development of enrolment in all-day schools 2007–2013

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Burgenland	2,358	3,050	3,463	4,241	4,648	5,209
Carinthia	3,114	4,065	3,911	4,087	4,301	4,813
Lower Austria	8,662	10,271	12,080	14,361	15,437	16,669
Upper Austria	6,657	7,510	8,307	8,362	8,425	11,350
Salzburg	3,721	5,997	6,153	5,590	6,283	6,851
Styria	8,576	9,760	11,351	11,847	12,339	12,898
Tyrol	3,011	4,155	3,810	4,298	4,515	5,213
Vorarlberg	6,187	6,469	7,422	7,316	7,419	8,559
Vienna	34,693	40,104	43,533	43,836	45,698	47,224
Austria	76,979	91,381	100,030	103,938	109,065	118,786

Source: BMUKK 2013a.

The paper “Chance Bildung” (“Education as an opportunity”) written by the Social Partners and presented in Bad Ischl (Advisory Council for Economic and Social Affairs 2007) demands one all-day school with afternoon lessons for every administrative district in Austria, in order to ensure parents’ freedom of choice. In many provinces, this target was reached. For in-

stance, in the past three years alone, the number of such all-day schools has increased in the Western provinces of Tyrol and Vorarlberg, while it has declined in Lower Austria and Carinthia.

Table 3: All-day schools with afternoon lessons 2012/13

	APS*) loca- tions	APS classes	APS pupils	AHS**) loca- tions	AHS pupils	Total locations 2012/13	Total locations 2009/10
Burgenland	2	6	119			2	1
Carinthia	9	55	1,054			9	10
Lower Austria	1		122			1	4
Upper Austria	10	72	1,148	3	364	13	6
Salzburg	11	49	675			11	9
Styria	10	33	645	5	651	15	8
Tyrol	12	16	197			12	2
Vorarlberg	11	35	650	2	371	13	3
Vienna	43	439	9,626	7	675	50	33
Austria	109	705	14,236	17	2,061	126	76

Source: BMUKK 2013b.

*) APS = compulsory schools, **) AHS = academic secondary school

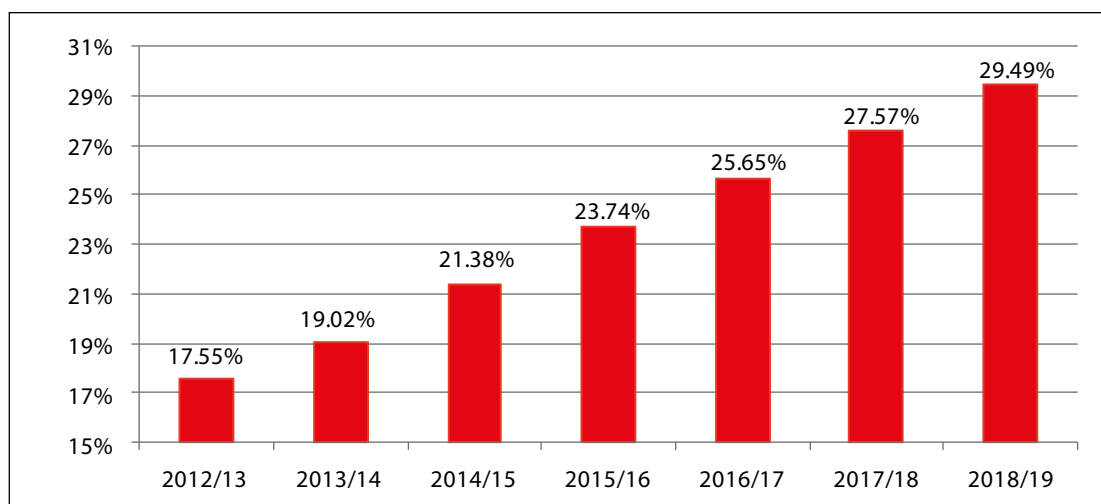
However, municipalities need more financial support from the federal and the provinces level to enable them to fund the necessary investments in the infrastructure: In a study carried out by the Chamber of Labour, 71% of mayors of district capitals interviewed said that their budgets could not cover the additional total costs of staff and reconstruction (Lachmayr 2005, 44).

3. MEASURES TAKEN BY THE FEDERAL GOVERNMENT SINCE 2010

In 2010, the federal government passed a financing package totalling 320 million euros – meaning that, until the end of the 2014 fiscal year, the provinces and municipalities, which are responsible for compulsory schools, will receive support of 80 million euros annually towards the expansion of all-day schools. These funds are intended to subsidise both investments in construction as well as personnel expenditure on after-school care. Experience with this expansion programme shows on the one hand that municipalities demand a certain degree of security in planning from federal government to enable them push for investments in all-day schools. On the other hand, parental demand is not just consistently high, but is also increasing. As a consequence, the federal government passed a second expansion programme, which will provide 160 million euros annually from 2014 to 2018.

In doing so, the federal government (Arbeitsprogramm der Bundesregierung 2013, 44) is pursuing a goal of creating a supply of 200,000 places starting from the 2018/19 school year and achieving a care rate of around 30% (see Figure 1). A place in an all-day school, within a reasonable distance from their home, should be available for every child who needs it.

Figure 1: Expansion of all-day schools (projection by Ministry of Education based on number of pupils in 2012/13)



Source: BMUKK 2013a.

According to the forecast, the care rate would be increased from 17.6% at present to almost 30% in 2018/19, that is, from 119,036 places currently to around 200,000 places. If the approximately 50,000 existing places in after-school care clubs are added to this, the supply would increase to 250,000 places in total – which would equal a care rate of almost 37%.

3.1 Demand for all-day schools

In 2010, the Institute for Empirical Social Studies (IFES), together with the Ministry of Education (BMUKK) and parents' associations, carried out a national survey of all parents of children attending 1st to 8th year on the demand for high-quality all-day schools (IFES 2010). In the opinion of the parents interviewed, a high-quality service should include a balanced lunch, tutoring and support, doing homework together, creative classes, as well as sport and leisure activities. 36% of parents would "certainly" make use of such a high-quality service, and an additional 26% are "likely" to make use of it. In the context of such a service, parents would be willing to pay a contribution for lunch.

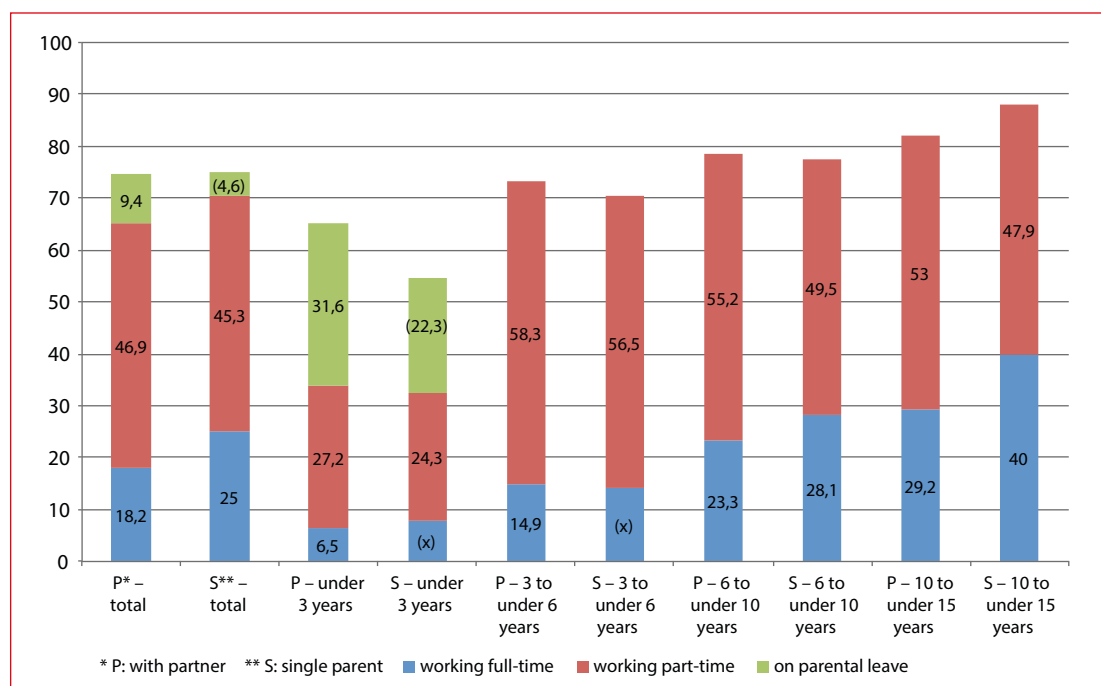
Based on this large-scale survey (more than 143,700 participants), a realistic demand of 350,000 all-day school places can be assumed, which is about half of all pupils of compulsory school age. This survey reflects the results of Chamber of Labour studies (Wittinger 2008, Ogris 2012), according to which 68% of the population are in favour of further expanding all-day schools. This shows an immediate need for action regarding a further expansion of all-day schools, but especially those with afternoon lessons.

4. ALL-DAY SCHOOLS AS AN ECONOMIC FACTOR

On the one hand, all-day schools allow children to be supported through existing services, and on the other hand they obviously make it easier for parents to balance family and work.

For single parents, the availability of such a service can sometimes be of existential importance, since they need to be able to work as many hours as possible in order to maintain an income (see Figure 2).

Figure 2: Employment rate among women with children under the age of 15 by employment status and age of youngest child 2011



Source: Statistik Austria 2010. – According to ILO definition. Created on February 15, 2013. – () Values based on less than a projected number of 6,000 persons are statistically unreliable. – (x) Values based on less than 3,000 persons are statistically not interpretable.

According to the micro-census labour force survey 2010 (Statistik Austria 2010), the employment rate among married women with children younger under the age of 15 is 65.1% (see Figure 2) and 70.3% among single mothers (excluding women on parental leave). When we look at women with school-age children, we see the following development:

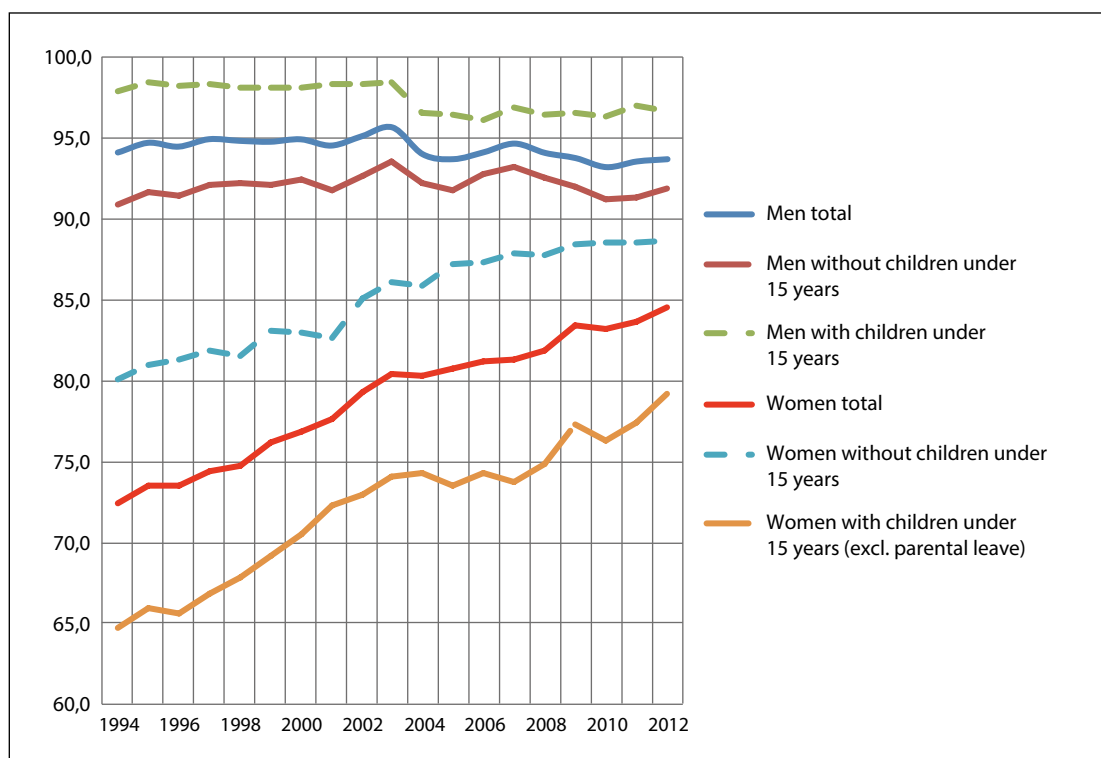
Table 4: Development of employment of women (up to the age of 64) with children between the ages of 6 and 15 years

Year	Women with children, total	of which in employment	in %	not in employment	in %
2004	432,000	333,000	77.0	99,000	23.0
2007	421,000	329,000	78.1	92,000	21.9
2011	387,000	313,000	80.1	74,000	19.1

Source: Statistik Austria 2012.

Between 2004 and 2011, the employment rate among women with children of compulsory school age increased by 3.1 percentage points to 80.1% (see Table 4).

Figure 3: Development of employment (in employment and unemployed) among 25- to 49-year-olds with and without children under the age of 15



Source: Statistik Austria 2013.

Compared to women without children, the employment rate of women with children is still significantly lower, but continually increasing.

Table 5: Development of employment of women (up to the age of 64) with children between the ages of 6 and 10 years

Year	Women with children, total	of which in employment	in %	not in employment	in %
2004	191,000	144,000	75.4	47,000	24.6
2007	178,000	133,000	74.7	45,000	25.3
2011	178,000	140,000	78.7	38,000	21.3

Source: Statistik Austria 2012.

The employment rate of women with children of primary school also increased, from 75.4% in 2004 to 78.7% in 2011 (see Table 5), that is, by 3.3 percentage points. However, most (almost three-quarters) of this increase is due to more part-time work (see Table 6).

Table 6: Characteristics of employment of women with children between the ages of 6 and 10

Year	Women with children, total	of which in employment	self-employment	employees		Part-time employment rate
				Full-time	Part-time	
2004	191,000	144,000	18,000	41,000	84,000	67.2%
2007	178,000	133,000	18,000	34,000	82,000	70.7%
2011	178,000	140,000	16,000	33,000	91,000	73.4%

Source: Statistik Austria 2012.

5. ECONOMIC BENEFIT OF INVESTING IN THE EXPANSION OF ALL-DAY SCHOOLS

The expansion of all-day schools would yield significant additional revenue for the state. Parents, especially women, could, in general, choose to work more hours due to the existence of all-day schools. Higher income for women and employment of teachers and staff at all-day schools would result in additional tax revenues and contributions.

5.1 Basis of calculations – assumptions and parameters

5.1.1 Construction costs

According to the forecast by the Ministry of Education, 15,000 new afternoon care places are to be created annually starting in 2014. According to a study commissioned by the Chamber of Labour (Lachmayr 2005), creation of these 15,000 places results in annual construction costs of 30 million euros. An additional 5% of construction costs are required for maintenance of existing buildings (1.5 million euros in 2014).

5.1.2 Direct employment effects: personnel and training expenses

15,000 new places in afternoon care correspond to around 1,000 new afternoon care groups. Assuming an additional staff requirement of 0.5 full-time equivalents (FTE) per group (0.4 FTE teachers and 0.1 FTE assistants), and assuming that these persons would be employed part-time, the direct employment effect is 1,000 additional employees. In terms of income, a gross starting salary of 2,250 euros/FTE is assumed. (In subsequent years, general price development and real salary increases are taken into account. An average nominal increase of 3.7% is assumed.) The total personnel costs for teachers (i.e., including employer contributions) amount to 15.9 million euros in 2014. Personnel costs for assistants, which amount to 4.6 million euros, are added to this (simplified assumption: same income as teachers). In sum, the costs of employment effects amount to 20.5 million euros. Additional costs for further training are 600,000 euros.

5.1.3 Total investment costs

According to these assumptions, the creation of 15,000 places in afternoon care would initially (2014) require a total expenditure of 53.7 million euros including financing costs (refinancing rate: 2%). These costs cover construction, personnel, training, and financing.

5.1.4 “Returns”

The continuing expansion of all-day schools has direct employment effects and results in additional revenue for the state as well as reduced expenditure on unemployment benefits. Additionally, the employment rate of mothers with children of primary school age can be increased, which in turn results in indirect employment effects and additional revenue for the state.

Over recent years, the increasing number of afternoon care places has resulted in an increase in the employment rate of women with children of primary and compulsory school age. The creation of additional training positions will probably lead to a further increase of the female employment rate.

5.1.5 Effects of improved reconciliation of work and family life (indirect employment I): Optimistic scenario

Expanding all-day schools significantly improves the conditions for reconciliation of work and family life, in particular for women. In order to avoid unnecessary complexities, the improved labour market integration of “parents” due to the expansion was interpreted and assessed as an increased female employment rate only.

According to the Chamber of Labour model, 100 additional care places on average permit 10 women to participate (more intensively) in the labour market. They either start working in a job or work more hours than before. Thus 15,000 new afternoon care places mean a real opportunity for 1,500 women to be better integrated into the labour market. The monetary assessment of new or expanded employment assumes a ratio of full-time to part-time employment of 3:7 (see Table 7). A gross income of 2,000 euros/month for full-time employees and 1,000 euros/month for part-time employees and an annual nominal salary increase of 3.7% were assumed.

Table 7: “Optimistic scenario” for increasing female employment

2011	Women with children between the ages of 6 and 15	in %	Employment potential with 15,000 additional places annually
total	387,000	100.0%	15,000
not employed	59,000	15.2%	
in employment	328,000	84.8%	
unemployed	15,000	3.9%	
self-employed	38,000	9.8%	
employers	275,000	71.1%	1,500
employed part-time	192,000	69.8%	1,050
employed full-time	83,000	30.2%	450

Source: Statistik Austria 2012; author's calculations.

5.1.6 Medium scenario

Here, the direct employment effects are set at 1,200 women instead of 1,500 (and hence at 80% of the optimistic scenario level). A positive budget effect occurs after three years. The basic parameters are the same as in the optimistic scenario.

5.1.7 Pessimistic scenario

In this scenario, the indirect employment effects are set at 900 women instead of 1,500 (and hence at 60% of the optimistic scenario level). A positive budget effect occurs after six years. Again, the basic parameters are the same as in the optimistic scenario.

5.1.8 Additional revenue due to indirect employment effects

In addition to the (in)direct (female) employment effects described above, there are also indirect employment effects due to construction jobs (300) as well consumption-related effects (100) due to higher consumer spending by the additional persons active in the labour market. To avoid “overestimating” these effects, macro-multipliers as defined by the Austrian Institute of Economic Research (WIFO) (Kaniovski et al. 2006) were used.

5.1.9 Summary: Potential budget and employment effects of investment

As the calculations show, the sum of direct (1,400) and indirect employment effects (effect I: 1,500; effect II: 400) in the base year 2014 would amount to around 2,900 additional jobs in the optimistic scenario (see Table 9 and Figure 3). The resulting additional revenue for the state, together with lower unemployment insurance expenditure, would amount to 33.9 million euros. This means that of an investment of 53.7 million euros (2014), 33.0 million euros – i.e. almost two thirds (!) – would be recouped during the same year.

Applying the same (optimistic) calculation for the following year, and taking into account the creation of 15,000 additional afternoon care places, in the optimistic scenario there remains a net investment requirement of just 8.1 million euros. And in the third year, public current expenditure would not merely be amortised; returns to the public budget would exceed expenditure by 3.6 million euros. Assuming that the federal government continues the expansion programme after 2018, the annual (!) net return to the public budget would be up to 102 million euros (2024).

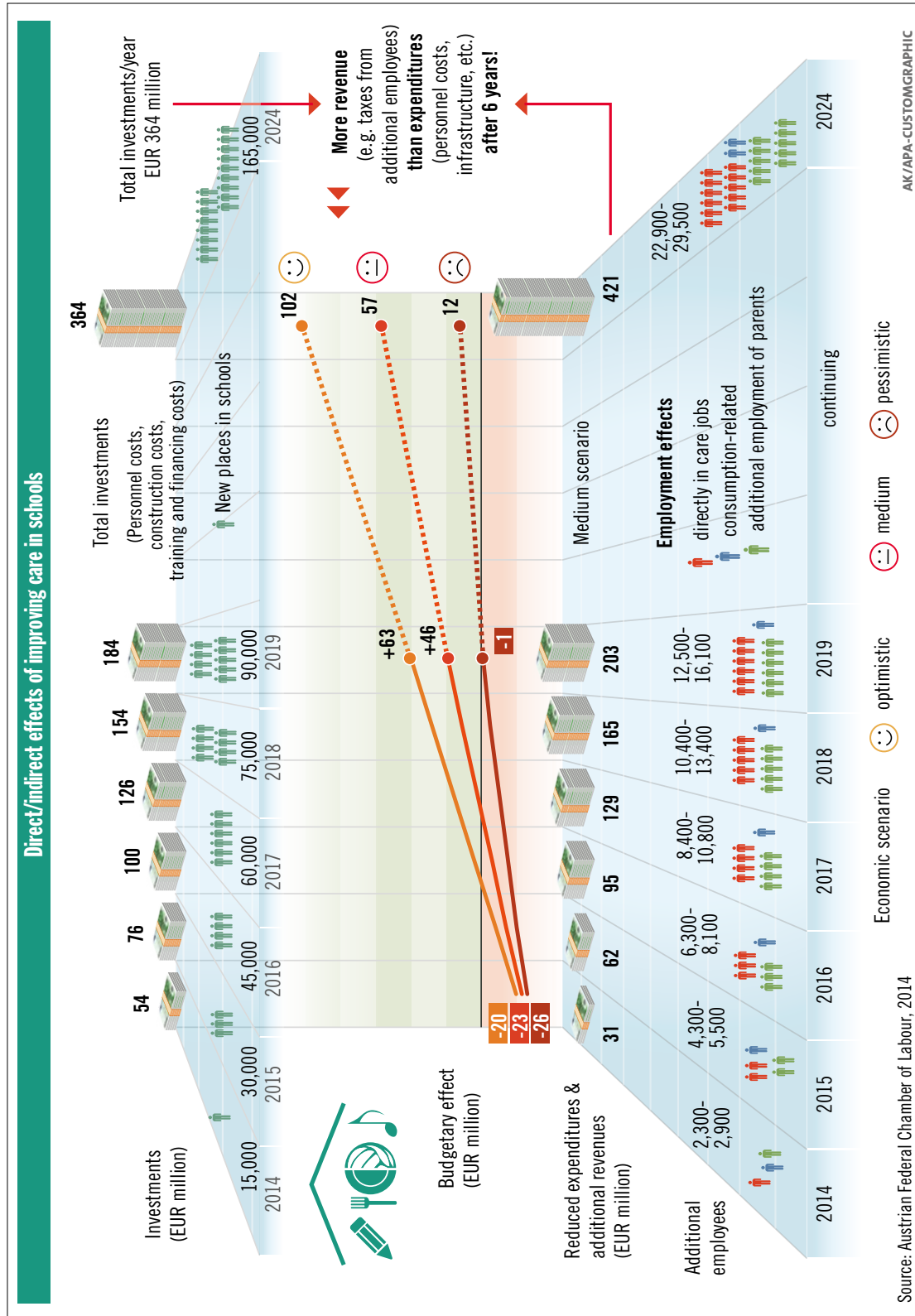
In the medium scenario (see Table 8 and Figure 4), the investment would “pay off” from the fourth year on (2017: 3 million euros net return to the budget), and the positive budget effect would be up to 57 million euros in the year 2024.

Table 8: Budgetary effects of an expansion of all-day schools

<i>in million euros</i>		2014	2015	2016	2017	2018	2019	2020–23	2024
Improvement of care in schools (cumulated places)									
New places in schools		15,000	30,000	45,000	60,000	75,000	90,000	↑	165,000
Costs									
Annual personnel costs in million euros – cumulated		21	43	66	91	119	148	↑	324
Annual construction costs in million euros – including maintenance costs		32	32	32	32	32	32	↑	32
Training costs für additional teachers and staff		1	1	1	1	1	1	↑	1
Financing costs		1	2	2	3	3	4	↑	7
Total costs of expansion of all-day schools in million euros		54	76	100	126	154	184		364
Employment effects									
Direct employment effects in all-day schools		1,000	2,000	3,000	4,000	5,000	6,000	↑	11,000
Consumption-related employment effects		100	200	300	500	600	800	↑	1,700
Construction jobs		300	300	300	300	300	300	↔	300
Additional employment of parents with care duties		900 to 1,500	1,800 to 3,000	2,700 to 4,500	3,600 to 6,000	4,500 to 7,500	5,400 to 9,000	↑	9,900 to 16,500
Total employment effects		2,300 to 2,900	4,300 to 5,500	6,300 to 8,100	8,400 to 10,800	10,400 to 13,400	12,500 to 16,100	↑	22,900 to 29,500
Reduced expenditures and additional revenue (cumulated)									
Optimistic scenario		34	68	104	142	181	223	↑	466
Medium scenario		31	62	95	129	165	203	↑	421
Skeptical scenario		28	56	85	117	148	182	↑	376
Budget effect									
Optimistic scenario → “pays off” from 2016		-20	-8	4	16	28	40	↑	102
Medium scenario → “pays off” from 2017		-23	-14	-6	3	11	19	↑	57
Skeptical scenario → “pays off” from 2020		-26	-20	-15	-10	-5	-1	↑	12

Source: AK Vienna (2014), authors' calculations

Figure 4: Overview of direct and indirect effects of expanding all-days schools



6. CONCLUSION

A number of national and international studies show that the Austrian educational system is very selective and not successful in compensating for social inequalities. The expansion of all-day schools and, in the medium term, a reorganisation of all primary schools into all-day schools would be reasonable measures for providing better support to all children.

Since 2005, a German large-scale study on the development of all-day schools examines their impact on pupils. Continuing participation in all-day settings alone – independent of pedagogical quality – reduces the risk of pupils having to repeat a year and of problematic behaviour in school. If the all-day school, in addition, focused on motivating, supporting, activating and challenging pupils, this would also improve marks, fun in school and motivation.

Expanding high-quality all-day schools in Austria can hence contribute to greater equality of opportunity. One “side effect” of this investment would also be an impetus for economic growth. The expansion of all-day schools would create new jobs and would allow persons who are currently not participating in the labour market to become economically active (again). With an additional 15,000 afternoon care places annually, an employment effect of 2,300 to 2,900 additional jobs can be assumed. Due to the cumulated positive effects, in an optimistic scenario the current expenditure already “funds itself” fully in the third year. Even in a pessimistic scenario, however, a positive budget effect occurs after six years.

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1,000 BILLION EUROS AT STAKE: THE HIGH PRICE OF MISSING THE EU 2020 EMPLOYMENT TARGET

Europe's response to the financial and economic crisis was an austerity policy aimed at reducing the increased deficits and debt-to-GDP ratios. This course, which assumes that further cuts to public expenditure are inevitable, not only leads to massive social problems but is also short-sighted from a public budget perspective. It narrows political room for manoeuvre and hinders the implementation of forward-looking strategies. However, such strategies would be urgently necessary, both to overcome the current crisis and to meet medium- and long-term challenges (such as the significant ageing of the population).

1. EXAMINING DIFFERENT LABOUR MARKET SCENARIOS

A study published by the European Policy Centre (Wöss/Türk/Zuleeg 2012) calculated the budget effects of different labour market scenarios.

In order to estimate medium-term budget effects, a total of four different scenarios for 2020 were compared across the EU-27, using the dependency ratio calculator developed by the Vienna Chamber of Labour (Wöss/Türk 2011). The lower and upper bounds are obtained based on a pessimistic and an optimistic labour market scenario.

The pessimistic status quo scenario assumes that age- and gender-specific employment and unemployment rates remain at the (unsatisfactory) levels of the year 2010.

The optimistic EU 2020 scenario is based on the assumption that the EU 2020 target of increasing the employment rate of 20- to 64-year-olds to 75% in 2020 is reached.

The two medium scenarios link these assumptions regarding the labour market with those regarding the development of productivity and the benefit ratio made in the EU Ageing Report 2012 (European Commission 2012a).

¹ This contribution is based on a study by the European Policy Centre (Wöss/Türk/Zuleeg 2012), which is available at http://www.epc.eu/documents/uploads/pub_3074_1000bn_euros_at_stake.pdf.

2. CURRENT SITUATION

The economic dependency ratio, as used in the Chamber of Labour calculator, forms the basis for these calculations. It is defined as the number of pensioners and unemployed people relative to the number of people in employment. The dependency ratio, defined in this way, was taken up in, among others, the EU White Paper on pensions (European Commission 2012b), which states, “Yet the real issue is the economic dependency ratio, defined as the unemployed and pensioners as a percentage of the employed” (European Commission 2012b, 6), thereby delineating the concept from purely demographic relationships which are usually focussed on.

The figure below is taken from the Chamber of Labour calculator and shows the starting point of the EU-27 countries in 2010, represented in a “demographic tree”. The population is divided into gender and five-year age groups, and, starting at the age of 15, into three economic status groups:

- In employment (yellow areas),
- Unemployed and pensioners (red areas), and
- Others, such as pupils, students, homemakers (dark grey areas)

The graphic shows that:

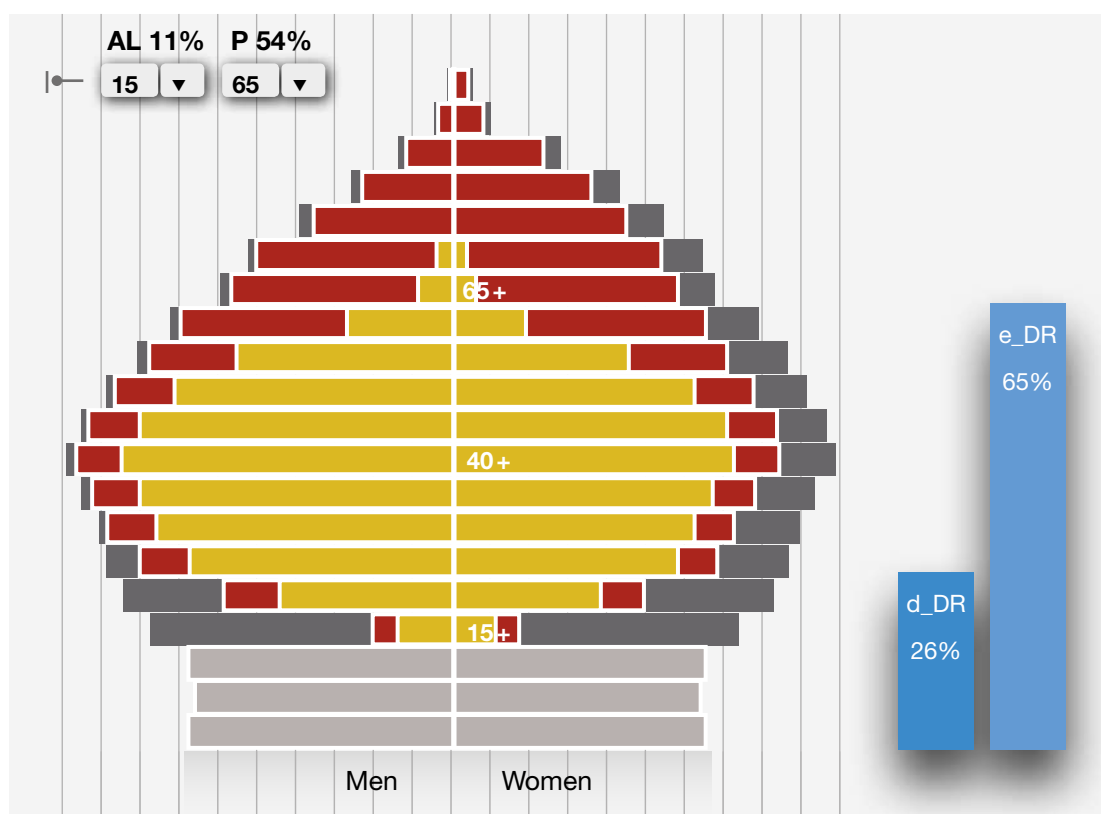
- a) At 65%, economic “dependency” is currently 2.5 times as high as demographic dependency (mostly because, even though “of working age” and “in employment” are often equated, this is actually far from reality);
- b) with a better labour market integration of persons in all age groups, the economic dependency ratio could be improved significantly, and hence public expenditure could be reduced.

The huge difference between the demographic and the economic dependency ratio proves the importance of taking into account the economic status of individuals. In 2010, around 120 million people of working age in the EU-27 were not (!) in employment. A high percentage of persons not in employment, for instance due to unemployment or for health reasons, rely on earnings replacement benefits. Social problems such as low chances of entering the labour market among young people, educational deficits, difficulties in reconciling work and family life, health protection deficiencies, lack of age-appropriate workplaces, etc., are contributing factors here.

3. EUROPE IN THE YEAR 2020

One of the crucial questions for the coming years and decades is how the economic dependency ratio will develop against the background of the coming demographic change. It is evident – but often ignored – that the development of the labour market will play an important role here (e.g., Wöss/Türk 2011).

Figure 1: Economic dependency ratio 2010 (EU-27)



Economic dependency calculator, Vienna Chamber of Labour

Data sources: Eurostat/Labour Force Survey; EU Ageing Report

d_DR: demographic dependency rate: number of persons 65 and older relative to number of persons from 15 to 64 years; i.e. ratio here: approximately 1:4

e_DR: economic dependency rate: number of unemployed and pensioners relative to number of persons in employment; i.e. for every 100 persons between the ages of 15 and 64 years in employment, there are 65 recipients of benefits belonging to all (!) age groups (15+).

Comparing 2020 with 2010, the growing share of old people is already apparent. According to estimates by demographers, the 15-64 age group will shrink a little, and the 65 plus age group will grow significantly. The expectation is that the demographic dependency ratio will increase from 26% to 31% for these reasons.

From a public budget perspective, however, the development of the economic dependency ratio is much more important. The latter not only depends on demographic developments but also, and very strongly so, on whether “more and better jobs” can be created and hence a higher employment rate can be achieved.

3.1 Status quo scenario

If, in 2020, employment rates are still as low and unemployment rates still as high as in 2010, this will result – due to the decreasing number of people of working age – in a fall in the number of persons in employment of approximately 3 million. Employment potentials existing in all age groups would thus remain untapped to a high degree. This development implies that the growth of real GDP over the entire period, based on the given assumptions regarding productivity growth, would be limited to 12%. In case of the status quo scenario, the economic dependency ratio would increase from 65% to 74% in 2020, an increase of 14% (see Figure 2). A continuously high unemployment rate and increasing numbers of pensioners would lead to additional expenditure of approximately 450 billion euros. As a result of increasing pension

expenditure and weak growth of real GDP, the costs of unemployment benefits and pensions as a share of GDP would rise from around 13% in 2010 to 14.9% in 2020.

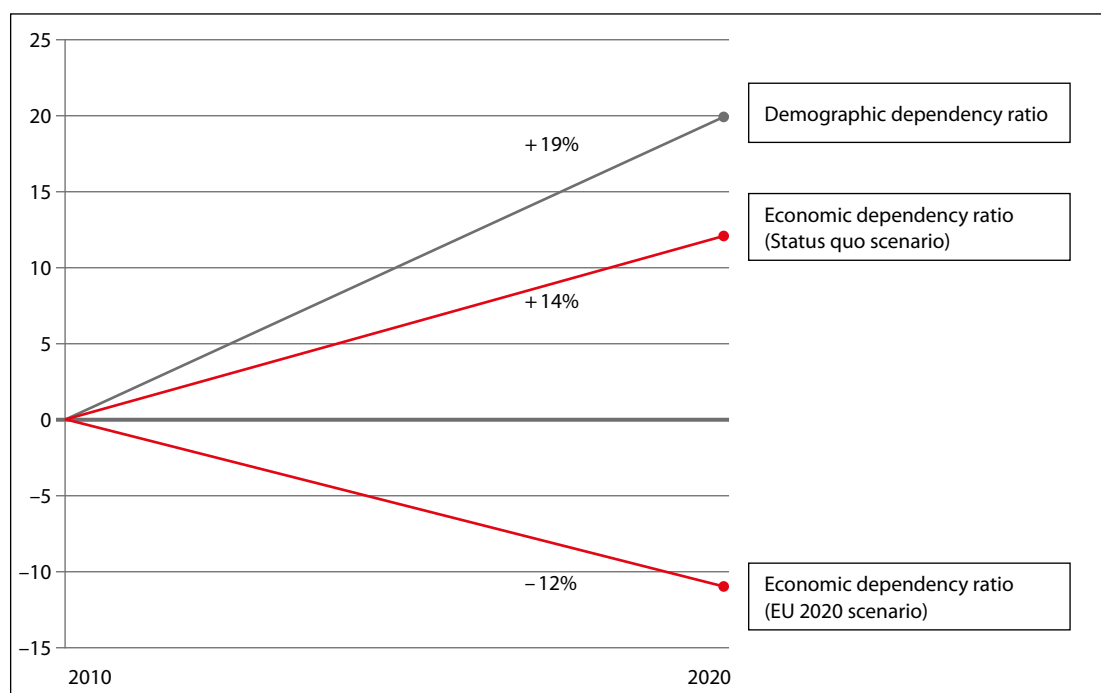
3.2 EU 2020 scenario

A completely different situation would emerge if the employment target of the EU 2020 strategy (European Commission 2014) was reached. With higher employment rates, the number of persons in employment would increase by approximately 19 million – despite a decrease in the population of working age. The effect on the economic dependency ratio would be significant: In this scenario, it would decrease from 65% to 57% in 2020 – that is, by 12% (see Figure 2). Even though the EU 2020 scenario does not seem very likely at this time (not least because of the austerity policies mentioned at the beginning of this article), it still shows the extent of the existing potential for containing the increase in the economic dependency ratio – and with it the additional costs due to an ageing society.

Leaving the assumption regarding productivity growth unchanged, the positive development of the employment rate would cause a 24% increase of real GDP, which is twice as high as in the status quo scenario. On the revenue side of public budgets, this would amount to additional revenue of 650 billion euros. At the same time, due to a significantly lower unemployment rate and a markedly lower number of pensions (due to better employment opportunities for older people), the increase in expenditure for the unemployed and pensioners could be reduced by 250 billion euros. In sum, this would result in a positive net budget effect of over 900 billion.

Figure 2 shows the dramatic difference in development of the economic dependency ratio in the two labour market scenarios. While the ratio increases by 14% in the status quo scenario, it falls by 12% in the EU 2020 scenario. The underlying demographic scenario, a 19% increase in the demographic “dependency” ratio, is the same in both cases.

Figure 2: Demographic and economic dependency ratio 2010–2020 (EU-27)



Source: Economic dependency calculator, Vienna Chamber of Labour.

In a sub-scenario of the EU 2020 scenario, the implementation of a growth strategy, including additional investment in training and further education, research and development, and social infrastructure, is assumed. Not only would such a strategy benefit employment and social cohesion, it would also have a positive effect on productivity. In this case, the positive budget effect in 2020 would be well over 1,000 billion euros (see Table 1).

Table 1: Impact of achieving Europe 2020 employment target on public budgets

Scenarios	Employment rate	Unemployment rate	GDP	Public revenue 2010: 44.1% of GDP 2020: 46.1% of GDP	Pension and unemployment expenditures	Budgetary net effect compared to Status quo_1 scenario	
	change 2020/2010 in p.p.			change 2020/2010 in bn. €		in bn. €	in % of GDP (2020)
Status quo_1 prod. growth: 1,3% pensions level: -2,9%	-0.1% (64.0%)	-0.2% (9.6%)	1.507 (+12%)	940	454	-	-
Status quo_2 prod. growth: 1,3% pensions level: -10%	-0.1% (64.0%)	-0.2% (9.6%)	1.507 (+12%)	940	321	132	1.0% (GDP: 13.788 bn. €)
EU-2020_1 prod. growth: 1,3% pensions level: -2,9%	6.4% (70.5%)	-4.2% (5.6%)	2.935 (+24%)	1.599	200	912	6.0% (GDP: 15.216 bn. €)
EU-2020_2 prod. growth: 1,8% pensions level: -2,9%	6.4% (70.5%)	-4.2% (5.6%)	3.703 (+30%)	1.953	291	1.175	7.4% (GDP: 15.984 bn. €)

Source: EC 2012, The Ageing Report 2012; EUROSTAT 2012, europop 2010, LFS 2012; own calculations (all amounts prices 2010)

4. CONCLUSIONS FOR SOCIAL AND ECONOMIC POLICY

A proactive growth and employment strategy is not only the best response to the most urgent prevailing problems and to demographic change, but also the best strategy for unburdening public budgets and creating the necessary room for manoeuvre for investments in the future. Thus, a change in (EU) policy towards promoting employment would not only be the most reasonable response to the problem of high unemployment, but would also create significant room for manoeuvre within public budgets.

It is to be hoped that ministries of finance, too, stop seeing the funds necessary to launch such a strategy mainly as costs. They are investments in the future which are urgently needed and will ultimately be highly lucrative, with significant medium- and long-term positive effects, including for public budgets.

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