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**LABOUR MARKET AND SOCIAL POLICY - OCCASIONAL PAPERS N0.52**

# NET SOCIAL EXPENDITURE
# 2ND EDITION

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**English text only**

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## SUMMARY

This document is the 2nd edition of the Net Social Expenditure paper published in 1999 (Adema, 1999). It contains an overview of *net* (after tax) public and private social expenditure indicators. These indicators have been developed to supplement available historical information on *gross* social expenditure trends by accounting for the varying impact of the tax system across countries. Tax systems can affect social spending in three ways:

- Governments levy direct taxes and social security contributions on cash transfers.
- Governments levy indirect taxes on goods and services bought by benefit recipients.
- Governments may award tax advantages similar to cash benefits and/or grant tax concessions aiming to stimulate the provision of private social benefits.

The document summarises the methodological framework as previously developed, but extends coverage to eighteen countries for which information for 1997 is now available: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, Germany, Ireland, Italy, Japan, Korea, the Netherlands, New Zealand, Norway, Sweden, the United Kingdom and the United States.

The indicators developed in this paper aim to measure what governments really devote to social spending, *net public social expenditure*, and what part of an economy's domestic production recipients of social benefits draw on, *net total social expenditure*.

## RÉSUMÉ

Ce document est la 2ème édition du rapport sur les dépenses sociales nettes publié en 1999. Il comprend un exposé sur les indicateurs des dépenses sociales totales *nettes* (publiques et privées). Ces indicateurs ont été développés afin d'apporter un supplément aux informations historiques disponibles sur les tendances des dépenses sociales totales *brutes*, en tenant compte de l'impact qui varie selon le régime fiscal des différents pays. Le régime fiscal peut avoir une incidence sur les dépenses sociales de trois façons :

- Les gouvernements perçoivent des impôts directs et des cotisations de sécurité sociale sur les transferts en espèces.
- Les gouvernements perçoivent des impôts indirects sur les marchandises et les services achetés par les bénéficiaires.
- Les gouvernements peuvent accorder des déductions fiscales similaires à des prestations en espèces et/ou accorder des allégements fiscaux dans le but d'inciter les agents (instituts et/ou individus) privés à avoir recours aux assurances sociales.

Ce document résume le cadre méthodologique tel qu'il a été développé précédemment, mais étend sa couverture à dix-huit pays pour lesquels les informations pour 1997 sont maintenant disponibles : Allemagne, Australie, Autriche, Belgique, Canada, Corée, Danemark, les Etats-Unis, Finlande, Irlande, Italie, Japon, Norvège, Nouvelle Zélande, Pays-Bas, République Tchèque, le Royaume-Uni et Suède.

Les indicateurs développés dans ce document ont pour but de mesurer quels sont les gouvernements qui se consacrent vraiment aux dépenses sociales, *dépenses sociales publiques nettes,* et quelle part de la production intérieure revient aux bénéficiaires des prestations sociales : *dépenses sociales nettes totales.*

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# NET SOCIAL EXPENDITURE -- 2ND EDITION[1]

## 1. INTRODUCTION

1. Most analyses of social expenditure are restricted to looking at *gross public* social expenditure (OECD, 2000). Certainly such figures are useful if the main purpose of the analysis is to identify the consequences of social expenditure before taxation. But information on trends in budgetary allocations with a social purpose is not the appropriate tool for analysing all aspects of social spending. For example, as most governments claw back spending on benefits through taxation, this has implications for the "real" level of government social effort and the inter-personal re-distributional nature of the social system, implications that are not discernible whilst using gross (before tax) public social expenditure. Furthermore, social effort is not restricted to the public domain; in fact, the role of private arrangements of varying nature in providing close substitutes to public social protection expenditure is considerable and growing in some OECD countries. Moreover, although private arrangements may sometimes lead behaviour to differ when compared to public arrangements, in other circumstances private plans can have similar effects as public provisions. For example, when there is no (longer) public coverage of certain contingencies, it is likely that individuals will seek higher wages to ensure that they have sufficient resources, affecting labour costs in the same way as taxes.

2. To consider these issues (OECD, 2001, *forthcoming*) indicators have been developed that aim to measure what governments really devote to social spending, *net public social expenditure*, and what part of an economy's domestic production recipients of social benefits draw on, *net total social expenditure*. This requires capturing both private social benefits and the impact of tax systems on social effort. Inevitably, this approach is hampered by data limitations that currently preclude analysis of all OECD countries.

3. First, a concise overview is given of the scope of public and private social benefits and their size in gross terms, *i.e.* measured before tax. Subsequently, the existing methodological framework is extended to capture the impact of the tax system on social protection for 1997 (section 3). Section 4 contains an international comparison for the 18 countries for which data is now available: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, Germany, Ireland, Italy, Japan, Korea, the Netherlands, New Zealand, Norway, Sweden, the United Kingdom and the United States.

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1. It would have been impossible to complete this study without the highly appreciated efforts of all those who provided information on the taxation of benefits in the individual countries covered in this study.

## 2. A CONCISE OVERVIEW OF PUBLIC AND PRIVATE SOCIAL BENEFITS

### *2.1 The scope of social benefits*

4. The OECD defines social expenditures as (OECD, 2000):

> The provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare. Provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer.[2] Such benefits can be cash transfers, or can be the direct (in-kind) provision of goods and services. Since only benefits provided by institutions are included, transfers between households - albeit of a social nature, are not.

5. Social support concerns the provision by public and private institutions of benefits and financial contributions targeted at households that adversely affect their welfare. What is social and what not, is determined by the purpose of the benefits and the prevalence of inter-personal redistribution in its provision. The *OECD Social Expenditure Database* groups such benefits with a social purpose across the following areas: old-age cash benefits; disability cash benefits; occupational injury and disease; sickness benefits; services for the elderly and disabled; survivors; family cash benefits; family services; active labour market policies (ALMPs); unemployment compensation; housing benefits; public health expenditure; and other contingencies *e.g.*, cash benefits to those on low income.

6. Social benefits include cash benefits, social services (including health care) and tax breaks with a social purpose, *e.g.* tax expenditures towards families with children (see section 3). Cash benefits make up the largest share of social expenditure expect in Korea (see below). Cash transfers redistribute spending power, but only consume economic resources to the extent that they distort incentives to save and to work. In contrast, social services consume economic resources.

7. The financial flows relevant to social support are important for the demarcation of the social domain. Three broad types of financial flows are relevant to the provision of <u>gross</u> social benefits (Table 1):

- "Social benefits" to individuals and households.
- "Social Contributions" to finance benefits to households by employers (including governments as employers), employees, and individuals.
- Tax financing by governments of benefits received by households.

8. The data presented here do not cover all taxes and social security contributions by households and employers in a society as accounted for in the *Revenue Statistics* (OECD, 2000*a*). But only concern social benefits and tax breaks with a social purpose (shaded areas in Table 1).

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2. Social benefits do not include remuneration (wages and salaries) for work, as it does not cover market transactions, *i.e.* payments in return for the simultaneous provision of services of equivalent value. Employer costs such as allowances for transport costs, holiday pay, etc. are part of remuneration in this sense.

Table 1. **Financial flows relevant to social support**

| Revenue | Expenditure |
|---|---|
| *Gross Indicators* | |
| Taxes and social contributions (social security contributions and contributions to private institutions (*i.e.* private funds, NGOs). | Social benefits before taxation |
| *Net indicators* | |
| Taxes and social contributions minus direct and indirect taxes paid by benefit recipients. | Social benefits after direct and indirect taxation |
| | Tax breaks with a social purpose |

Shaded areas reflect social support received by households as recorded in this paper. The other items are social security contributions, contributions to private institutions and general tax financing of public cash transfers and services. These "financing" items are **not** recorded in this paper, except when it concerns taxes and social security contributions paid by benefit recipients.

### *2.1.1 Public social benefits*

9. The distinction between public and private is on basis of whoever controls the relevant financial flows; public institutions or private bodies (SNA, 1993). In line with SOCX, social benefits are regarded as public when general government (that is central, state, and local governments, including social security funds)[3] controls relevant financial flows. In this sense "private" is not the opposite of "social", but of "public". Sickness benefits financed by compulsory employer and employee contributions to social insurance funds (receipts) are by convention considered public, whereas compulsory sickness payments paid directly by employers to their employees are private. Similarly, pension benefits accruing from past contributions to private funds are private. Social benefits provided by governments to their own employees are also considered to be public.[4] All social benefits not provided by general government are within the private domain (Chart 1 provides an overview of the scope of public and private social benefits).

10. Public social benefits include cash benefits, social services (including health care) and tax breaks, *e.g.* tax expenditures towards families with children (see section 3). Except in Korea, cash benefits make up the largest share of gross (before tax) public social expenditure in all OECD countries (on average 63% in 1997). On average across OECD countries 58% of all cash benefits concerned old-age cash benefits and survivor benefits in 1997 (OECD, 2000). Public pension spending exceeds income support for the working-age population in the majority of OECD countries, but not in Australia, Ireland, the Netherlands, New Zealand and the Nordic countries. Across the OECD area, public expenditure on health averages about 75% of all social service spending. This proportion is significantly lower in the Nordic countries (54%), because of the considerable public outlays on family services and services for the elderly and the disabled.

3. Social security funds are social insurance schemes covering the community as a whole or large sections of the community that are imposed and controlled by government units (SNA, 1993, sections 8.63 and 8.64).

4. SOCX considers all benefits to (former) public employees to be public as they constitute a public liability. However, sometimes, data on benefits paid out by pension programmes do not distinguish between payments to former employees in the public and private sectors. In that case benefits had to be grouped according to their relative weight. As pension payments to former public sector workers are deemed to be larger than payments to former private sector workers under the Norwegian supplementary, occupational benefits programme, such benefits are grouped as public and thus included in SOCX. In contrast, expenditure under the Swedish "pensions according to collective agreement" programme is grouped as private as the latter component is deemed most important. For all other countries pension payments to former public workers are separately identifiable and grouped as public.

### *2.1.2 Private social benefits*

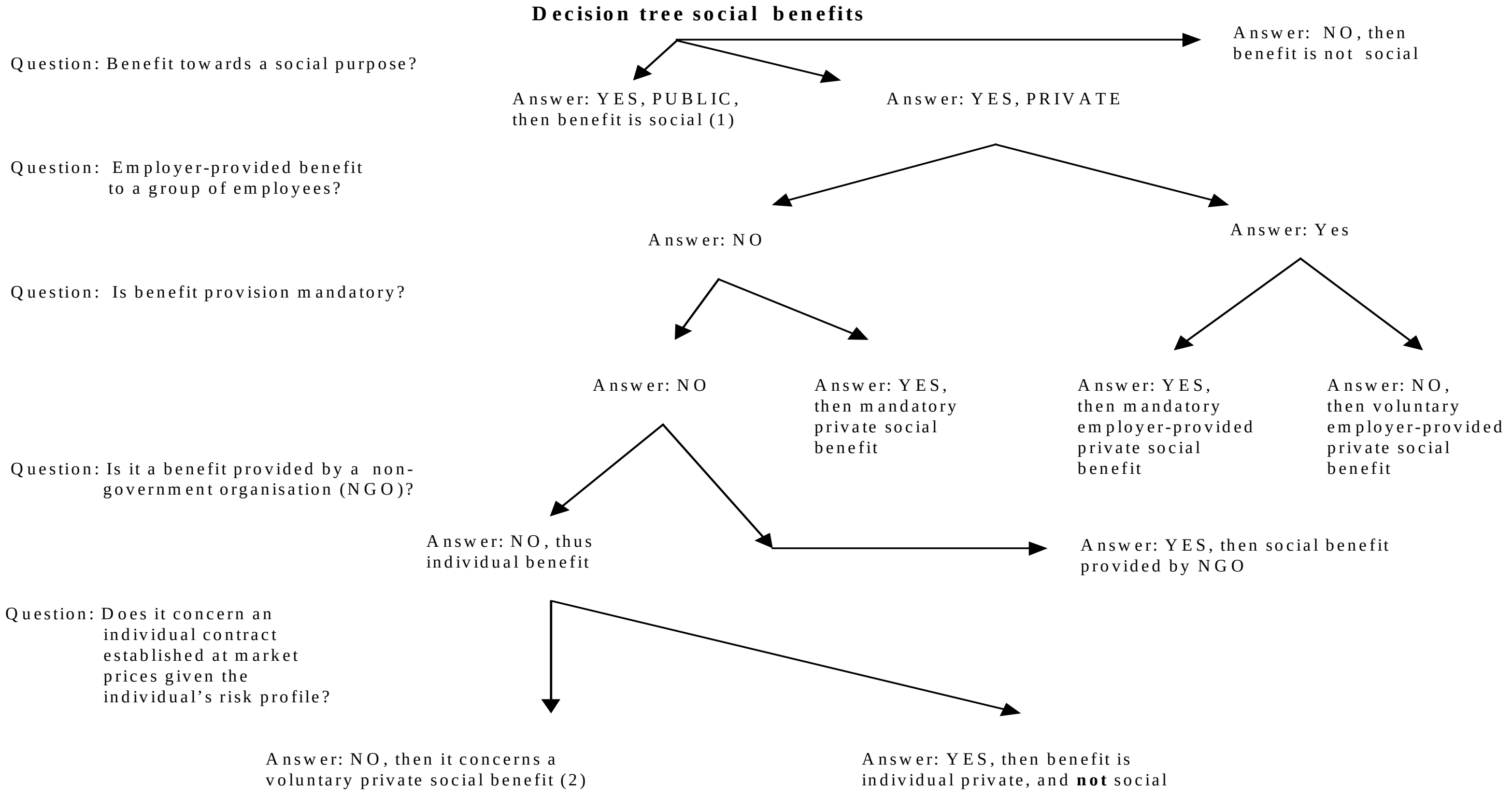
11. Social support to households, however, is not restricted to public benefits and in some countries at least the benefits derived from private arrangements are increasing. To be considered social private programmes, they (like their public counterparts) have to serve a social purpose and contain an element of inter-personal redistribution. Thus private social benefits include employment-related pension plans that provide income in retirement or for survivors (see previous section), while some other forms of contractual saving are not considered social, *e.g.* life insurance policies. The demarcation of the scope of private social benefits is less straightforward than for public social benefits, because the element of inter-personal redistribution in private plans is sometimes difficult to identify. Annex 1 contains a detailed discussion on the scope and categorisation of private social benefits.

12. Inter-personal redistribution in private programmes is often introduced by government regulation or fiscal intervention. In case of **mandatory private social benefits** employers/individuals are forced to take-up protection provisions regardless of their risk-profiles or prevalent market prices. Public fiscal intervention to stimulate private take-up on a collective or individual basis means that the take-up decision is <u>not fully</u> determined by the individual risk-profile or prevalent market price (the same holds for social benefits derived from collective agreements or taken out by employers on a collective basis). As such there is a high degree of similarity between these **voluntary private social benefits** and legally stipulated private arrangements.

13. Generally, individual (insurance) arrangements are outside the social domain as they are based on individual risk-profiles and obtained at prevailing market prices (Annex 1). However, public intervention through fiscal measures or legal stipulations also introduces an element of inter-personal redistribution in the private plans at hand. Therefore, individual pension plans such as the individual retirement accounts in the US, and pension payments deriving from compulsory contributions to private plans (as in Australia, Switzerland and the UK) are considered social.

14. Public behaviour largely determines the importance of private social benefits. Sometimes private benefits are *alternatives* to public programmes. In some countries efficiency considerations and budget considerations have led governments to consider the possibility of private sector involvement in social programmes, often by emphasising the role of employers in covering their workforce against risks. Simultaneously, reduced access to public programmes combined with reduced benefit levels, has induced groups of workers to negotiate increased employment-based social protection in collective agreements and will have forced some individuals – given their risk profile, to seeking more comprehensive protection outside the public domain. Private social benefits can also be *complementary* to public arrangements. And the importance of such benefits can grow independent of policy changes in public programmes as increased prosperity has given individuals more choice in pursuing their own preferences for protection, as evidenced by the growth of private pension benefits. In all, private social benefits often top-up and sometimes replace public benefits.

Chart 1. **The scope of social benefits**




Answer in CAPITALS, subsequent inference in normal font.
(1) Public: financial flows to benefits are controlled by general government (that is central, state, and local governments, including social security funds).
(2) Individual insurance contracts towards a social risk taken out with mutual benefit societies, e.g. by members of a specific occupation, and by groups of employees managed by a union are within the scope of private social support. Through "risk pooling", this type of "group insurance" is likely to ensure that the individual contributions are not fully determined by the individual risk-profile at going market prices.

*2.1.3. The size of public and private social benefits before taxation*

15. Most social support is publicly provided. In European countries the share of **public social benefits** in total social expenditure exceeds 90%, except in the Netherlands and the United Kingdom, while private social benefits constitute over one-third of all social benefits in the US and almost half of all social benefits in Korea (Table 2). Public social support mostly takes the form of pensions, incapacity-related cash benefits, unemployment compensation and public expenditure on health. Public spending on social services (including health) is smaller than spending on cash benefits in all countries, except Korea. Gross public social expenditure exceeds one quarter of GDP in Austria, Belgium, Denmark, Finland, Germany, Italy, Norway and Sweden which seems to suggest that the "welfare state" is most comprehensive in these countries. However, as evidenced below, it is hazardous to draw such a conclusion only on basis of gross spending indicators.

**16. Mandatory private social benefits** often concern incapacity-related benefits (sickness, disability and benefits provided in the context of occupational injuries and accidents). Such employer-provided sickness benefits are recorded for Australia, Austria, Belgium, Denmark, Germany, the Netherlands, Norway, Korea, Sweden, the United Kingdom, and the United States. Mandatory private social benefits can also accrue from mandatory pension contributions to employer-based and/or individual pension plans, as in Australia, Belgium, Finland, Japan, and the United Kingdom, while employment-related retirement allowances are important in Italy and Korea.[5]

**17. Voluntary private social benefits**[6] sector provision is more substantial in countries where public provision is relatively low, e.g. Canada, Korea and the United States. Pension benefits constitute a major component of *voluntary private social benefits*, and relevant payments range from 1 to 4% of GDP in (ascending order): Ireland, Italy, Sweden (see the notes to Table 2), the UK, Australia, the Netherlands, the US and Canada (Table 2).[7] All these countries know employment-based pension benefits, while benefits stemming from individual-based tax-advantaged private pensions are recorded for Australia, Belgium, Canada[8], the United Kingdom and the United States.[9] Benefits are either regular payments, but in some

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5. It is not always possible to distinguish the mandatory and voluntary components within individual private social programmes. For example, Australian "Superannuation" benefits derive from both mandatory and voluntary private contributions, but relevant components cannot be separately identified (Annex 1). Current Superannuation benefits are deemed largely to accrue from past voluntary contributions, and have thus been grouped as voluntary private. Retirement allowances in Korea are based on legal stipulations, but are often topped up by means of collective agreements. In the absence of information on the importance of the voluntary component, all payments have been grouped as mandatory.

6. Other examples of private social benefits include: supplementary unemployment compensation (in the United States), child-care provisions, or maternity pay and parental leave provisions. However, comprehensive information on spending by employers on family-related benefits is not available across countries.

7. The pension payments in Austria, Belgium, Denmark, Ireland, the Netherlands and the United Kingdom are employer-provided pensions related to collective agreements and/or occupational pension plans. Tax-advantaged employee pension plans are recorded for Japan. Private pension benefits in Denmark are limited in magnitude as the supplemental earnings-related benefits (ATP) are partly incorporated in separate public benefits.

8. The private pension benefits in Canada mainly concern employer-based plans: registered pension plans (RPPs); deferred profit sharing plans (DPSPs) and group-registered retirement savings plans (GRRSPs). The data also include benefits out of registered retirement savings plans (RRSPs) which are individually based tax-advantaged programmes. RPPs and RRSPs are subject to similar tax treatment.

9. The private pension benefits in the US include payments out of employer-provided defined-benefit and defined-contribution plans (*e.g.* "401(k) type plans") and tax-advantaged individual plans: Individual Retirement Accounts and Keogh-plans.

countries, *e.g.* Australia, Ireland, Italy, Korea and the UK, also include considerable lump sum payments. Data on current pension benefits do not, however, fully reflect the importance of private pension programmes. Often current contributions (and assets held by pension funds) by far exceed the magnitude of current benefits. Hence, the importance of these private pension benefits is expected to grow with maturing pension plans.

18. Among the OECD countries, private social health benefits are most prevalent in the US (at 4.2% of GDP).[10] Analogous to other social benefits, private social health care benefits concern that part of private health benefits stemming from private health plans which contain an element of interpersonal redistribution.[11] Redistribution in private health care plans in the US largely occurs <u>within</u> employer-sponsored health care plans, implicitly transferring expenditures from the healthy to the ill. Favourable tax treatment of such plans is worth almost 1% of GDP. This is an important incentive to employers to provide such benefits, but is in itself regressive in its impact, as the resultant tax relief is greatest for those with the highest earnings.

19. Apart from these benefits, private social support is also provided by non-commercial non-government organisations (NGOs). These NGOs are often supported by donations from households and employers, as well as substantial government subsidies and tax concessions. Comprehensive data on benefits by NGOs that is comparable with the detailed information in the *OECD Social Expenditure Database* is not available, but for a few countries (Belgium, Korea and Sweden). Arguably, benefits provided by NGOs to low-income households are most important in Korea where under influence of the economic crisis that unfolded in 1997/98, social spending by NGOs as a proportion of GDP increased from .3% of GDP in 1995 to 1.6% of GDP in 1998 (OECD, 2000*c*).

20. For the 18 countries for which data is available, gross public social spending on services amounts to about 65% of the value of gross public transfers, while this is about 60% when private benefits are also considered. The extent to which social spending consumes economic resources changes considerably when the impact of the tax system is accounted for (see below).

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10. These relatively high health care costs are related to a variety of interacting factors: relatively high factor costs (high wages and the use of modern and expensive technology); a relatively commodious package of goods and services provided; and relatively high operating costs of the US health system (*e.g.* Schieber, *et al*, 1994, McKinsey, 1996).

11. Data on public expenditure on health were taken from OECD (2000*b*). Indicators on private social health expenditure are estimates on the benefits to recipients that derive from private health plans which contain an element of redistribution. Available data on “out-of pocket health spending” is not included as it does (not yet) distinguish between individual co-payments and other individual expenditure. By not including data on individual payments, the estimates on private social health benefits are thus likely to underestimate the “true” social extent of private health care expenditure.

Table 2. **Gross total social expenditure, 1997** (per cent of GDP) [1]

| | Australia | Austria | Belgium | Canada | Czech republic | Denmark | Finland | Germany | Ireland | Italy | Japan | Korea | Netherlands | New Zealand | Norway | Sweden | United Kingdom | United States |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross public social expenditure | 17.4 | 25.4 | 27.2 | 17.9 | 19.4 | 30.7 | 28.7 | 26.4 | 17.6 | 26.4 | 14.0 | 4.3 | 24.2 | 20.7 | 26.1 | 31.8 | 21.2 | 14.7 |
| Pensions (old age & survivors) | 4.4 | 13.0 | 10.0 | 5.6 | 7.3 | 7.0 | 8.5 | 10.9 | 3.8 | 15.8 | 6.4 | 1.3 | 7.3 | 5.6 | 5.9 | 8.4 | 7.0 | 6.0 |
| Disability spending | 2.1 | 1.6 | 1.8 | 0.9 | 1.6 | 2.0 | 3.4 | 1.4 | 0.8 | 1.4 | 0.5 | 0.4 | 3.4 | 1.8 | 2.6 | 2.5 | 2.6 | 0.9 |
| Sickness benefits | 0.0 | 0.2 | 0.4 | 0.1 | 1.1 | 0.7 | 0.4 | 0.3 | 0.7 | 0.7 | 0.1 | 0.0 | 1.0 | 1.2 | 1.3 | 0.9 | 0.2 | 0.2 |
| Unemployment | 1.1 | 0.9 | 2.7 | 1.0 | 0.2 | 3.8 | 3.1 | 1.5 | 2.2 | 0.8 | 0.5 | 0.0 | 3.2 | 1.5 | 0.7 | 2.1 | 0.6 | 0.3 |
| Public expenditure on health | 5.7 | 5.8 | 7.7 | 6.3 | 6.5 | 6.8 | 0.0 | 8.2 | 5.1 | 5.6 | 5.6 | 2.1 | 6.0 | 6.3 | 6.7 | 6.8 | 5.6 | 5.9 |
| Other [2] | 4.1 | 3.9 | 4.6 | 4.0 | 2.8 | 10.4 | 13.3 | 4.1 | 5.0 | 2.0 | 1.0 | 0.5 | 3.3 | 4.3 | 8.9 | 11.0 | 5.2 | 1.4 |
| Gross mandatory private social expenditure [3] | 1.1 | 0.8 | 1.5 | 0.0 | 0.0 | 0.4 | 0.1 | 1.2 | 0.0 | 1.3 | 0.5 | 2.4 | 0.7 | 0.0 | 1.1 | 0.4 | 0.4 | 0.4 |
| Gross voluntary private social expenditure | 3.2 | 0.8 | 0.9 | 4.2 | 0.0 | 0.9 | 1.1 | 1.0 | 1.6 | 0.1 | 0.4 | 1.8 | 4.2 | 0.5 | 0.0 | 2.6 | 3.4 | 7.8 |
| Pensions [3] | 2.4 | 0.2 | 0.3 | 3.1 | 0.0 | 0.8 | 0.9 | 0.9 | 1.1 | 0.0 | 0.4 | 0.0 | 3.2 | 0.0 | 0.0 | 2.1 | 3.1 | 3.6 |
| Health [4] | 0.8 | 0.6 | 0.5 | 1.1 | .. | 0.1 | 0.2 | 0.1 | 0.6 | 0.1 | .. | 0.3 | 1.0 | 0.5 | .. | 0.1 | 0.2 | 4.2 |
| Other [5] | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 |
| Gross total social expenditure | 21.7 | 27.0 | 29.5 | 22.1 | 19.4 | 32.0 | 30.0 | 28.6 | 19.2 | 27.8 | 14.9 | 8.4 | 29.1 | 21.3 | 27.2 | 34.8 | 24.9 | 22.9 |
| Public share in gross total social expenditure | 80.2% | 94.1% | 92.0% | 81.1% | 100.0% | 96.0% | 95.8% | 92.3% | 91.6% | 94.8% | 94.0% | 50.7% | 83.1% | 97.6% | 96.1% | 91.4% | 85.0% | 64.3% |
| Private share in gross total social expenditure | 19.8% | 5.9% | 8.0% | 18.9% | 0.0% | 4.0% | 4.2% | 7.7% | 8.4% | 5.2% | 6.0% | 49.3% | 16.9% | 2.4% | 3.9% | 8.6% | 15.0% | 35.7% |
| Service/Cash ratio [6] | | | | | | | | | | | | | | | | | | |
| Public social expenditure | 70.4% | 40.6% | 51.3% | 59.4% | 60.1% | 69.3% | 48.6% | 65.5% | 55.9% | 31.3% | 79.5% | 132.7% | 40.6% | 46.2% | 96.7% | 78.2% | 51.9% | 77.3% |
| Total social expenditure | 58.1% | 41.7% | 49.8% | 54.0% | 60.1% | 65.8% | 47.0% | 58.7% | 55.6% | 29.8% | 71.3% | 100.4% | 37.7% | 49.8% | 89.5% | 71.2% | 42.8% | 88.7% |

1. *Sources*: OECD, 2000, *Social Expenditure Database*, Paris. Overall, compared to data on public social benefits the quality of data on private social benefits is relatively low. This is particularly so when central recording of private benefits is not stipulated. For example, employers do not have to report their actual spending on continued wage payments to their employees in case of sickness, and sometimes the aggregate value of such benefits can only be estimated by using information in Labour Costs Surveys and surveys on sickness absenteeism.
2. Includes public spending on grouped across the following social policy areas: services for the elderly and disabled; family cash benefits; family services; active labour market policies (ALMP); and other contingencies (*e.g.*, cash benefits to those on low income).
3. Data provided by Eurostat and national authorities. Data on private pensions in *Ireland* are Secretariat estimates on basis of Hughes and Whelan (1996); data on severance payments in *Italy* were taken from Ministero del Tesoro (1998); and US pension data is taken from Kerns (1997; and 1997a), and extrapolated to 1997 on basis of tax return information (IRS, 2000).
4. Voluntary private social health benefits consist mainly of health benefits based on employer-provided plans (financed by employer and employee contributions and subject to favourable tax treatment). In general, estimates are based on information on private health expenditure and information on the financing of health care as financed by employer and employee contributions to private health insurance funds (OECD, *Health Data 2000*). Data for the Czech Republic, Japan and Norway is not available: estimates on Germany were refined on basis of information provided by the Federal Ministry of Labour and Social affairs.
5. Includes child-related wage supplements (Germany), private unemployment insurance (USA) although their value is less than 0.05% of GDP and private social services for Belgium, Korea and Sweden.
6. The Service/Cash ratios have been calculated while ignoring the impact of the tax system.

## 3. THE TAX SYSTEM AND SOCIAL BENEFITS

21. The information on cash transfers and social services presented thus far fails to reflect the true extent of "social effort" as it does not reflect the impact of the tax system. In this context the following items should be taken into account (the items in between brackets refer to Chart 2, which presents an overview of relevant flows):

- **Direct taxation of benefit income**: Governments levy income tax and social security contributions on cash transfers to beneficiaries (DT1). Thus, social redistribution of resources is lower than suggested by gross spending indicators. Cross-country differences in taxation levels are reflected in gross benefit levels and thus in aggregate spending.

- **Indirect taxation of consumption by benefit-recipients**: Benefit recipients generally use benefit income to finance consumption of goods and services, and these indirect taxes flow back into the Exchequer (IT). Similar to direct taxation, differences in indirect taxation across countries have implications for social support received by households.

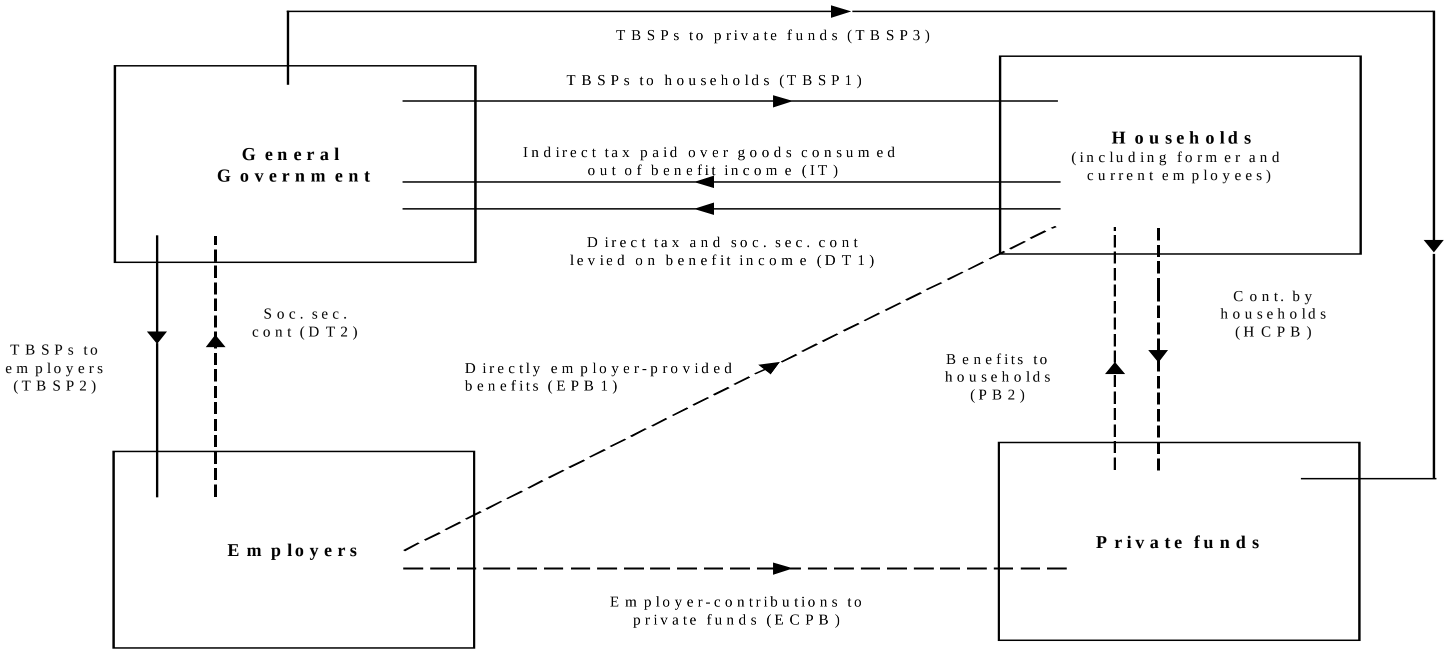
- **Tax breaks for social purposes**: Governments also make use of the tax system to directly pursue social policy goals. Fiscal measures with social effects are those which can be seen as replacing cash benefits (*e.g.* child tax allowances) or stimulating the provision of private benefits (*e.g.* tax advantages for the provision of private child-care facilities). Tax-advantages can be given to households (TBSP1), employers (TBSP2) and private funds (TBSP3).

22. Thus, tax systems can significantly affect the degree to which expenditure budgets reflect true public social effort. Usually, governments claw back more money through direct and indirect taxation of public benefit than the value of the tax breaks awarded for social purposes. Hence, *net public social expenditure* is generally less than gross spending indicators suggest. Furthermore, because of direct taxation of benefits and the indirect taxation of goods and services acquired that are financed with it, benefit income at the disposal of households is substantially smaller than suggested by gross indicators (Table 2). Accounting for tax rates on public and private social benefits, facilitates the identification of the proportion of an economy's domestic production to which recipients of these benefits lay claim; *net total social expenditure*.

23. The adjustments measure "first round effects" concerning the net value of benefits. Hence, direct taxation of the earnings of those who provide services (*e.g.* staff in hospitals or childcare centres) is not included in the calculations. Finally, adjustments for direct and indirect taxation of benefits do not concern service spending (including health). The value of social services remains unaltered by the calculations.[12]

12. Some services, *e.g.* pharmaceutical products, are subject to indirect taxation. However, comprehensive data on that part of social services which is subject to indirect taxation and at what rate is not available.

Chart 2. **The tax system and social benefits** (1)




(1) This chart abstracts from the role of non-commercial non-governmental organisations (NGOs). The donations by both households and employers, as well as the benefits provided by NGOs can be tax-advantaged. Often governments subsidise or provide tax relief to these organisations.
**Tax flows relevant to calculations** (unbroken lines): Tax and social security contributions paid by households over public and private benefit income (DT1); indirect taxes paid by households over goods consumed with out of benefit income (IT); Contributions by households to employer-based benefit plans and/or tax-advantaged individual plans (CPB1). Tax breaks for social purposes. *Households* (TBSP1): Tax concessions similar to cash benefits or intended to stimulate take-up of individual insurance plans. *Employers* (TBSP2): Fiscal measures towards hiring specific groups of workers, or measures intended to stimulate provision of employer-provided social benefits such as child-care facilities or employer-based health/pensions plans. *Private funds* (TBSP3): *e.g.* tax relief on investment income of pension funds.
**Other tax items that are not separately included in the calculations** (dashed lines): Social security contributions paid by employers (DT2). Social benefits directly provided by employers to household may be tax-advantaged (EPB1). Contributions by employers (ECPB) and households (HCPB) towards employer-based social benefit plans and/or tax-advantaged individual plans may not be taxed at source or at a reduced rate. Benefits provided by private funds (derived from ECPB and HCPB) to households may not be taxed at source or at a reduced rate (PB2).

### *3.1 Direct taxes and social security contributions on transfers*

24. In some OECD countries almost all benefits are paid net of tax; in others they are taxed in the same way as income from work (OECD, 2000*c*). In countries where governments levy direct income tax and social security contributions on cash transfers to beneficiaries, public social effort and redistribution of resources is lower than suggested by gross spending indicators (although this effect varies from country to country). For example, in Austria the recipient of an unemployment benefit whose last earnings were those of an average production worker (APW) and who lived in a "two-adult one-earner" family with two children received the equivalent of $15,991 in 1997, on which he or she did not pay tax. By contrast, a similar person in the Netherlands received annual unemployment benefits of $24,717 but paid $6,295 in income taxes and social-security contributions, so that net benefit income was $18,423 (OECD, 1999). Thus, net income for unemployed individuals in the Netherlands is higher than in Austria, but differences are not as large as gross payments suggest. In aggregate spending terms, this means that countries which tax transfer income rather heavily also divert a significant part of transferred income to flow back into the coffers of the Treasury. Hence, net public social spending on unemployment benefits in the Netherlands is about a quarter below the level as suggested by gross indicators. Similarly, mandatory and voluntary private social cash benefits (often sickness payments and private pensions) are subjected to direct taxes and social security contributions; thus relevant net amounts are lower than gross spending indicators suggest.

25. The adjustment for direct taxation on cash benefits has been calculated on basis of estimates supplied by national sources on "average itemised tax rates" (AITR): the average tax (including social security contributions) paid on a particular spending item, *e.g.* average tax paid on public pension income. The AITRs were estimated on basis of a variety of national sources including: administrative data on basis of tax records, micro data sets and/or "microsimulation-models".[13] Tax records give relevant information for some countries and some items (*e.g.* Austria, Belgium, Germany, Ireland, the United Kingdom and the United States). Otherwise "microsimulation-models" and micro data sets which contain detailed information on both the incomes received by households and their taxation, were used to generate itemised tax rates (Australia, Canada, the Czech Republic, Denmark, Italy, Japan, Finland, Korea, the Netherlands, New Zealand, Norway, and Sweden). Subsequently, these AITRs were applied to gross spending items as recorded in the *OECD Social Expenditure Database*.

26. There are large differences in levels of direct taxes and social security contributions paid by recipients of social benefits across countries. As Table 3 shows, almost 25% of gross public social cash benefits is clawed-back by the exchequer in Denmark and the Netherlands, and claw-back rates are also substantial in Sweden (22.1%), Finland (19.5%), and Norway (17.0%). Tax to gross public cash spending ratios range from 10% to 15% in Austria, Canada, Italy and New Zealand; are less than 5% in Australia, Ireland, Japan, the UK and the US; and, are negligible in the Czech Republic and Korea.

27. Furthermore, there is considerable variation in the way in which different benefits are taxed. Means-tested benefits are often not taxable, while among public social benefits, pensions paid to former

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13. Data in microsimulation models include detailed information on both the incomes received by households and their taxation. As tax systems are based on annual incomes, the starting point is yearly incomes. Sometimes transfer income is the only income received, and if so, the average tax rate on this income can be used to calculate net transfer income. The calculation of direct taxation of benefit income is somewhat more complicated when different types of income are involved; either more types of benefit, or work income combined with, for example, unemployment benefit. In this case it is necessary to link taxes paid to the various components of income. The underlying assumption is that the tax due is divided over the different income components according to the weight of each type of income. Hence, if benefits provide 80 per cent of annual income and earnings just 20 per cent, 80 per cent of the total tax is assumed to have been paid on the benefit income. For some aspects of taxation (*e.g.* deductible expenses related to work), there is a direct link between the income component and taxation. In these cases it is preferable to allocate such deductions only to the relevant income component.

civil servants and other public employees are taxed most heavily in all countries. Disregarding payments to (former) public employees, taxes and social security contributions levied public pensions and disability cash benefits amount to less than 3% of all relevant spending in Australia, the Czech Republic, Germany[14], Ireland, Japan, Korea, the United Kingdom and the United States. In these countries, taxation of unemployment benefits is similarly low.

28. Family allowance and family support benefits are generally not taxed nor subject to social security contributions. Australia, Germany and Norway are the only three countries of those covered where some taxes are levied on family cash benefits. In both Australia and Norway it concerns small amounts of tax levied on separately identifiable lone parent benefits, while in Germany taxation of family cash benefits concerns family-related wage supplements to civil servants.

29. In general, sickness benefits (cash transfers in case of absence of work due to illness) are taxed as income from work (OECD, 2000*d*).[15] Therefore, relevant tax to gross spending ratios are low for Australia, Ireland, Italy, Korea, New Zealand, and the United Kingdom, relative to the tax burden on these benefits in the other countries.[16]

30. In all countries the tax to gross benefit spending ratio for private pensions is high compared to other benefits, but only in Canada and Denmark are private pension payments taxed the most heavily (see section 3.3 for Tax breaks towards pension contributions and investment income of pension funds). In most countries, pension income is subject to tax rules (*e.g.* age allowances) that are favourable compared to those applying to the working-age population. The tax to gross benefit spending ratio for private pensions is between 20 and 37 percentage points range for Canada, Denmark, Finland, the Netherlands, and Sweden; between 12 and 20 percentage points in Austria, Germany, and Italy; around 7 to 12 percentage points in Ireland, the UK and the US, and is less than 5% in Australia, Japan, and Korea.

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14. The direct tax amount recorded for Germany on public benefits in Table 3 largely concerns social security contributions paid on public benefits and taxation of civil servant pensions. The data on direct taxation of benefit income in Germany do not include taxes on pensions paid through the statutory pension system, as reliable estimates on its size are not available.

15. Tax wedge calculations on earnings do not capture the impact of mandatory contributions or contributions that are being made in the context of collective agreements to private funds (OECD, 2000*d*). For example, in 2000, mandatory contributions to Superannuation plans in Australia equalled 9 percent of the payroll (ISSA, 2000).

16. In Ireland and the UK where tax rates on incapacity-related benefits paid by social insurance funds is close to zero, the overall tax to gross spending ratio on sickness benefits is high because the relatively heavily taxed sickness payments to government employees and/or employees in the private sector dominate overall spending on sickness benefits.

Table 3. **Direct tax/gross benefit spending ratios for selected items**, 1997 [1,2]

| Direct tax/gross benefit spending items | Australia | Austria | Belgium | Canada | Czech republic | Denmark | Finland | Germany | Ireland | Italy | Japan | Korea | Netherland | New Zealand | Norway | Sweden | United Kingdom | United States |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross public social expenditure | 1.7 | 8.8 | 6.0 | 8.1 | 0.0 | 14.1 | 13.1 | 4.6 | 1.6 | 9.7 | 1.4 | 0.0 | 16.3 | 9.0 | 8.7 | 12.4 | 1.9 | 2.2 |
| Gross public transfer spending | 2.9 | 12.4 | 9.0 | 12.9 | 0.0 | 23.9 | 19.5 | 7.6 | 2.5 | 12.8 | 2.4 | 0.0 | 23.0 | 13.1 | 17.0 | 22.1 | 2.8 | 4.0 |
| Civil servants pensions | 10.7 | .. | .. | 29.8 | .. | 36.8 | .. | 15.4 | 10.1 | .. | .. | 0.0 | 26.9 | .. | .. | .. | 14.7 | 8.0 |
| Public pensions [3] | 1.8 | 15.4 | .. | 15.4 | 0.0 | 25.8 | 22.3 | .. | 0.9 | 13.3 | .. | 0.0 | 22.6 | 16.5 | .. | 26.5 | 2.1 | 2.3 |
| Unemployment | 3.9 | 0.0 | .. | 27.1 | 0.0 | 26.2 | 20.8 | 0.0 | 1.6 | 14.2 | 0.0 | 0.0 | 29.1 | 16.3 | 21.9 | 32.5 | 1.0 | 6.6 |
| Family cash benefits [4] | 0.4 | 0.0 | .. | 0.0 | 0.0 | 9.4 | 0.0 | .. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.9 | 0.6 | 0.0 | 0.0 | 0.0 |
| Sickness benefits [5] | 15.0 | 24.1 | .. | 27.1 | 0.0 | 30.8 | 29.8 | 28.2 | 15.4 | 22.7 | 0.0 | 4.8 | 32.5 | 10.4 | 26.3 | 33.2 | 17.7 | 22.2 |
| Private pension benefits | 4.3 | 15.4 | .. | 29.8 | .. | 36.8 | 22.3 | 17.1 | 10.1 | 16.0 | 2.9 | 1.8 | 25.4 | .. | .. | 29.7 | 11.4 | 9.2 |

1 The ratio reflects the direct tax and social security contributions paid over cash benefit grouped in a specific spending category. These tax/ spending ratios are not equivalent to Average itemised tax rates concerning a particular benefit. For example, family allowance is not taxed in *Australia*, however, a small amount of tax is allocated to the "Sole Parent Benefit" (included in Family cash benefits).

2 ".." indicates that the relevant estimate cannot be obtained: either because information on gross spending for the relevant item is not available or because the available on taxes and social security contributions is not detailed enough to present relevant estimates.

3 Public pensions are grouped here includes public spending on old-age cash benefits, survivors, disability cash benefits and occupational injury and diseases.

4 In Germany, publicly provided child benefits are generally not subject to taxation, except the family supplements on wages for civil servants.

8 Includes both public and private sickness benefits.

*Sources*: Data provided by national authorities (either the Ministry of Finance, the tax revenue service or the Ministry of Social Affairs) for all countries, except for: *Austria* data taken from Statistik Österreich (2000 and 2000*a*); *Italy*; Calculations based on the ISTAT Microsimulation model MASTRICT; and the *United States*: IRS (2000), Internal Revenue Service (US Department of the Treasury), Internet: http://www.irs.ustreas.gov/prod/tax_stats/index.html.

### *3.2 Indirect taxes*

31. Recipients of social benefits generally use their benefit income to finance consumption of goods and services such as housing, food, clothing and so on. For example, in Germany in 1997 duties on coffee amounted to about $1.3 billion – (OECD, 2000*a*), part of which was paid by benefit recipients. Thus, consumption taxes reduce the real value of consumption which can be financed out of a given level of benefits, and also establish another flow of back in tax receipts to the Exchequer. For example, in order to provide benefit recipients with a net income of 100 units, country A with a VAT rate of 10% needs to pay a gross benefit of about 111 units, while gross payments would have to amount to 125 units in country B that has a 20% VAT rate. Obviously, the flow back of revenue generated by indirect taxation of benefit income is much higher in county B than in country A.

32. It would have been desirable to allow for different spending patterns between income groups by using data sets on household expenditure patterns. The detailed information in such surveys theoretically facilitates the calculation of implicit indirect tax rates by group of beneficiaries. However, data sets of this type are not readily available for all countries. Moreover, consumption surveys suggest tax payments that are well below actual tax receipts (Adema *et al*, 1996).

33. Therefore, the approach followed here is to calculate an average implicit indirect tax rate based on aggregate data available for all countries (OECD, 2000*a*, and 2000*e*). This simple approach, while approximate, is clear and transparent.[17] Table 4 contains three possible measures of indirect taxes. The first, line 3, captures the amount of indirect tax receipts through general consumption taxes and excise duties charged on particular goods. Even this relatively limited measure includes some taxes not paid by the household sector, such as petrol duties for commercial vehicles. Line 4 includes these taxes but also profits from fiscal monopolies, customs duties, taxes on services, and some other minor taxes. Line 5 adds additional taxes on the use of goods, such as licenses for motor vehicles and for the sale of alcohol. Although a case could be made for using any of these measures of indirect taxation, the indirect tax concepts reflected in lines 4 and 5 of Table 4 include more items of indirect taxation not paid by the household sector than reflected in line 3. Therefore, the indirect tax measure in line 3 of Table 4 is likely to include the smallest margin of error, and is thus considered to be most appropriate to use for calculating indirect taxes paid over consumption out of benefit income.

34. Private consumption as in the National Accounts is given in line 1 of Table 4. However, the OECD Revenue Statistics includes tax revenue collected by government from itself. For example, if one part of government purchases some goods and services, it may be charged indirect tax (which constitutes a tax flow within the government sector). To reflect this, government consumption expenditure is added to private consumption expenditure while subtracting that part of government consumption which consists of compensation of employees (line 2, Table 4). In this manner, a consistent approximation of the tax base of indirect taxes is found.

17. The chosen methodology may also be criticised for implicitly assuming that benefit recipients do not save but consume all their benefit income. However, the marginal propensity to consume out of benefit income is probably close to 1. Hence, resulting errors should not be overestimated.

Table 4. **Average indirect tax rates**, 1997

| Item [1,2] | Australia | Austria | Belgium | Canada | Czech republic | Denmark | Finland | Germany | Ireland | Italy | Japan | Korea | Netharlands | New Zealand | Norway | Sweden | United Kingdom | United States |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Private final consumption expenditure | 338 | 1437 | 4484 | 489 | 771 | 551 | 312 | 2002 | 26 | 1181 | 298 | 255 | 355 | 62 | 516 | 893 | 497 | 5309 |
| 2 Private consumption plus Government consumption minus Government wages | 380 | 1620 | 5313 | 556 | 1000 | 662 | 362 | 2401 | 30 | 1325 | 318 | 266 | 448 | 68 | 588 | 1074 | 587 | 5724 |
| 3 General consumption taxes plus excise duties (5110+5121) | 29 | 276 | 823 | 62 | 182 | 169 | 84 | 338 | 6 | 165 | 20 | 30 | 73 | 11 | 148 | 192 | 87 | 295 |
| General consumption taxes -- 5110 | 14 | 207 | 609 | 45 | 118 | 109 | 54 | 241 | 4 | 111 | 10 | 19 | 49 | 9 | 96 | 128 | 56 | 178 |
| Excises -- 5121 [3] | 14 | 69 | 214 | 17 | 64 | 59 | 30 | 97 | 2 | 54 | 10 | 11 | 24 | 2 | 52 | 65 | 32 | 117 |
| 4 Taxes on production sale transfer (5100) | 37 | 299 | 1 | 75 | 197 | 174 | 88 | 364 | 6 | 196 | 21 | 42 | 79 | 12 | 167 | 203 | 95 | 335 |
| 5 Taxes on Goods and Services (5000) | 46 | 314 | 1045 | 80 | 211 | 182 | 91 | 378 | 7 | 227 | 24 | 44 | 87 | 12 | 172 | 209 | 99 | 383 |
| 6 Implicit average indirect tax rate on consumption out of benefit income [3/2] | 7.5% | 17.0% | 15.5% | 11.2% | 18.2% | 25.5% | 23.1% | 14.1% | 20.7% | 12.4% | 6.2% | 11.4% | 16.3% | 15.6% | 25.1% | 17.9% | 14.9% | 5.2% |
| 7 Implicit average tax rate using a broad concept of the indirect tax base [5/2] | 12.2% | 19.4% | 19.7% | 14.4% | 21.1% | 27.5% | 25.0% | 15.8% | 22.7% | 17.2% | 7.6% | 16.5% | 19.3% | 18.2% | 29.2% | 19.5% | 16.9% | 6.7% |

1. All totals in line 1 to 5 are in billions of national currency, except for Belgium, Italy and Japan.
2. The 4-digit codes in the second column refer to the categorisation used in the OECD *Revenue Statistics*.
3. Excises for Norway (5121) do not include excises on oil and gas products, while Excises for Korea the special excise tax (*e.g.* on jewellery) has not been included.

*Sources*: OECD (2000), *National Accounts 1988-1998*, Paris (Lines 1 and 2) and OECD (2000), *Revenue Statistics*, Paris, (lines 3,4, and 5).

35. The average implicit indirect tax rate is then the ratio of revenue from general consumption taxes and excise to a broad consumption tax base, *i.e.* private consumption and government consumption minus government wages -- line 6, in Table 4. In 1997, the implicit average indirect tax rates are lowest in Australia (7.5%), Japan (6.2%) and the US (5.3%). Indirect tax rates are highest in European countries and exceed 25% in Denmark and Norway. This implies that net transfers from government to households are rather less than gross expenditure figures suggest.

36. Policymakers have recognised the link between indirect taxation and the position of those with low incomes or receiving benefit income.[18] The extension of the VAT base to cover domestic fuel in the United Kingdom in 1993, for example, was accompanied by changes in benefit payments (particularly to the elderly) to compensate them for the reduction in the real value of the benefits. Similarly, recent tax reform in Australia brought about the introduction of the Goods and Services Tax in July 2000 at a rate of 10%, although food is exempt (other basic items are taxed). A compensation package (through the direct tax and social security systems) for social security recipients was an integral part of the reform (DFaCS, 2000).

### *3.3 Tax breaks for social purposes*

37. Many governments of OECD countries pursue social policy objectives through the tax system. Two main types of such measures can be distinguished. One is reduced taxation on particular sources of income or types of household. For example, old age pensions could be taxed at a zero or reduced rate which would lead to “revenue foregone” of a specific value and constitute “tax expenditures”. This sort of tax relief is equivalent to a variation in direct taxation of benefit income and has already been accounted for in the section on direct taxation. So, in order to avoid double counting, the estimated value of this particular tax advantage is not considered here. For example, income tax exemptions for those receiving “Long-term incapacity benefit” in the United Kingdom are accounted for while establishing the amount of direct taxes paid over benefit income and are not covered again in this section.

38. The second group of tax measures with social effects are those which can be seen as replacing cash benefits or stimulating the provision of private expenditures (*e.g.* tax advantages for the provision of private child-care facilities). These are termed tax breaks for social purposes, which are defined as:

> “those reductions, exemptions, deductions or postponements of taxes, which: *a)* perform the same policy function as transfer payments which, if they existed, would be classified as social expenditures; or *b)* are aimed at stimulating private provision of benefits".

39. **Tax breaks which mirror the effect of cash benefits** can be substantial. For example, in Germany the value of tax allowances for families with children approximated $32.5 billion in 1997. The presence of dependent children leads to eligibility to cash benefits in social protection systems, whereas a marriage contract does not. Hence, TBSPs that mirror cash benefits include the value of tax advantages towards the presence of dependent children. But, tax advantages for married people, as exist in for example, Belgium, France, Germany and Japan are <u>not</u> considered to serve a “social purpose”, and are

18. An objection to similar treatment of direct and indirect taxes is that, unlike with direct taxes, indirect taxes are not inevitable: people can avoid them, either by purchasing untaxed or low-taxed goods or not purchasing anything. However, non-consumption is not a viable option, and the argument relating to the composition of consumption is also flawed. It is true that there is nothing inevitable about consumption of cigarettes and alcohol which are highly taxed in most OECD countries, but continued purchase of such goods out of benefit income reflects a judgement by the recipient on the worth of such consumption. Depending on their preferences, benefit recipients have to pay indirect taxes in order to maximise the utility from their consumption of benefit income. That benefit-recipients could pay less indirect tax if they choose to consume a different bundle of goods hardly matters, as this bundle would bring them a lower level of utility.

therefore not included in the calculations (regardless of whether or not such measures are part of the basic tax structure).[19]

40. The data on TBSPs covers tax assistance by Central/Federal governments. However, sub-national levels of government can also provide such tax assistance, as in for example, Canada, Japan and the United Sates. Comprehensive information across countries is not (yet) available, but the value of sub-national TBSPs in Canada could be close to 0.5% of GDP in Canada.[20]

41. The "Earned Income Tax Credit" (EITC) in the United States emphasises the relationship between direct cash transfers and tax breaks for social purposes. In 1997, the cost of this programme amounted to almost $30.5 billion, of which $ 6.1 billion in the form of tax credits -- and thus regarded as a fiscal measure (OECD, 2000*a*) that mirrors a cash benefit, while $24.4 billion concerned tax credits exceeding tax liabilities of recipients. The latter amount are direct transfer payments from the government to the recipient and, as such, are considered as (untaxed) direct social expenditures (OECD, 2000).

42. Table 5 reveals that Germany (at 1.7% of GDP in 1997) use its tax system relatively extensively for the provision of tax breaks that are similar to cash transfers. The value to such TBSPs was close to 0.5% of GDP in Austria, Belgium, Canada, Korea and Japan.

43. The TBSPs, which are aimed at stimulating take-up of private provision, can be categorised in two broad groups:

- **Tax breaks towards "current" private social benefits**. These tax breaks are aimed at stimulating the provision of private social benefits in the current year such as voluntary private unemployment or health insurance, or benefits provided by NGOs.[21] Tax breaks to stimulate provision of current private benefits are most prevalent in the US: the value of tax advantages concerning employment-related medical insurance and health expenses amounted to over 0.8% of GDP in 1997.

- **Tax breaks for pensions**. Tax breaks for social purposes encompass measures aimed at stimulating private pension take-up, such as tax exemptions for contributions to private pensions, and tax relief for investment income of capitalised pension funds can be substantial. For example, tax relief on investment income on private pension plans in Canada (RPPs and RRSPs) amount to almost 0.4% of GDP in 1997.

44. The TBSPs aiming to stimulate private pension take-up, include tax exemptions for contributions to private pensions, and tax relief for investment income of capitalised pension funds. Due to the complexities of calculating of tax reliefs that are given at various stages of what is a form of contractual savings, there is no comparable data set available on the value of tax breaks for pensions (Adema, *et al*,

19. The value of tax advantages for married people can be considerable, and mounted to about 1.2 % of GDP in Germany in 1997. The French "quotient familiale" (including the value of benefits to children) was worth about 1% of GDP in 1994 (OECD, 1996). The trade-off of bonuses and/or penalties from the US tax treatment of married people varies in each individual case. In 1999, joint filing disadvantaged 48% of the couples, benefited 41% of the couples, while joint or individual filing did not affect the tax liability of 11% of couples, mainly because income was too low to have a tax liability. On the whole, low-income couples benefited more of joint filing than on average: 42% of the couples with annual income below $30.000, benefited from joint filing, compared to 27% of couples that faced disadvantage, and 31% of couples that were unaffected (Bull *et al*, 1999).

20. In Canada estimates on direct and indirect taxation of benefit income account for the impact of both federal and provincial taxes, where provincial taxes are about 50% of federal taxes. Using the latter as a rule-of-thumb the real value of TBSPs may well be around 1.4% of GDP I 1997 rather than 0.9% of GDP -- the value of Federal TBSPs in Table 5.

21. For example, tax concessions on donations to NGOs amounted to almost $20 billion in the USA in 1997.

1996). Therefore, these estimates are not included in the overview calculations in the following section, but are presented as a *memorandum item*. Nevertheless, the value of these TBSPs is considerable across countries for which estimates (on a comprehensive income tax basis) are available: the value of favourable tax-treatment of private pension arrangements is estimated to range from 1 to 2.4 per cent of GDP - in ascending order - in the United States, the Netherlands, Australia, Ireland, Canada, and the United Kingdom. And as documented in section 2, these are also the countries where private pension benefits are most important.[22]

45. It is difficult to be precise on the extent to which tax advantages are instrumental in stimulating private coverage or mainly serve to finance expensive private systems whose degree of efficiency is debatable - as, for example, private health insurance in the US. Tax breaks certainly affect individual behaviour and provide governments with a tool to influence take-up of particular plans, but are unlikely to induce much additional saving on a national basis. For example, in the late 1980s individual retirement accounts were introduced in the US. Favourable tax treatment towards this programme certainly increased its popularity, but induced little new pension savings, as in 1990 82% of all programme contributions were "rollover contributions" from other employment-based plans (Adema and Einerhand, 1998).

Table 5. **Tax breaks for social purposes**, 1997 [1,2,3,4] (per cent of GDP)

| Items | Australia | Austria | Belgium | Canada | Germany | Ireland |
|---|---|---|---|---|---|---|
| TBSPs similar to cash benefits | 0.2 | 0.4 | 0.5 | 0.5 | 1.7 | 0.2 |
| TBSPs towards current private social benefits | 0.0 | 0.1 | 0.0 | 0.3 | 0.0 | 0.2 |
| Total TBSPs | 0.3 | 0.4 | 0.5 | 0.9 | 1.7 | 0.4 |
| *Memorandum item* | | | | | | |
| TBSPs towards pensions. | 1.5 | .. | .. | 2.1 | 0.1 | 2.4 |

| | Japan | Korea | Netherlands | New Zealand | United Kingdom | United States |
|---|---|---|---|---|---|---|
| TBSPs similar to cash benefits | 0.4 | 0.4 | 0.0 | 0.0 | 0.3 | 0.2 |
| TBSPs towards current private social benefits | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 1.1 |
| Total TBSPs | 0.0 | 0.4 | 0.1 | 0.1 | 0.4 | 1.3 |
| *Memorandum item* | | | | | | |
| TBSPs towards pensions. | 0.8 | 0.0 | 1.0 | 0.0 | 2.4 | 1.0 |

1 There is no international, or sometimes national, consensus on how to demarcate fiscal measures used as social expenditure instruments. Therefore, the results presented here are therefore only indicative and provisional (see Adema, *et al.*, 1996, for more detail).

2 "0.0" item does not exist or, when it concerns tax benefits similar to cash benefits, that relevant tax advantages have been accounted when calculating the adjustment for direct taxation: "..": information not available.

3 Data on Italy is not available. Information on Finland, Norway and Sweden has not been included as it concerns very small items: less than 0.05% of GDP

4 TBSPs similar to cash benefits and towards current private social benefits are recorded on basis of revenue foregone - cash basis.

*Sources*: For *Belgium, Denmark, Japan, Korea, the Netherlands, Norway, and New Zealand*, unpublished information was kindly made available by national authorities. Published sources have been used for the following countries: *Australia*: The Australian Treasury (1997), "Tax expenditures Statement, 1996-97", Australian Government Publishing Service, Canberra; Austria: Bundesministerium für Finanzen (1998), *Förderungsbericht 1998*, Vienna; *Canada*: Department of Finance Canada (2000), *Tax Expenditures and Evaluations 2000*, Ottawa; *Germany*: Bundesministerium für Arbeit und Sozialordnung (1999), *Materialband zum Sozialbudget 1998*, Bonn; *Ireland*: Government of Ireland (2000), *Statistical Report of the Revenue Commissioners 1999*, Dublin; the United Kingdom : Inland Revenue (1999), *Tax Ready Reckoner and Tax Reliefs*, HMSO, November, London ; *the United States* : OMB (1999), *Budget of the United States Government, Analytical Perspectives, Fiscal year 1999*, United States Office of Management and Budget, Government printing Office, Washington, D.C.

22 . These estimates do not include favourable tax treatment of other savings mechanisms, for example, life insurance policies, as the latter are not considered to be within the social domain -- see Annex 1.

## 4. INTERNATIONAL COMPARISONS

### *4.1 The framework: a concise overview*

46. In order to facilitate international comparison of spending indicators, information on gross benefits and the taxes discussed above has been integrated in a framework that derives net social expenditure indicators. Table 6 presents a schematic overview of this framework (below, the numbers/letters in between brackets refers to the appropriate line in this Table).

47. First of all, direct taxes clawed-back by the Exchequer and the imputed value of indirect taxation on goods consumed out of public benefits are subtracted from gross public social expenditure (1) to obtain Net direct public social expenditure (2). Subsequently, As the value of tax breaks for social purposes (excluding pensions) that are similar to cash benefits (T1) is used for consumption, the imputed value of the indirect taxation on these items is subtracted to obtain Net TBSPs similar to cash benefits (4). The value of TBSPs towards current private benefits (T2) is added to obtain net current public social expenditure (6). From the government perspective, net public social spending gives a better impression of budgetary efforts in the social field and the proportion of net social output reallocated to benefit recipients.

48. In order to measure the social support that is provided under government control, the mandatory private benefits should also be included, and account taken of the fact that these benefits are also subject to direct and indirect taxation. Net government controlled social expenditure is captured under the heading of net publicly mandated social expenditure (9). Finally, the gross voluntary private benefits are also adjusted for direct and indirect taxation: net direct voluntary private social expenditure (11).

49. Adding together these net public, mandatory private and voluntary benefits gives an indicator on net total social expenditure (13), which quantifies the proportion of an economy's domestic production at the disposal of recipients of social benefits. However, as noted above, the tax breaks towards current private social benefits (T3), are tantamount to financing private social benefits. Thus, while these TBSPs are clearly a public expenditure item, they finance private benefits and simply adding net public social expenditure to net private social expenditure would overestimate the amount of support received by households. Therefore, net total social expenditure (13) is the sum of net current public social expenditure (6) and net direct private social expenditure (12) minus TBSPs towards current private social benefits (T2).[23] Net total social expenditure identifies that proportion of an economy's domestic production to which recipients of social benefits lay claim

50. Finally, the net social spending indicators are related to GDP at factor cost rather than GDP at market prices – the most frequently used indicator on the size of an economy. The reason for this is that, since adjustment has been made to benefits for the value of indirect taxation, the denominator (GDP) has to be adjusted similarly. As GDP at factor cost does not include the value of indirect taxation and government subsidies to private enterprises and public corporations, it seems the most appropriate indicator for international comparisons.

23 . Ideally, the value of tax breaks aimed at stimulating private benefit provision would be netted out against the direct and indirect taxes levied on the private benefits it generated. However, as noted above, it is not possible to determine to what extent these TBSPs actually affect take-up of private benefits, and therefore this calculation was not attempted.

Table 6. **Calculating net total social expenditure: a concise overview**

| +/- | Line number | Item |
|---|---|---|
| | **1.** | **Gross direct public social expenditure** |
| - | | Direct taxes and social contributions paid out of public cash benefits |
| | 2. | Net cash direct public social expenditure |
| - | | Indirect taxes on private consumption financed by net cash transfers |
| | 3. | Net direct public social expenditure |
| + | T1 | Tax breaks for social purposes that mirror cash benefits |
| - | | Indirect taxes on private consumption financed by tax breaks similar to cash |
| | 4 | Net TBSPs similar to cash benefits |
| + | T2 | Tax breaks for social purposes towards current private social benefits |
| | 5 | Net TBSPs (not including pensions) |
| | **6.** | **Net current public social expenditure [3+5]** |
| | 7. | Gross mandatory private social expenditure |
| - | | Direct taxes and social contributions paid out of mandatory private cash benefits |
| - | | Indirect taxes on consumption purchased out of net mandatory private cash |
| | 8. | Net direct mandatory private social expenditure |
| | **9.** | **Net publicly mandated social expenditure [6+8]** |
| | 10. | Gross voluntary private social expenditure |
| - | | Direct taxes and social contributions paid out of voluntary private cash benefits |
| - | | Indirect taxes on consumption purchased out of net voluntary private cash |
| | 11. | Net direct voluntary private social expenditure |
| | 12. | Net direct private social expenditure [8+11] |
| | **13.** [1] | **Net total social expenditure [6+12-T2]** |

Tax adjustments in the shaded areas.

1 In order to avoid double counting, net total social expenditure is obtained by adding up net public and net private social expenditure while subtracting tax breaks towards current private benefits.

### *4.1.1. The size of tax adjustments in the social sphere*

51. The size of the various adjustments, as presented in Table 7, reflect the importance of particular tax items in each country:

- **Direct taxes and social security contributions.** Australia, the Czech Republic, Ireland, Japan, the United Kingdom and the United States tax public benefits only to a very limited extent. Taxes and social security contributions on public cash transfers do also not exceed 2% of GDP at factor cost in Australia, Belgium, Canada, Germany, and New Zealand. Italy and Norway hold an intermediate position while Denmark, Finland, the Netherlands and Sweden tax public benefits rather heavily: levies are close to 5% of GDP at factor cost. Direct taxation of private incapacity-related benefits is limited in Australia, Ireland, Italy, Korea, New Zealand, the United Kingdom and the United States, relative to the tax burden on these benefits in Germany, the Netherlands and the Nordic countries. Compared to practice in the other countries for which data is available, supplementary pension payments are taxed heavily in Canada, Denmark, Finland, the Netherlands, and Sweden.

- **Indirect taxes.** The value of benefit income clawed back through taxes on consumption is much larger in European countries than in Australia, Canada, Japan, Korea and the United States, where indirect tax rates on consumption are significantly lower.

- **Tax breaks for social purposes** (excluding pensions). This form of social provision is generally less important in countries with relatively high direct tax levies: Denmark, Finland, the Netherlands, Norway and Sweden. Australia, Austria, Belgium, Canada, Ireland, Japan, Korea and the United Kingdom are in an intermediate position. Tax breaks for social purposes are more prominent in Germany (for children) and the United States (employment-related health insurance).

### *4.1.2 Government social effort*

52. Gross public social expenditure indicators lead us to believe that public social effort is much higher in continental western European and Nordic countries than elsewhere: public social expenditure as a proportion of GDP at factor cost is about 15 percentage points higher in these European countries than in non-European OECD countries (Table 7, line 1).

53. In general, however, governments claw back more money through direct and indirect taxation of public transfer income than the value of the tax advantages awarded for social purposes. Thus, *net public social expenditure* is usually less than gross spending indicators suggest. In Denmark, Finland, the Netherlands and Sweden, the adjustments imply that net public social spending as a proportion of GDP at factor costs is 7 to 9 percentage points below levels suggested by gross public spending indicators.[24] Average gross public spending amounts to 24.5% of GDP at factor cost for the countries for which data is available, while net public social spending averages 20.6%. The difference between gross and net public social spending is less than 1 percentage point of GDP at factor cost in Australia and Japan, while in Korean and the United States gross public spending actually *underestimates* public social effort (Table 7, lines 1 and 6)

24. GDP data are based on the SNA93 definitions (OECD, 2000*e*) while Adema (1999) used GDP data based on the SNA68 framework. Therefore, the data in Table 7 are not directly comparable with estimates previously published. Annex 2 contains historical information on net social spending as a proportion of GDP based on SNA93.

Table 7. **Net social expenditure indicators, 1997** (1, 2 and 3)

*per cent of GDP factor cost*

| | | | Australia | Austria | Belgium | Canada | Czech Republic | Denmark | Finland | Germany | Ireland |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | Gross public social expenditure | 18.7 | 28.5 | 30.4 | 20.7 | 21.7 | 35.9 | 33.3 | 29.2 | 19.6 |
| - | | Direct taxes and social contributions | 0.3 | 2.5 | 1.8 | 1.7 | 0.0 | 5.1 | 4.4 | 1.3 | 0.3 |
| | 2 | Net cash public social expenditure | 18.4 | 26.0 | 28.6 | 19.0 | 21.7 | 30.8 | 28.9 | 27.8 | 19.3 |
| - | | Indirect taxes | 0.8 | 3.0 | 2.8 | 1.3 | 2.5 | 4.1 | 4.2 | 2.3 | 2.5 |
| | 3 | Net direct public social expenditure | 17.6 | 23.0 | 25.8 | 17.8 | 19.3 | 26.7 | 24.8 | 25.5 | 16.7 |
| + | T1 | TBSPs similar to cash benefits | 0.2 | 0.4 | 0.6 | 0.6 | .. | 0.0 | 0.0 | 1.9 | 0.3 |
| - | | Indirect taxes | 0.0 | 0.1 | 0.1 | 0.1 | .. | 0.0 | 0.0 | 0.3 | 0.1 |
| | 4 | Net TBSPs similar to cash benefits | 0.2 | 0.3 | 0.5 | 0.6 | .. | 0.0 | 0.0 | 1.6 | 0.2 |
| + | T2 | TBSPs towards current private benefits | 0.0 | 0.1 | 0.0 | 0.4 | .. | 0.0 | 0.0 | 0.0 | 0.2 |
| | 5 | Net TBSPs (not including pensions) | 0.3 | 0.4 | 0.5 | 0.9 | .. | 0.0 | 0.0 | 1.6 | 0.4 |
| | 6 | Net current public social expenditure | 17.9 | 23.4 | 26.3 | 18.7 | 19.3 | 26.7 | 24.8 | 27.2 | 17.1 |
| | 7 | Gross mandatory private soc. exp. | 1.2 | 0.9 | 1.7 | 0.0 | 0.0 | 0.4 | 0.2 | 1.3 | 0.0 |
| - | | Direct taxes and social contributions | 0.2 | 0.3 | 0.1 | 0.0 | 0.0 | 0.2 | 0.0 | 0.5 | 0.0 |
| - | | Indirect taxes | 0.1 | 0.1 | 0.2 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 |
| | 8 | Net current mand. private soc. exp. | 0.9 | 0.5 | 1.3 | 0.0 | 0.0 | 0.2 | 0.1 | 0.7 | 0.0 |
| | 9 | Net publicly mandated soc. exp. (6+8) | 18.8 | 23.9 | 27.5 | 18.7 | 19.3 | 26.9 | 24.8 | 27.9 | 17.1 |
| | 10 | Gross voluntary private soc. exp. | 3.4 | 0.9 | 1.0 | 4.8 | 0.0 | 1.1 | 1.3 | 1.1 | 1.8 |
| - | | Direct taxes and social contributions | 0.1 | 0.0 | 0.0 | 1.1 | 0.0 | 0.3 | 0.3 | 0.1 | 0.1 |
| - | | Indirect taxes | 0.2 | 0.0 | 0.0 | 0.3 | 0.0 | 0.1 | 0.2 | 0.1 | 0.2 |
| | 11 | Net current voluntary private soc. exp. | 3.1 | 0.8 | 0.9 | 3.5 | 0.0 | 0.6 | 0.8 | 0.9 | 1.5 |
| | 12 | Net current private soc. exp. (8+11) | 4.1 | 1.3 | 2.2 | 3.5 | 0.0 | 0.8 | 0.9 | 1.6 | 1.5 |
| | 13 | Net total social expenditure (6+12-T2) | 21.9 | 24.6 | 28.5 | 21.8 | 19.3 | 27.5 | 25.6 | 28.8 | 18.4 |
| | | Memorandum item | | | | | | | | | |
| | | TBSPS towards pensions | 1.6 | 0.0 | .. | 2.5 | .. | .. | 0.0 | 0.1 | 2.7 |
| | | Service/Cash ratios | | | | | | | | | |
| | | Gross public social expenditure | 70.4% | 40.6% | 51.3% | 59.4% | 60.1% | 69.3% | 48.6% | 65.5% | 55.9% |
| | | Net public social expenditure | 76.2% | 54.2% | 64.6% | 70.2% | 73.5% | 121.7% | 78.5% | 73.9% | 69.5% |
| | | Gross total social expenditure | 58.1% | 41.7% | 49.8% | 54.0% | 60.1% | 65.8% | 47.0% | 58.7% | 55.6% |
| | | Net total social expenditure | 64.4% | 56.6% | 62.9% | 69.7% | 73.5% | 116.8% | 76.3% | 68.3% | 71.0% |
| | | Selected items related to GDP mp | | | | | | | | | |
| | | Gross public social expenditure | 17.4 | 25.4 | 27.2 | 17.9 | 19.4 | 30.7 | 28.7 | 26.4 | 17.6 |
| | | Gross total social expenditure | 21.7 | 27.0 | 29.5 | 22.1 | 19.4 | 32.0 | 30.0 | 28.6 | 19.2 |
| | | Net current public social expenditure | 16.6 | 20.9 | 23.5 | 16.2 | 17.2 | 22.9 | 21.4 | 24.6 | 15.4 |
| | | Net current mand. private soc. exp. | 0.9 | 0.5 | 1.1 | 0.0 | 0.0 | 0.2 | 0.1 | 0.6 | 0.0 |
| | | Net current voluntary private soc. exp. | 2.9 | 0.7 | 0.8 | 3.0 | 0.0 | 0.5 | 0.7 | 0.8 | 1.3 |
| | | Net total social expenditure (6+12-T2) | 20.4 | 22.0 | 25.4 | 18.9 | 17.2 | 23.5 | 22.1 | 26.1 | 16.5 |

1. Numbers in square brackets refer to line numbers in the second column; “N/A” information not available; “..” cell with missing operand ("N/A").
2. Calculations for *Finland* on net public and net publicly mandated social expenditure do not account for “Church tax”. Calculations on net total social expenditure do account for “Church tax” as it paid by the vast majority of Finnish taxpayers (87%) and thus affect net benefits at the disposal of the overall number of recipients.
3. In order to avoid double counting, the value of TBSPs towards “current” private social benefits has been ignored for the calculation of net total social expenditure.

Table 7. **Net social expenditure indicators, 1997 (continued)** (1, and 3)

*per cent of GDP factor cost*

| | | Italy | Japan | Korea | NL | New Zealand | Norway | Sweden | UK | US |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Gross public social expenditure | 29.4 | 15.1 | 4.4 | 27.1 | 20.7 | 30.2 | 35.7 | 23.8 | 15.8 |
| - | Direct taxes and social contributions | 2.9 | 0.2 | 0.0 | 4.4 | 1.9 | 2.6 | 4.4 | 0.4 | 0.4 |
| 2 | Net cash public social expenditure | 26.6 | 14.9 | 4.4 | 22.7 | 18.9 | 27.6 | 31.3 | 23.4 | 15.5 |
| - | Indirect taxes | 2.4 | 0.5 | 0.2 | 2.4 | 1.9 | 3.2 | 2.8 | 2.3 | 0.4 |
| 3 | Net direct public social expenditure | 24.1 | 14.4 | 4.2 | 20.2 | 17.0 | 24.4 | 28.5 | 21.1 | 15.0 |
| + T1 | TBSPs similar to cash benefits | .. | 0.5 | 0.4 | 0.0 | 0.0 | 0.0 | .. | 0.3 | 0.3 |
| - | Indirect taxes | .. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | .. | 0.1 | 0.0 |
| 4 | Net TBSPs similar to cash benefits | .. | 0.4 | 0.4 | 0.0 | 0.0 | 0.0 | .. | 0.3 | 0.2 |
| + T2 | TBSPs towards current private benefits | .. | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | .. | 0.2 | 1.2 |
| 5 | Net TBSPs (not including pensions) | .. | 0.4 | 0.4 | 0.1 | 0.1 | 0.0 | .. | 0.5 | 1.4 |
| 6 | Net current public social expenditure | 24.1 | 14.8 | 4.6 | 20.3 | 17.0 | 24.4 | 28.5 | 21.6 | 16.4 |
| 7 | Gross mandatory private soc. Exp. | 1.5 | 0.5 | 2.5 | 0.8 | 0.0 | 1.2 | 0.4 | 0.4 | 0.4 |
| - | Direct taxes and social contributions | 0.2 | 0.0 | 0.1 | 0.3 | 0.0 | 0.3 | 0.1 | 0.1 | 0.1 |
| - | Indirect taxes | 0.2 | 0.0 | 0.3 | 0.1 | 0.0 | 0.2 | 0.0 | 0.1 | 0.0 |
| 8 | Net current mand. private soc. exp. | 1.1 | 0.5 | 2.1 | 0.5 | 0.0 | 0.7 | 0.2 | 0.3 | 0.3 |
| 9 | Net publicly mandated soc. exp. (6+8) | 25.2 | 15.3 | 6.7 | 20.8 | 17.0 | 25.1 | 28.7 | 21.9 | 16.8 |
| 10 | Gross voluntary private soc. exp. | 0.1 | 0.4 | 1.9 | 4.7 | 0.5 | .. | 3.0 | 3.8 | 8.4 |
| - | Direct taxes and social contributions | 0.0 | 0.0 | 0.0 | 0.9 | 0.0 | .. | 0.7 | 0.5 | 0.4 |
| - | Indirect taxes | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | .. | 0.3 | 0.5 | 0.2 |
| 11 | Net current voluntary private soc. exp. | 0.1 | 0.4 | 1.9 | 3.3 | 0.5 | .. | 1.9 | 2.9 | 7.8 |
| 12 | Net current private soc. exp. (8+11) | 1.2 | 0.9 | 4.0 | 3.8 | 0.5 | .. | 2.2 | 3.2 | 8.1 |
| 13 | Net total social expenditure (6+12-T2) | 25.3 | 15.7 | 8.6 | 24.0 | 17.5 | 25.1 | 30.6 | 24.6 | 23.4 |
| | | | | | | | | | | |
| | Memorandum item | | | | | | | | | |
| | TBSPS towards pensions | .. | 0.9 | 0.0 | 1.2 | 0.0 | 0.0 | .. | 2.7 | 1.1 |
| | Service/Cash ratios | | | | | | | | | |
| | Gross public social expenditure | 31.3% | 79.5% | 132.7% | 40.6% | 46.2% | 96.7% | 78.2% | 51.9% | 77.3% |
| | Net public social expenditure | 41.0% | 82.1% | 122.9% | 62.6% | 62.5% | 155.7% | 122.4% | 60.6% | 72.3% |
| | Gross total social expenditure | 29.8% | 71.3% | 100.4% | 37.7% | 49.8% | 89.5% | 71.2% | 42.8% | 88.7% |
| | Net total social expenditure | 39.1% | 74.1% | 104.6% | 59.2% | 67.9% | 145.3% | 112.9% | 52.0% | 97.6% |
| | Selected items related to GDP mp | | | | | | | | | |
| | Gross public social expenditure | 26.4 | 14.2 | 4.3 | 24.2 | 20.7 | 26.1 | 31.8 | 21.2 | 14.7 |
| | Gross total social expenditure | 27.8 | 15.1 | 8.4 | 29.1 | 21.3 | 27.2 | 34.8 | 24.9 | 22.9 |
| | Net current public social expenditure | 21.6 | 13.9 | 4.4 | 18.2 | 17.0 | 21.1 | 25.4 | 19.2 | 15.3 |
| | Net current mand. private soc. exp. | 1.0 | 0.5 | 2.1 | 0.4 | 0.0 | 0.6 | 0.2 | 0.3 | 0.3 |
| | Net current voluntary private soc. exp. | 0.1 | 0.4 | 1.8 | 3.0 | 0.5 | .. | 1.7 | 2.5 | 7.3 |
| | Net total social expenditure (6+12-T2) | 22.7 | 14.7 | 8.3 | 21.5 | 17.5 | 21.7 | 27.3 | 21.8 | 21.8 |

1 Numbers in square brackets refer to line numbers in the second column; “N/A” information not available; “..” cell with missing operand ("N/A").

3 In order to avoid double counting, the value of TBSPs towards “current” private social benefits has been ignored for the calculation of net total social expenditure.

54. Table 7 also reveals that low gross public spending countries tax benefits lightly (Australia, Canada, the Czech Republic, Ireland, Japan, Korea, New Zealand, the UK and the US), but that the opposite does not always hold true. Because Germany is a high gross public spending country with a relatively limited tax burden on benefit income compared to most other European countries, it has the highest level of net government social effort after Sweden at 27% of GDP at factor costs.

55. Accounting for the impact of the tax system on social benefits also increases the importance of social services (including health care) vis-à-vis cash transfers. The "service to cash spending ratio" increases from on average 64% (gross public social expenditure) to 82% when net public social expenditure is considered. When fiscal measures are accounted for, the value of social services (including health) exceeds the value of transfers not only in Korea, but in Denmark, Norway and Sweden as well.

### *4.1.3 Social effort from the perspective of households*

56. To get a picture of the amount of resources devoted to meeting social needs in a country, both *net public* and *net private* social benefits should be considered. Considering all social benefits and differences in relevant average tax rates, facilitates the identification of that proportion of an economy's domestic production to which recipients of social benefits lay claim: *net total social expenditure* (Table 7, line 13). The highest proportion (30.5% of GDP at factor cost) is recorded for Sweden, followed closely by Belgium, Denmark and Germany at around 28% of GDP at factor cost. Net total expenditure ranges from 16 to 19 percentage points in the Czech Republic, Ireland, Japan and New Zealand, while the lowest proportion (8.6%) is recorded in Korea. Recipients of social benefits in Austria, Canada, Finland[25], Italy, the Netherlands, Norway, the United Kingdom and the United States all claim about one quarter of the economy's domestic production. The similarity of net spending levels is driven by two factors: *a)* the inclusion of private social, which are particular important in the United States benefits; and *b)* the impact of the tax system. Considering all 18 countries for which information is available, the standard deviation in 1997 was 8.1 when looking at gross public social expenditure but just 5.4 when considering net total social expenditure.

### *4.1.4 Taxes and trends in social spending*

57. Accounting for the taxes and social security contributions paid on social transfers not only facilitates international comparisons but can also give a better impression of social effort over time (Annex 2). For example, the tax system in Denmark underwent significant changes in 1994 leading to increases in government revenue from direct and indirect taxation from benefit income. In 1994, old-age cash benefits and social assistance benefits became taxable in Denmark, but gross payments were raised simultaneously, in order to preserve their net value unchanged (Erhvervsministeriet, *et al.*, 1996). In all, gross expenditures increased by on pensions and social assistance benefits increased by about $2.8 billion, while direct tax revenue on these benefits increased by $2.4 billion (while the minimum average tax rate increased by about 1 percentage point). As a result from these changes, in-between 1993 and 1995, gross public spending *increased* by 0.7% of GDP at factor cost, while net public spending *decreased* by 0.4% of GDP over the same period (Annex 2). Not dissimilarly, it is estimated that tax reform in the Netherlands increased public social spending from 1989 to 1990 by 1.4% of GDP: 5% of gross public spending in 1990 (Tweede Kamer der Staten-Generaal, 1990, p. 5). Net benefits are thought to have been largely unaffected.[26]

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25. Whether or not estimates on "church tax" levied in Finland on the benefit income of individuals are included in the calculations depends on the prevailing perspective. The "church tax" does not flow into government coffers, so there is no reason to account for this item while adjudicating net public social effort. However, from the perspective of benefit recipients this item is important as it affects total disposable benefit income. Thus, when calculating net total social expenditure the estimates on "church tax" are accounted for.

26. The tax reform in 1990 in the Netherlands included a partial shift from social security contributions levied on employers to employees who received a supplement from employers to compensate for the increased

58. Belgium is the only country for which net benefit data is available since 1982 (Annex 2). Since then, there has not been a Belgian tax reform that led to significant differences in gross and net spending trends. However, the Danish and Dutch examples illustrate how failure to adjust for the influence of the tax system can lead to an inaccurate view of public and total social spending, and underscores the importance of developing and maintaining net social expenditure indicators.

## 5. CONCLUSIONS

59. A comprehensive analysis of social effort requires information on public and private cash-transfers and social services as well as detailed information on the impact of tax systems on social spending. This information is now available for 18 countries for 1997. Notwithstanding ongoing efforts to improve the existing information set, data limitations continue to exist. Available data on private social benefits are considered to be of lesser quality than information on public spending. Data-limitations are most significant concerning employer-provided family benefits and benefits by non-government organisations. Furthermore, methodological and data problems affect the measurement of tax breaks towards pensions.

60. Nevertheless, these limitations are unlikely to render the generated results invalid. Private social family benefits are small in comparison to private social health and pensions, and although the public costs of tax breaks with social purposes can be significant, their magnitude remains small in comparison with direct benefit payments. Therefore, the following general conclusions can be drawn:

- Accounting for private social benefits and the impact of the tax system on social expenditure has an equalising effect on levels of social effort across the eighteen countries considered.
- Except for Australia, Japan, Korea, and the United States, public social effort is significantly below that what is suggested by gross budget data. This is because most countries, and particularly Denmark, Finland, the Netherlands and Sweden, put significant tax levies on social benefits and ensuing consumption.
- Accounting for both the tax system and the role of private social benefits reveals that the proportion of an economy's domestic production to which recipients of social benefits lay claim is similar in Austria, Canada, Finland, Italy, the Netherlands, Norway, the United Kingdom and the United States.

61. There are enormous differences across countries in the extent to which social policy goals are pursued through the tax system or in the role of private provision within nation social protection systems. These differences point to substantial variance in the re-distributional nature of social systems. Private social programmes may also generate a more limited re-distribution of resources than public ones, and tax advantages towards private pension and health plans are more likely than not to benefit the relatively well to do. Private employment-related social benefits mostly re-allocate income between the (formerly) employed population, and the same holds largely true for fiscally advantaged individual or group retirement plans as for example in the US. These plans are largely unavailable to the most disadvantaged. Hence, the income distribution impact of "high tax" countries such as the Netherlands and the Nordic countries is much larger than in, for example, the US, where private social spending plays a much more substantial role.

62. Nevertheless, the apparently large differences in gross direct public social expenditure levels are related to the variety in which governments pursue social objectives by mandating of fiscally stimulating private provisions. Observations on social expenditure levels across countries that do not account for private social benefits and the impact of the tax system are prone to be misleading.

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employee contributions (the so-called "Overhevelingstoeslag"). Gross social benefits were increased to compensate benefit recipients for the increase in social security contributions levied on benefit income.

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## ANNEX 1
## THE SCOPE OF PRIVATE SOCIAL BENEFITS

The demarcation of the scope of private social benefits is based on a hierarchy in terminology. First, what is social and what not, is determined by the purpose of the benefits and the prevalence of redistribution in the provision of protection. Social support to households concerns the provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare. The *OECD Social Expenditure Database* groups such benefits with a social purpose across the following areas: old-age cash benefits; disability cash benefits; occupational injury and disease; sickness benefits; services for the elderly and disabled; survivors; family cash benefits; family services; active labour market policies (ALMPs); unemployment compensation; housing benefits; public health expenditure; and other contingencies *e.g.*, cash benefits to those on low income.

Second, there is a demarcation on basis of whoever controls the relevant financial flows; public institutions or private bodies. In this sense "private" is not the opposite of "social", but of "public". Social benefits are regarded as public when general government (that is central, state, and local governments, including social security funds) controls relevant financial flows. While, social benefits provided by governments to their own employees are also considered to be public. All social benefits not provided by general government are within the private domain.

The demarcation of the scope of private social benefits is less straightforward than for public benefits with a social purpose. This is because the element of inter-personal redistribution in private plans is sometimes difficult to identify. i.e. it can be particularly difficult to distinguish private social benefits from private non-social benefits. This Annex describes the issues that arise when categorising private social benefits.

**Towards a social purpose**

For private programmes to be considered social, they (like their public counterparts) have to serve a social purpose and contain an element of inter-personal redistribution. Social purposes are identified in line with the categorisation in SOCX (see above), but private social benefits often mostly concern pension plans that provide income in retirement or survivors[27], incapacity–related benefits, health benefits and family benefits. Private unemployment insurance benefits exist (e.g. in the US), but are uncommon.

27. Life-insurance policies have a clear social purpose when such policies are paid out to survivors. However, in practice such policies are often marketed as a savings instrument (such policies can also be linked to individual mortgage-policies). Generally, payouts of life-insurance policies take place at the moment of policy-expiration rather than in case of death. Separate data on the "survivors component" are not available and therefore all benefit payments and relevant tax-expenditures have been omitted from the analysis.

**Inter-personal redistribution**

Inter-personal redistribution in private programmes is often introduced by government regulation or fiscal intervention. In case of mandatory benefits employers/individuals are forced to take-up protection provisions regardless of their risk-profiles or prevalent market prices. Public fiscal intervention to stimulate private take-up on a collective or individual basis means that the take-up decision is not fully determined by the individual risk-profile or prevalent market price (the same holds for social benefits derived from collective agreements or taken out by employers on a collective basis[28]). As such there is a high degree of similarity between these arrangements and legally stipulated private arrangements.

Thus, mandatory and fiscal government intervention regarding employer and/or household based private insurance plans largely determines the scope of private social benefits.[29] Apart from these benefits, private social support is also provided by non-commercial non-government organisations (NGOs). Organisations such as the Red Cross or the Salvation Army provide benefits to people who for one reason or another do not receive sufficient support through the national social protection system, such as the homeless, drug-addicts, and other people with a multitude of social problems (OECD, 1999a). These NGOs are often supported by donations (from both households and employers), as well as substantial government subsidies and tax concessions.

Generally, individual (insurance) arrangements are outside the social domain as they are based on individual risk-profiles and obtained at prevailing market prices. However, public intervention through fiscal measures or legal stipulations also introduces an element of inter-personal redistribution the private plans at hand. Therefore, such individual pension plans as, for example, the individual retirement accounts in the US are considered social.

In contrast, take-up of individual insurance, even with a social purpose, is a matter for the persons concerned, and premiums are based on the individual preferences and the individual "risk profile". Such individual contracts, where contributions and the ensuing benefits are determined by market prices and the individual risk profile, are here considered as *purely private* and are outside the social domain. Such plans concern, for example, pension plans, health insurance packages taken up by individuals without fiscal stimulus or legal stipulation.

Thus, if, and only if, the individual-risk profile fully determines insurance take-up the relevant benefits are not within the social domain. In theory this benchmark provides a clear distinction between what is social and what is not. In practice, however, this distinction is not that easily made. To illustrate the point, consider the case where the government fiscally stimulates individual pension provision at a digressive rate:

- An individual pays his/her first 1000 units in to his/her individual pension plan; the government provides a fiscal deduction of 200 units.

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28. Employers may also directly provide fringe benefits to an individual employee on an individual and voluntary basis. This may be done to attract or keep high quality labour and reduce firm adjustment costs. Those payments that do not concern a group of employees are not regarded as social. For example, an employer may contribute to the pension provision for a particular employee independently of what other employees may receive. Such payments are not regarded as social contributions as they are made on an individual and voluntary basis.

29. In some cases other benefits that are not mandatory or fiscally advantaged are also considered social as they are similar to those that are. Sometimes self-employed individuals insure themselves within an occupational framework against social risks. Similarly, groups of employees can take out insurance, possibly under union-management. Through risk pooling, this type of “group insurance” is likely to ensure that the individual contributions are not fully determined by the individual risk-profile at going market prices. This also applies to individual insurance through a mutual benefit society. Therefore, benefits with a social purpose by relevant institutions are regarded as within the social domain.

– For the second 1000 units paid in by the individual the government provides a fiscal deduction of 100 units. And,

– There is no fiscal stimulus regarding any contribution over and above the 2000 unit's threshold.

If the government's fiscal "subsidy" (or revenue foregone) is intended to serve a social purpose, then they are here regarded as being within the scope of public support (see below).[30] The relevant private benefit payments are considered social if they were not fully determined by the individual risk profile at going market prices. Thus, the pension payments accruing to contributions up to the "threshold-level" will be regarded as social. Pension payments accruing to contributions paid in over and above the threshold level are *purely private* and not social. These benefits do not derive from legal stipulations or fiscal advantages, but are completely determined by the individual risk-profile and prevailing market prices.

Thus, benefits accruing from, for example, individual savings plans are social in as much the underlying contributions were tax advantaged. It might be argued that only the value of the fiscal intervention towards the benefit should be considered social. However, relevant fiscal measures redistribute resources up to the level where tax-advantages no longer apply, and thus all benefits accruing from such contributions are included. In New Zealand, where favourable tax treatment concerns payments and not contributions, only the pension payments subject to tax-advantages would be included. Ideally, we would therefore only include those private benefits derived from fiscally stimulated contributions. However, the data that is presently available does not facilitate the distinction of fiscally advantaged and non-fiscally advantaged individual pension benefits on a comprehensive basis. Therefore, the data in this paper account for all disbursements of individual pension plans (the non-fiscally advantaged part of such benefits is relatively small at present; but will become more important over time with the maturing of relevant pension plans).

**Private social health**

The treatment of privately provided health benefits and individual co-payments is arguably even more complex. In principle all payments that are done on basis of the individuals' risk profile and preferences at the going market price are not social. However, *prima facie* it is not always clear which of the payments by an individual fall into this category. Suppose an individual covered by private health insurance only, undergoes a medical intervention that costs 1000 units of which 800 units are paid by the private health insurer, leaving the individual with 200 units to pay. If the private health insurance system does not contain an element of redistribution, then there is no reason to regard this arrangement or benefits paid out of co-payments as social, as services provided reflect the prevailing market price and risk profile.

However, consider the case in which an individual is covered by a universal public health plan and a supplementary employment-based, tax-advantaged, private health insurance package. Suppose this individual undergoes a medical intervention at a price set at 1000 units of which 600 is paid by public health insurance, 300 is paid by the private health insurer, leaving an individual co-payment of 100. Obviously, the public social benefits are 600[31] and private social benefits are 300 (the private health system is "redistributive" as it is tax-advantaged), but how to treat the individual co-payment? The question here is twofold: has the individual only undergone this medical intervention because of medical need (the social risk)? Is the total price of 1000 units a fully determined market price? If government subsidies or regulations influence the total price of the intervention (1000 units) and its occurrence, there is a strong case for bringing individual co-payments (100 units) into the social domain, as they are also subsidised and

30. Fiscal measures to stimulate savings in general or savings by specific groups such as young persons are not considered as tax breaks for social purposes.

31. Total public costs are higher as it also includes the value of tax financing the private health plan (but such amounts are difficult to allocate to a specific medical item).

have to be made in order to address a social risk. In fact, governments often introduce co-payments, however small, to reduce the demand for health services. This suggests that government subsidies and regulations affect the demand for health services in a way not dissimilar to how individual pension plans are affected. However, this is likely to vary across the range of medical interventions. For example, the demand for cosmetic surgery is more likely to be affected by price setting and less likely to always address a medical need (social risk) than the demand for medical services at childbirth.

Indicators on private social health expenditure are estimates on the benefits to recipients that derive from private health plans which contain an element of redistribution (such private health insurance plan are often employment-based and/or tax-advantaged). The estimates are based on OECD Health Data 2000. Available data on individual payments does not distinguish between individual co-payments and other out-of-pocket health expenditure. But the OECD Health Data are being refined to cover this distinction in future. By not including data on individual payments, it is thus implicitly assumed that none of the individual payments (including co-payments) are in any way subject to redistribution. This is a very strong assumption, which is unlikely to fully reflect reality, but it was judged more realistic than the alternative -- to include all individual payments. The estimates on private social health benefits may thus somewhat underestimate the “true” social extent of health-care provisions.

**Identifying individual components of benefit programmes**

In practice, it is not always easy to make an unambiguous categorisation between mandatory private benefits, voluntary private benefits, and, benefits that are not considered part of the social domain. This is particularly so when benefits do not concern direct payments from employer to employee such as sickness benefits but are derived from mandatory and other types of contributions. In this case, benefit payment in year t, B(t), is related to contributions in previous years, C(t - n), and the rate of return on investment income, I(t-n):

$$B(t) = F\,[\,\Sigma\ (\,C(t-n), I(t-n)\,)\,]$$

The total amount of contributions (C) paid to a particular arrangement over the years can be sum of different types of contributions: mandatory contributions (Cm); collectively-induced contributions (Cc); the fiscally-advantaged individual contributions (Cf); and individual private contributions which are not fiscally advantaged (Ci). Consequently, in any particular year:

$$C = Cm + Cc + Cf + Ci.$$

Thus, benefit payments in year x can be related to four types of contributions made over previous years and the relative importance of the different types of contributions can shift from year to year.

Often, data on benefit payments only record aggregate payments (Bx) and do not facilitate separate identification of payments due to different types of contributions (Cm, Cc, Cf, Ci). For example, data on pensions paid by Superannuation plans in Australia or private pension plans in the United Kingdom do not separately identify payments derived from mandatory contributions. Estimates on benefits deriving from mandatory contributions in Australia are not available and all Superannuation benefits are grouped under voluntary private social benefits. This has been done as the Superannuation benefits deriving from mandatory contributions are currently relatively small; but these benefits are expected to increase with the maturing of Superannuation plans.

# ANNEX 2
# TAXES AND SOCIAL SPENDING TRENDS

Table A2.1 **Taxes and social spending in Australia, Austria, Belgium and Canada**

*per cent of GDP factor cost*

| | | Australia | | Austria | | Belgium | | | Canada | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 1995 | 1997 | 1995 | 1997 | 1993 | 1995 | 1997 | 1995 | 1997 |
| | 1 Gross public social expenditure | 19.2 | 18.7 | 30.0 | 28.5 | 30.5 | 30.0 | 30.4 | 22.5 | 20.7 |
| - | Direct taxes and social contributions | 0.3 | 0.3 | 2.6 | 2.5 | 1.7 | 1.9 | 1.8 | 1.8 | 1.7 |
| | 2 Net cash public social expenditure | 18.9 | 18.4 | 27.3 | 26.0 | 28.9 | 28.1 | 28.6 | 20.7 | 19.0 |
| - | Indirect taxes | 0.8 | 0.8 | 3.2 | 3.0 | 2.7 | 2.8 | 2.8 | 1.4 | 1.3 |
| | 3 Net direct public social expenditure | 18.0 | 17.6 | 24.1 | 23.0 | 26.2 | 25.4 | 25.8 | 19.3 | 17.8 |
| + T1 | TBSPs similar to cash benefits | 0.3 | 0.2 | 0.4 | 0.4 | 0.6 | 0.6 | 0.6 | 0.7 | 0.6 |
| - | Indirect taxes | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| | 4 Net TBSPs similar to cash benefits | 0.3 | 0.2 | 0.4 | 0.3 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 |
| + T2 | TBSPs towards current private benefits | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.4 | 0.4 |
| | 5 Net TBSPs (not including pensions) | 0.3 | 0.3 | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 | 1.0 | 0.9 |
| | 6 Net current public social expenditure | 18.3 | 17.9 | 24.6 | 23.4 | 26.7 | 25.9 | 26.3 | 20.4 | 18.7 |
| | 7 Gross mandatory private soc. exp. | 1.2 | 1.2 | 1.0 | 0.9 | 1.8 | 1.7 | 1.7 | 0.0 | 0.0 |
| - | Direct taxes and social contributions | 0.2 | 0.2 | 0.3 | 0.3 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| - | Indirect taxes | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.0 | 0.0 |
| | 8 Net current mand. private soc. exp. | 0.9 | 0.9 | 0.6 | 0.5 | 1.5 | 1.3 | 1.3 | 0.0 | 0.0 |
| | 9 Net publicly mandated soc. exp. (6+8) | 19.2 | 18.8 | 25.1 | 23.9 | 28.1 | 27.2 | 27.5 | 20.4 | 18.7 |
| | 10 Gross voluntary private soc. exp. | 3.0 | 3.4 | 0.9 | 0.9 | 0.8 | 1.0 | 1.0 | 5.3 | 4.8 |
| - | Direct taxes and social contributions | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 | 1.1 |
| - | Indirect taxes | 0.1 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.3 |
| | 11 Net current voluntary private soc. exp. | 2.8 | 3.1 | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 3.8 | 3.5 |
| | 12 Net current private soc. exp. (8+11) | 3.7 | 4.1 | 1.4 | 1.3 | 2.2 | 2.2 | 2.2 | 3.8 | 3.5 |
| | 13 Net total social expenditure (6+12-T2) | 22.0 | 21.9 | 26.0 | 24.6 | 28.9 | 28.1 | 28.5 | 24.1 | 21.8 |
| | | | | | | | | | | |
| | Memorandum item | | | | | | | | | |
| | TBSPS towards pensions | 1.6 | 1.6 | 0.0 | 0.0 | .. | .. | .. | 2.7 | 2.5 |
| | | | | | | | | | | |
| | Selected items related to GDP mp | | | | | | | | | |
| | Gross public social expenditure | 17.7 | 17.4 | 29.3 | 25.4 | 27.5 | 27.0 | 27.2 | 19.5 | 17.9 |
| | Gross total social expenditure | 21.6 | 21.7 | 31.2 | 27.0 | 29.8 | 29.4 | 29.5 | 23.2 | 22.1 |
| | | | | | | | | | | |
| | Net current public social expenditure | 16.9 | 16.6 | 24.4 | 20.9 | 24.0 | 23.3 | 23.5 | 17.5 | 16.2 |
| | Net current mand. private soc. exp. | 0.9 | 0.9 | 0.6 | 0.5 | 1.3 | 1.2 | 1.1 | 0.0 | 0.0 |
| | Net current voluntary private soc. exp. | 2.6 | 2.9 | 0.9 | 0.7 | 0.7 | 0.8 | 0.8 | 3.4 | 3.0 |
| | Net total social expenditure (6+12-T2) | 20.3 | 20.4 | 25.7 | 22.0 | 26.0 | 25.3 | 25.4 | 20.6 | 18.9 |

Table A2.2 **Taxes and social spending in the Czech Republic, Denmark, Finland and Germany**

*per cent of GDP factor cost*

| | | Czech Republic | | | Denmark | | | Finland | | Germany | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1993 | 1995 | 1997 | 1993 | 1995 | 1997 | 1995 | 1997 | 1993 | 1995 | 1997 |
| | 1 Gross public social expenditure | 21.5 | 21.0 | 21.7 | 37.1 | 37.7 | 35.9 | 35.9 | 33.3 | 33.1 | 29.5 | 29.2 |
| - | Direct taxes and social contributions | 0.0 | 0.0 | 0.0 | 4.4 | 5.5 | 5.1 | 5.1 | 4.4 | 1.5 | 1.3 | 1.3 |
| | 2 Net cash public social expenditure | 21.5 | 21.0 | 21.7 | 32.7 | 32.2 | 30.8 | 30.8 | 28.9 | 31.6 | 28.2 | 27.8 |
| - | Indirect taxes | 2.3 | 2.3 | 2.5 | 4.6 | 4.5 | 4.1 | 4.6 | 4.2 | 2.6 | 2.4 | 2.3 |
| | 3 Net direct public social expenditure | 19.2 | 18.8 | 19.3 | 28.0 | 27.7 | 26.7 | 26.2 | 24.8 | 29.0 | 25.8 | 25.5 |
| + T1 | TBSPs similar to cash benefits | .. | .. | .. | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 2.2 | 0.9 | 1.9 |
| - | Indirect taxes | .. | .. | .. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.1 | 0.3 |
| | 4 Net TBSPs similar to cash benefits | .. | .. | .. | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | .. | .. | .. |
| + T2 | TBSPs towards current private benefits | .. | .. | .. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | 5 Net TBSPs (not including pensions) | .. | .. | .. | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | .. | .. | .. |
| | 6 Net current public social expenditure | 19.2 | 18.8 | 19.3 | 28.1 | 27.7 | 26.7 | 26.2 | 24.8 | 29.0 | 25.8 | 25.5 |
| | 7 Gross mandatory private soc. exp. | .. | .. | .. | 0.5 | 0.5 | 0.4 | 0.2 | 0.2 | 1.5 | 1.7 | 1.3 |
| - | Direct taxes and social contributions | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.0 | 0.0 | 0.5 | 0.6 | 0.5 |
| - | Indirect taxes | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.2 | 0.1 |
| | 8 Net current mand. private soc. exp. | .. | .. | .. | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.8 | 1.0 | 0.7 |
| | 9 Net publicly mandated soc. exp. (6+8) | .. | .. | .. | 28.3 | 28.0 | 26.9 | 26.2 | 24.8 | 29.8 | 26.8 | 26.3 |
| | 10 Gross voluntary private soc. exp. | .. | .. | .. | 0.7 | 0.9 | 1.1 | 1.3 | 1.3 | 1.3 | 1.2 | 1.1 |
| - | Direct taxes and social contributions | .. | .. | .. | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.1 | 0.1 | 0.1 |
| - | Indirect taxes | .. | .. | .. | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| | 11 Net current voluntary private soc. exp. | .. | .. | .. | 0.4 | 0.5 | 0.6 | 0.8 | 0.8 | 1.1 | 0.9 | 0.9 |
| | 12 Net current private soc. exp. (8+11) | .. | .. | .. | 0.6 | 0.7 | 0.8 | 0.9 | 0.9 | 1.9 | 1.9 | 1.6 |
| | 13 Net total social expenditure (6+12-T2) | 19.2 | 18.8 | 19.3 | 28.7 | 28.4 | 27.5 | 27.0 | 25.6 | 30.9 | 27.7 | 27.2 |
| | Memorandum item | | | | | | | | | | | |
| | TBSPS towards pensions | .. | .. | .. | .. | .. | .. | .. | .. | 0.1 | 0.1 | 0.1 |
| | Selected items related to GDP mp | | | | | | | | | | | |
| | Gross public social expenditure | 19.0 | 18.6 | 19.4 | 32.3 | 32.5 | 30.7 | 31.2 | 28.7 | 26.3 | 26.6 | 26.4 |
| | Gross total social expenditure | 19.0 | 18.6 | 19.4 | 33.3 | 33.7 | 32.0 | 32.5 | 30.0 | 28.8 | 29.2 | 28.6 |
| | Net current public social expenditure | 17.0 | 16.6 | 17.2 | 24.5 | 23.9 | 22.9 | 22.8 | 21.4 | 23.7 | 24.0 | 24.6 |
| | Net current mand. private soc. exp. | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.9 | 0.9 | 0.6 |
| | Net current voluntary private soc. exp. | 0.0 | 0.0 | 0.0 | 0.3 | 0.4 | 0.5 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 |
| | Net total social expenditure (6+12-T2) | 17.0 | 16.6 | 17.2 | 25.0 | 24.5 | 23.5 | 23.6 | 22.1 | 25.5 | 25.7 | 26.1 |

Table A2.3 **Taxes and social spending in Ireland, Italy, Korea and the Netherlands**

*per cent of GDP factor cost*

| | Ireland | | Italy | | Korea | | Netherlands | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 1997 | 1995 | 1997 | 1995 | 1997 | 1993 | 1995 | 1997 |
| 1 Gross public social expenditure | 21.3 | 19.6 | 28.7 | 29.4 | 3.8 | 4.4 | 32.0 | 28.8 | 27.1 |
| - Direct taxes and social contributions | 0.4 | 0.3 | 2.7 | 2.9 | 0.0 | 0.0 | 6.0 | 4.9 | 4.4 |
| 2 Net cash public social expenditure | 20.9 | 19.3 | 26.0 | 26.6 | 3.8 | 4.4 | 25.9 | 23.9 | 22.7 |
| - Indirect taxes | 2.8 | 2.5 | 2.4 | 2.4 | 0.2 | 0.2 | 2.8 | 2.5 | 2.4 |
| 3 Net direct public social expenditure | 18.1 | 16.7 | 23.6 | 24.1 | 3.6 | 4.2 | 23.2 | 21.4 | 20.2 |
| + T1 TBSPs similar to cash benefits | 0.3 | 0.3 | .. | .. | 0.3 | 0.4 | 0.1 | 0.0 | 0.0 |
| - Indirect taxes | 0.1 | 0.1 | .. | .. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 4 Net TBSPs similar to cash benefits | 0.2 | 0.2 | .. | .. | 0.3 | 0.4 | 0.1 | 0.0 | 0.0 |
| + T2 TBSPs towards current private benefits | 0.2 | 0.2 | .. | .. | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 |
| 5 Net TBSPs (not including pensions) | 0.4 | 0.4 | .. | .. | 0.3 | 0.4 | 0.2 | 0.0 | 0.1 |
| 6 Net current public social expenditure | 18.6 | 17.1 | 23.6 | 24.1 | 3.9 | 4.6 | 23.3 | 21.5 | 20.3 |
| 7 Gross mandatory private soc. Exp. | 0.0 | 0.0 | 1.6 | 1.5 | 1.6 | 2.5 | 0.4 | 0.8 | 0.8 |
| - Direct taxes and social contributions | 0.0 | 0.0 | 0.2 | 0.2 | 0.0 | 0.1 | 0.1 | 0.3 | 0.3 |
| - Indirect taxes | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.3 | 0.0 | 0.1 | 0.1 |
| 8 Net current mand. private soc. exp. | 0.0 | 0.0 | 1.2 | 1.1 | 1.4 | 2.1 | 0.2 | 0.4 | 0.5 |
| 9 Net publicly mandated soc. exp. (6+8) | 18.6 | 17.1 | 24.8 | 25.2 | 5.3 | 6.7 | 23.5 | 21.9 | 20.8 |
| 10 Gross voluntary private soc. exp. | 2.0 | 1.8 | 0.1 | 0.1 | 0.6 | 1.9 | 4.3 | 4.4 | 4.7 |
| - Direct taxes and social contributions | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 0.9 | 0.9 |
| - Indirect taxes | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.4 | 0.4 |
| 11 Net current voluntary private soc. exp. | 1.6 | 1.5 | 0.1 | 0.1 | 0.6 | 1.9 | 3.0 | 3.1 | 3.3 |
| 12 Net current private soc. exp. (8+11) | 1.6 | 1.5 | 1.3 | 1.2 | 2.0 | 4.0 | 3.2 | 3.5 | 3.8 |
| 13 Net total social expenditure (6+12-T2) | 20.1 | 18.4 | 24.9 | 25.3 | 5.9 | 8.6 | 26.5 | 25.0 | 24.0 |
| Memorandum item | | | | | | | | | |
| TBSPS towards pensions | 0.0 | 2.7 | .. | .. | 0.0 | 0.0 | .. | 0.6 | 1.2 |
| Selected items related to GDP mp | | | | | | | | | |
| Gross public social expenditure | 19.2 | 17.6 | | 26.4 | 3.7 | 4.3 | 28.6 | 26.0 | 24.2 |
| Gross total social expenditure | 20.9 | 19.2 | | 27.8 | 5.8 | 8.4 | 33.0 | 30.7 | 29.1 |
| Net current public social expenditure | 16.7 | 15.4 | | 21.6 | 3.8 | 4.4 | 21.0 | 19.4 | 18.2 |
| Net current mand. private soc. exp. | 0.0 | 0.0 | | 1.0 | 1.4 | 2.1 | 0.2 | 0.4 | 0.4 |
| Net current voluntary private soc. exp. | 1.4 | 1.3 | | 0.1 | 0.6 | 1.8 | 2.7 | 2.8 | 3.0 |
| Net total social expenditure (6+12-T2) | 17.9 | 16.5 | | 22.7 | 5.7 | 8.3 | 23.8 | 22.5 | 21.5 |

Table A2.4 **Taxes and social spending in Norway, Sweden, the UK and the US**

*per cent of GDP factor cost*

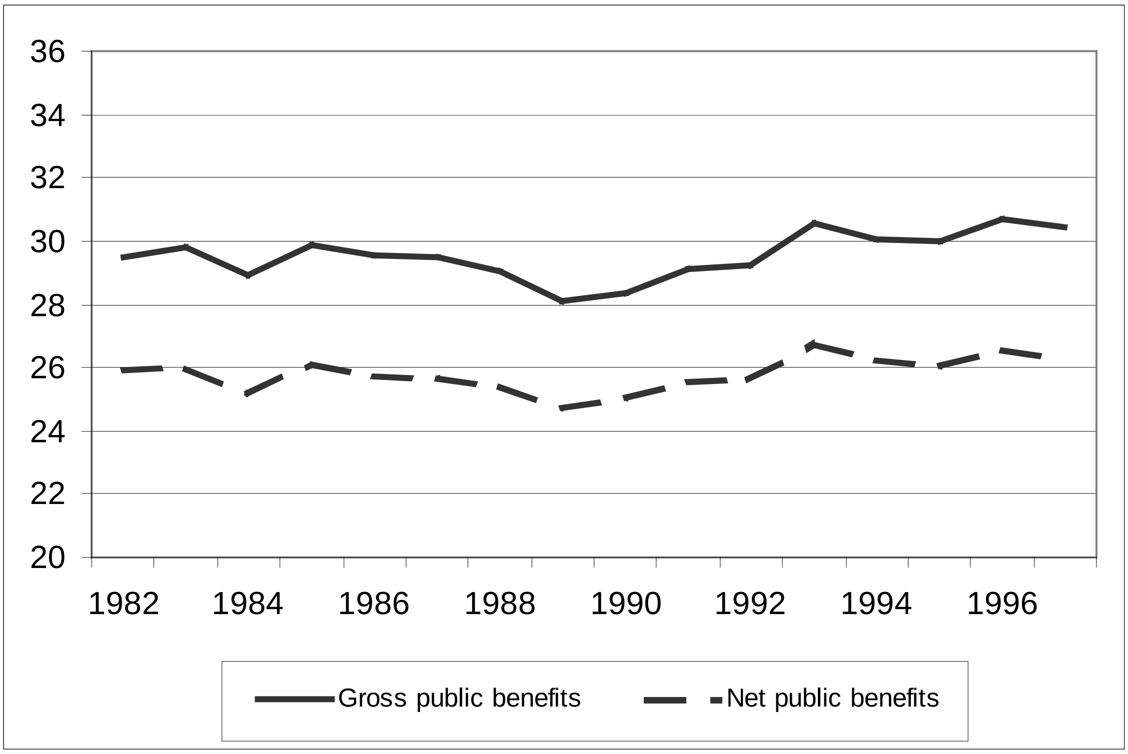
| | | Norway | | Sweden | | | UK | | | US | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1995 | 1997 | 1993 | 1995 | 1997 | 1993 | 1995 | 1997 | 1993 | 1995 | 1997 |
| 1 | Gross public social expenditure | 32.0 | 30.2 | 41.9 | 37.3 | 35.7 | 21.1 | 25.6 | 23.8 | 16.4 | 16.4 | 15.8 |
| - | Direct taxes and social contributions | 2.7 | 2.6 | 5.7 | 5.1 | 4.4 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 | 0.4 |
| 2 | Net cash public social expenditure | 29.3 | 27.6 | 36.3 | 32.2 | 31.3 | 23.4 | 25.1 | 23.4 | 16.1 | 16.1 | 15.5 |
| - | Indirect taxes | 3.6 | 3.2 | 3.5 | 3.0 | 2.8 | 2.0 | 2.4 | 2.3 | 0.5 | 0.5 | 0.4 |
| 3 | Net direct public social expenditure | 25.8 | 24.4 | 32.8 | 29.2 | 28.5 | 21.1 | 22.7 | 21.1 | 15.6 | 15.6 | 15.0 |
| + T1 | TBSPs similar to cash benefits | 0.0 | 0.0 | .. | .. | .. | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| - | Indirect taxes | 0.0 | 0.0 | .. | .. | .. | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| 4 | Net TBSPs similar to cash benefits | 0.0 | 0.0 | .. | .. | .. | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 |
| + T2 | TBSPs towards current private benefits | 0.0 | 0.0 | .. | .. | .. | 0.1 | 0.2 | 0.2 | 1.0 | 1.2 | 1.2 |
| 5 | Net TBSPs (not including pensions) | 0.0 | 0.0 | .. | .. | .. | 0.5 | 0.5 | 0.5 | 1.3 | 1.5 | 1.4 |
| 6 | Net current public social expenditure | 25.8 | 24.4 | 32.8 | 29.2 | 28.5 | 21.6 | 23.2 | 21.6 | 16.9 | 17.1 | 16.4 |
| 7 | Gross mandatory private soc. exp. | 1.1 | 1.2 | 0.6 | 0.4 | 0.4 | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 | 0.4 |
| - | Direct taxes and social contributions | 0.3 | 0.3 | 0.2 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| - | Indirect taxes | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| 8 | Net current mand. private soc. exp. | 0.6 | 0.7 | 0.3 | 0.2 | 0.2 | 0.3 | 0.2 | 0.3 | 0.5 | 0.4 | 0.3 |
| 9 | Net publicly mandated soc. exp. (6+8) | 26.4 | 25.1 | 33.1 | 29.4 | 28.7 | 21.9 | 23.4 | 21.9 | 17.3 | 17.5 | 16.8 |
| 10 | Gross voluntary private soc. exp. | .. | .. | 3.4 | 3.3 | 3.0 | 3.2 | 3.9 | 3.8 | 8.4 | 8.3 | 8.4 |
| - | Direct taxes and social contributions | .. | .. | 0.7 | 0.6 | 0.7 | 0.4 | 0.5 | 0.5 | 0.3 | 0.3 | 0.4 |
| - | Indirect taxes | .. | .. | 0.4 | 0.4 | 0.3 | 0.4 | 0.5 | 0.5 | 0.2 | 0.2 | 0.2 |
| 11 | Net current voluntary private soc. exp. | .. | .. | 2.3 | 2.3 | 1.9 | 2.9 | 2.9 | 2.9 | 7.9 | 7.8 | 7.8 |
| 12 | Net current private soc. exp. (8+11) | .. | .. | 2.7 | 2.6 | 2.2 | 3.2 | 3.2 | 3.2 | 8.4 | 8.2 | 8.1 |
| 13 | Net total social expenditure (6+12-T2) | 26.4 | 25.1 | 35.5 | 31.7 | 30.6 | 24.6 | 26.4 | 24.6 | 25.3 | 25.3 | 23.4 |
| | Memorandum item | | | | | | | | | | | |
| | TBSPS towards pensions | 0.0 | 0.0 | .. | .. | .. | 3.0 | 2.7 | 2.7 | 1.0 | 0.9 | 1.1 |
| | Selected items related to GDP mp | | | | | | | | | | | |
| | Gross public social expenditure | 27.6 | 26.1 | 36.7 | 33.0 | 31.8 | 23.6 | 22.8 | 21.2 | 15.2 | 15.2 | 14.7 |
| | Gross total social expenditure | 28.6 | 27.2 | 40.1 | 36.3 | 34.8 | 27.5 | 26.5 | 24.9 | 23.5 | 23.4 | 22.9 |
| | Net current public social expenditure | 22.2 | 21.1 | 28.7 | 25.8 | 25.4 | 21.4 | 20.6 | 19.2 | 15.6 | 15.9 | 15.3 |
| | Net current mand. private soc. exp. | 0.5 | 0.6 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.4 | 0.4 | 0.3 |
| | Net current voluntary private soc. exp. | 0.0 | .. | 2.0 | 2.1 | 1.7 | 2.8 | 2.6 | 2.5 | 7.4 | 7.3 | 7.3 |
| | Net total social expenditure (6+12-T2) | 22.8 | 21.7 | 31.0 | 28.1 | 27.3 | 24.3 | 23.3 | 21.8 | 22.4 | 22.4 | 21.8 |

**Trends in Social Spending in Belgium**

Belgium is the only country for which net benefit data is available since 1982. As Figure A2.1 shows, since 1982, there has not been a Belgian tax reform that contributed to significant differences in gross and net public social expenditure trends.

Figure A2.1 **Public social expenditure in Belgium, 1992 - 1997**

*per cent of GDP factor cost*



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