

## PF1: Public spending on family benefits

### *Definitions and methodology*

Public spending on family benefits includes financial support that is exclusively for families and children. Spending recorded in other social policy areas such as health and housing also assist families, but not exclusively, and it is not included here.

Broadly speaking there are three types of public spending on family benefits (Chart PF1.1).

1. *Child-related cash transfers to families with children*: this includes child allowances, with payment levels that in some countries vary with the age of the child, and sometimes are income-tested (PF3); public income support payments during periods of parental leave (PF7), income support for sole parents families (in some countries), and public childcare support through earmarked payments to parents (PF12).
2. *Public spending on services for families with children* includes, direct financing and subsidising of providers of childcare and early education facilities, public spending on assistance for young people and residential facilities, public spending on family services, including centre-based facilities and home help services for families in need.
3. *Financial support for families provided through the tax system*. Tax expenditures towards families include tax exemptions (e.g. income from child benefits that is not included in the tax base); child tax allowances (amounts for children that are deducted from gross income and are not included in taxable income), child tax credits, amounts that are deducted from the tax liability. If any excess of the child tax credit over the liability is returned to the tax-payer in cash, then the resulting cash payment is recorded under cash transfers above (the same applies to child tax credits that are paid out in cash to recipients as a general rule, for example, in Austria and Canada).

In many OECD countries, including Belgium, Germany, France, Ireland, Portugal, and Switzerland, support for families with children is embedded in the tax unit, so that at a given income level, the larger the family the lower taxable income. These measures may not be tax expenditures (they do not establish a deviation from the national standard tax system), but such policies clearly establish financial support for families with children, and indicators on such support are included in the data.

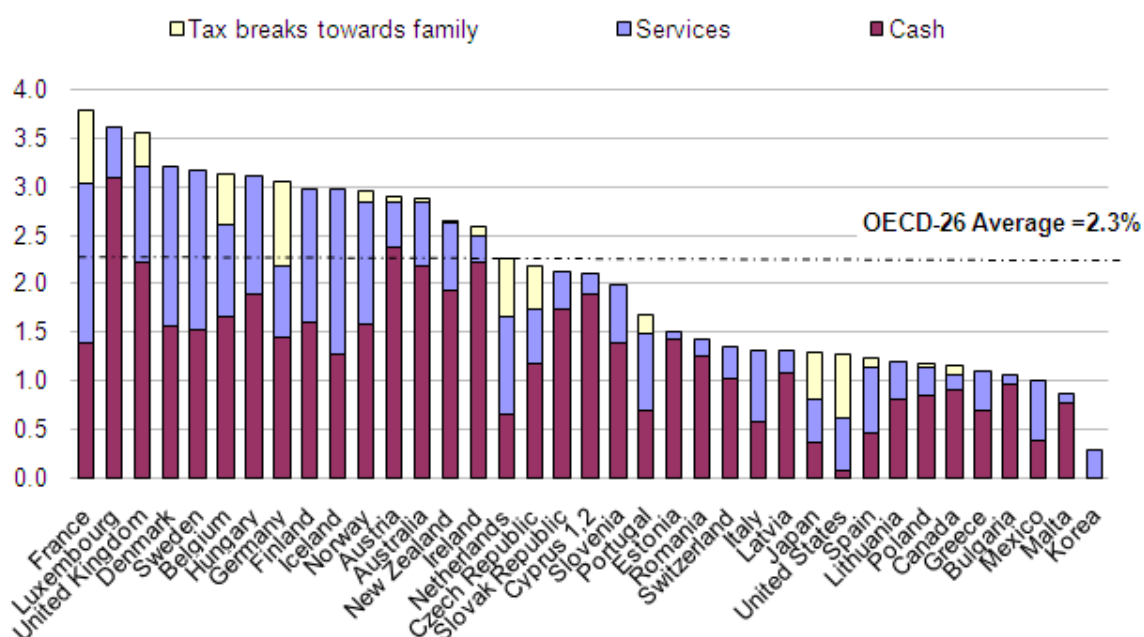
However, support for married couples is not considered as social in all OECD countries, and fiscal measures in this regard are not considered as a tax break with a social purpose (TBSP). The appropriate analogy is that the presence of dependent children leads to eligibility to cash benefits in social protection systems, whereas a marriage contract does not. Hence, tax advantages for married people, as exist in for example, Belgium, France, Germany and Japan are not considered to serve a 'social purpose', and are not included here (regardless of whether or not such measures are part of the basic tax structure). Only the value of support for children through such measures is included: For example, the value of support to children in France through the 'quotient familial' in 2005 was around EUR 11 billion (OECD, 2008).

*Other relevant indicators*: LM2: Maternal employment; PF2: Public spending on education, PF3: Typology of family benefits, PF7: Key characteristics of parental leave arrangements; PF10: Public spending on childcare and early education; PF12 Childcare support; and CO8: Child poverty.

*Key findings*

OECD countries spend on average 2.3% of their GDP on family benefits, with large variations across countries. Whilst public spending on family benefits is above 3.5 percentage points of GDP in France, Luxembourg and the United Kingdom, public spending in this area is less than 1 percentage points in Mexico and Korea. The proportional total amount spent in cash, services and tax measures is variable. The majority of countries spend a higher proportion in cash benefits than in services or tax benefits. Exceptions include France, Denmark, Iceland, Italy, Korea, Mexico and Spain, where spending in services is higher. On the other hand, the proportion spent on tax breaks towards family is of considerable size in Germany, Japan, the Netherlands, and particularly in the United States.

**Chart PF1.1: Public spending on family benefits in cash, services and tax measures, in per cent of GDP, 2005**



Notes: Data on tax support for families is not available for Greece, Hungary, Luxembourg, Mexico, Switzerland, Turkey and the non-OECD countries. Data for Portugal concerns 2003.

1) Footnote by Turkey: The information in this document with reference to « Cyprus » relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognizes the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

2) Footnote by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognized by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Social Expenditure Database ([www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure)) and ESSPROS.

*Comparability and data issues*

Information on cash transfers and in-kind benefits concern budgetary allocations that can largely be derived from administrative records on which national statistical offices base their statistics. By contrast, information on the value of fiscal support for families across concerns estimates by tax authorities. Nevertheless as Chart PF1.1 shows, not including estimates on the value of tax support for children would distort international comparison of public spending on family benefits.

Data on cash transfers for Australia, Ireland, New Zealand and the UK include spending on categorical income support benefits for sole parent families. Other countries also support sole parent families in need, but through general social assistance type payments (which do not allow for separate identification of public spending on sole parent families). As a result, the spending on cash transfers in Chart PF1.1 is relatively high for the aforementioned four countries (the detailed country-specific spending files in the *OECD Social Expenditure database (SOCX)* allow for a different basis of comparisons than what is presented in Chart PF1.1).

Coverage of spending on family and community services in SOCX may be limited as such services are often provided, and/or at least co-financed, by local governments. The latter may receive general block grants to finance their activities, and reporting requirements may not be sufficiently detailed for central statistical agencies to have a detailed view of the nature of local spending. In Nordic countries (where local government is heavily involved in service delivery) this does not lead to large gaps in measurement of spending, but it does for countries with a federal structure, for example Canada and Switzerland, but also a centralised country as, for example, the Netherlands.

*Sources and further reading:* Adema, W. and M. Ladaique (2005), "Net Social Expenditure, 2005 edition", *Social, Employment and Migration Working Papers*, No. 32, OECD, Paris ([www.oecd.org/els/workingpapers](http://www.oecd.org/els/workingpapers)); OECD (2002), *Taxing Wages 2001-2002*, Special feature taxing Families, OECD, Paris; and, OECD (2008), *Social Expenditure database*, ([www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure)).