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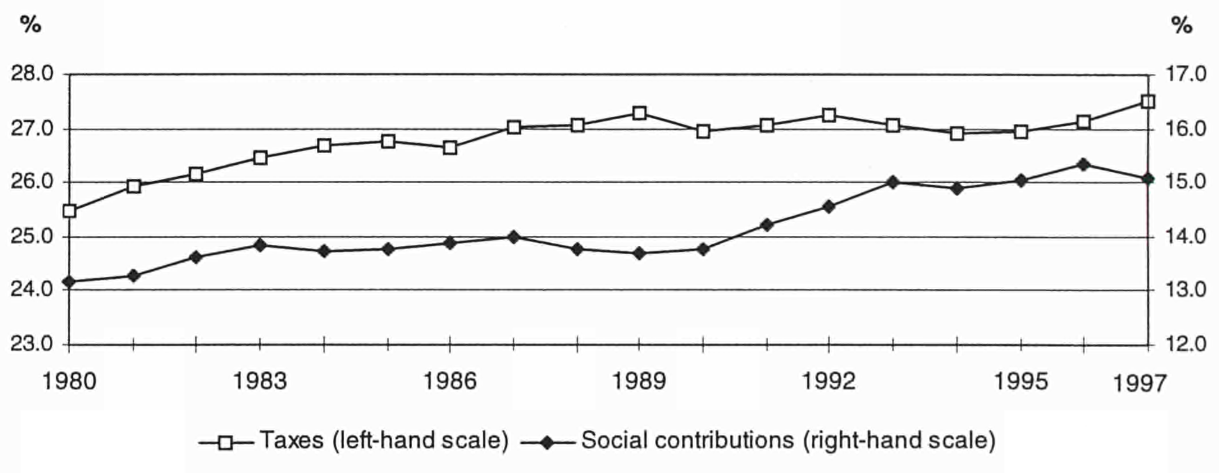
TAXES AND SOCIAL CONTRIBUTIONS IN 1997
Stability in the European Union

First available data on compulsory levies in the Member States of the European Union (EU-15) in 1997 point to stabilisation at 42.6% of GDP, with a slight rise in taxes compared with 1996 being offset by a matching decrease in social contributions.

While the general EU pattern in 1997 tends to be one of rising taxes and falling social contributions, trends and absolute levels still differ markedly across the Member States. Sweden continues to post the highest overall ratio (54.1%), and Ireland the lowest (34.1%).

Fig. 1. Share of taxes and social contributions in European Union GDP



Source: Eurostat.

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According to the latest harmonised data collected from Member States by Eurostat, the ratio of compulsory levies, i.e. total taxes and social contributions, to gross domestic product stood at 42.6% for the European Union as a whole in 1997, exactly matching the 1996 figure. The ratio for the euro zone was up 0.4 point on the previous year at 43.2% (see table 1). These two values are the highest observed since the beginning of the 1980s. Since 1990, the EU-15 and EUR-11 ratios have increased by 1.8 point and 2.7 points respectively. Up to 1991, the EUR-11 ratio was consistently lower than the EU-15 one. Since then, however, it has always been higher. France, Italy, Austria and Portugal recorded all-time highs in 1997. Four other Member States — Belgium, Ireland, Luxembourg and the United Kingdom — had done so between 1982 and 1985. Over the whole of the period 1980 to 1997, the ratio of taxes and social contributions to GDP increased above all in Italy (+13.9 points), Portugal (+12.4 points), Finland and Spain (+10.6 points each), and fell in Luxembourg (-0.7 point), Ireland (-0.6 point), the United Kingdom (-0.2 point) and the Netherlands (-0.1 point). When evaluating these trends, however, the absolute levels at the start and the end of the period have to be taken into account.

Table 1. Compulsory levies in EU Member States, as a percentage of GDP

	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997
EU-15	**38.6**	**40.5**	**40.8**	**41.4**	**41.9**	**42.1**	**41.9**	**42.1**	**42.6**	**42.6**
EUR-11([1])	**38.5**	**40.3**	**40.5**	**41.4**	**42.2**	**42.8**	**42.4**	**42.4**	**42.8**	**43.2**
B	44.2	47.2	44.3	44.3	44.5	45.2	46.3	46.1	46.2	46.6
DK	45.6	49.1	49.7	49.9	50.2	51.3	53.1	52.7	53.5	53.1
D	41.6	41.6	39.5	41.2	41.9	42.3	42.6	42.7	42.0	41.6
EL	:	:	:	:	:	33.0	33.7	34.1	33.9	:
E	25.6	29.9	35.2	35.5	37.2	36.4	36.1	35.0	35.6	36.2
F	41.7	44.5	43.7	44.0	43.7	44.1	44.2	44.7	46.0	46.3
IRL	34.7	38.9	35.5	35.9	36.1	36.0	36.7	34.4	34.3	34.1
I	30.6	34.8	38.8	39.8	42.1	43.5	40.7	40.9	42.8	44.5
L	46.3	46.7	43.4	42.7	41.8	43.9	44.3	44.1	44.7	45.6
NL	46.0	45.5	45.1	47.5	47.4	48.2	46.1	45.1	44.9	45.9
A	41.0	43.0	41.3	41.8	43.1	44.0	42.8	43.0	44.2	44.9
P	25.5	29.3	32.3	33.6	35.9	34.7	35.1	35.9	37.1	37.9
FIN	36.9	40.9	45.4	46.8	46.8	45.5	47.6	46.3	48.2	47.5
S	49.1	50.0	55.6	52.6	51.0	50.1	49.7	49.8	53.9	54.1
UK	36.1	38.2	37.5	37.4	36.4	35.3	35.8	36.8	36.7	35.9

([1]) EUR-11: B, D, E, F, IRL, I, L, NL, A, P and FIN.
Source: Eurostat.

Rising taxes, falling social contributions

In 1997, the share of taxes rose by 0.4 point in both EU-15 and the euro zone to reach 27.5% and 26.1% respectively — a record figure in both cases (see table 2). The share of social contributions decreased by 0.3 point in EU-15 and 0.1 point in EUR-11. The respective ratios thus stood at 15.1% and 17.1%, which — after 15.4% and 17.2% in 1996 — were the second highest levels recorded over the period.

During the 1980s, the share of taxes in European Union GDP had increased by almost two percentage points to reach 27.3%. In the first half of the nineties, it was always slightly below that level, fluctuating over a range of 0.5%. Since 1994, it has once again increased steadily (see figure 1).

Although, for the EU as a whole, the share of social contributions in GDP decreased by 0.3 point to 15.1% in 1997, it was still higher than the then record level of 15% reached in 1995. Having remained relatively constant from 1982 to 1990, social contributions have followed a generally upward trend ever since.

Divergent trends across the Member States ...

In nine of the fourteen Member States providing data for 1997, the ratio of taxes and social contributions to GDP was higher than in the previous year. The sharpest rises were recorded by Italy (+1.7 point), the Netherlands (+1.0 point), Luxembourg (+0.9 point) and Portugal (+0.8 point). Austria, Spain, Belgium, Finland and Sweden likewise saw their ratios increase, while the other countries saw falls — especially the United Kingdom and Finland (-0.8 point and -0.7 point respectively).

Taxes and social contributions are following divergent trends. Between 1996 and 1997, taxes increased in ten countries, decreased in three and remained constant in one. Social contributions fell in seven Member States, rose in five and showed no change in two.

In four countries, the rise in taxes was equal to or greater than 1 point. These were Italy (+1.4 point), Austria (+1.2 point), Luxembourg (+1.1 point) and France (+1.0 point). The sharpest falls occurred in

Germany (-0.5 point) and Denmark (-0.4 point). Social contributions rose by 0.9 point in the Netherlands and by 0.3 point in Italy and Portugal. They decreased by 0.5 point in France and by 0.4 point in the United Kingdom.

Table 2. Taxes and social contributions in EU Member States, as a percentage of GDP

eurostat	Taxes		Social contributions	
	1996	1997	1996	1997
EU-15	**27.1**	**27.5**	**15.4**	**15.1**
EUR-11	**25.7**	**26.1**	**17.2**	**17.1**
B	31.0	31.6	15.1	15.0
DK	51.8	51.4	1.7	1.7
D	23.2	22.7	18.8	19.0
EL	24.1	:	:	:
E	22.6	23.2	12.9	13.0
F	26.1	27.1	19.8	19.3
IRL	29.4	29.5	4.8	4.6
I	28.0	29.4	14.8	15.1
L	32.8	33.9	11.9	11.8
NL	26.9	27.0	18.0	18.9
A	28.7	29.6	15.5	15.3
P	25.4	25.9	11.7	12.0
FIN	34.2	34.2	14.0	13.2
S	38.8	38.9	15.1	15.1
UK	29.6	29.3	7.1	6.7

Source: Eurostat.

... and appreciable differences in level

The absolute levels of compulsory levies vary appreciably from one Member State to the next. Two countries — Sweden and Denmark — post values well in excess of 50% of GDP, at 54.1% and 53.1% respectively. In the 50-40% bracket, in descending order, are Finland, Belgium, France, the Netherlands, Luxembourg, Austria, Italy and Germany. Four countries, finally, lie below the 40% mark: Portugal (37.9%), Spain (36.2%), the United Kingdom (35.9%) and Ireland (34.1%). However, these figures need to be interpreted with great caution (see box entitled "Significance of the ratio of taxes and social contributions").

The breakdown into taxes and social contributions likewise shows wide divergences. The share of taxes is in every case much higher than that of social contributions. The extreme case in this respect is Denmark, where taxes correspond to more than half of GDP, giving by far the highest ratio in the EU (51.4%). In contrast, Denmark also holds the record for the lowest share of social contributions in GDP (1.7%). As regards the tax ratio, the Nordic countries, Luxembourg, Belgium, Austria, Ireland, Italy and the United Kingdom lie above the EU average (27.5%). On the social contributions side, France posts the highest ratio (19.3%), followed by Germany (19.0%) and the Netherlands (18.9%). Three other Member States — Austria, Italy and Sweden — have ratios equal to or greater than the EU average (15.1%). Apart from Denmark, two countries — the United Kingdom (6.7%) and Ireland (4.6%) are well below the 10% mark.

Significance of the ratio of taxes and social contributions

In the discussion of general government's role in the economy, the ratio of compulsory levies (total taxes and social contributions) to GDP is often seen as an indicator of public-sector economic activity or of the tax burden on private individuals and businesses. The validity of such conclusions is questionable, however, as the ratio of taxes and social contributions does not take all economic parameters into account.

For example, the ratio of compulsory levies can be lowered if government expenditure is financed through an increase in borrowing rather than higher taxes. This merely postpones an increase in the ratio, however, as the debts incurred will at all events have to be repaid in later periods.

Moreover, a high ratio does not necessarily indicate a high (net) burden on taxpayers or businesses. Also to be taken into account are the amount and intended use of general government expenditure. For example, it makes no financial difference to the taxpayer concerned whether support for families is granted through child benefit or through tax allowances. This certainly affects the tax ratio, however, which will be lower in the second case. The same line of argument applies to businesses, as companies may pay lower taxes or receive subsidies to ease the burden of high taxation.

Finally, it would appear unjustified to draw conclusions about the involvement of general government in the economy on the basis of the compulsory levies ratio alone, as the budget is not the sole indicator of such involvement.

Notes on methodology

- The figures in this publication, some of which are provisional for the most recent years, are those supplied to Eurostat by the National Statistical Institutes of the Member States. They were produced in accordance with the European System of Integrated Economic Accounts, 2nd edition (ESA 79). The data on taxes also include those accruing to the European Union (import duties, agricultural levies, VAT revenue, etc.).
- Figures for Germany include the new *Länder* as from 1991.

For more information

Much more detailed data covering the period 1970 to 1997 are available in the ***New Cronos*** database (theme 2 Economy and Finance, domain <gov>, collection <tax>), whose references can be obtained at one of the addresses listed below.

For further information on the methodology used or the figures published, please contact:

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