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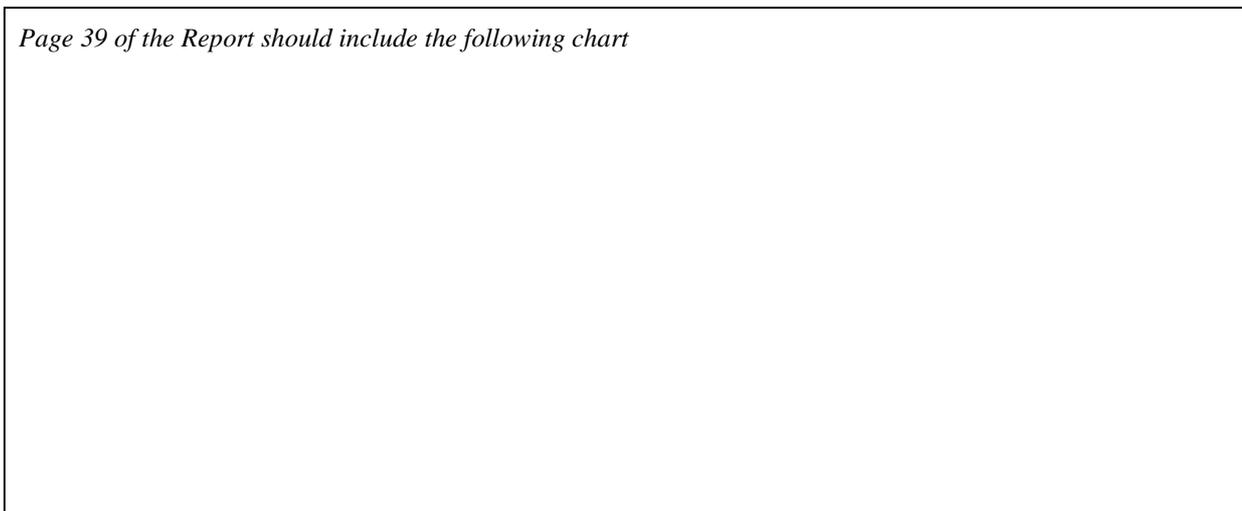
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**LABOUR MARKET AND SOCIAL POLICY - OCCASIONAL PAPERS N°39
NET SOCIAL EXPENDITURE**

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Page 39 of the Report should include the following chart



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ANNEX 2 TAXES AND SOCIAL SPENDING TRENDS

A1. Accounting for changes in the tax system not only facilitates international comparisons but can also give a better impression of social effort over time. As discussed, the tax system in Denmark underwent significant changes in 1994 leading to marked increases in government revenue from direct and indirect taxation. However, as Table 6 revealed, the net effect of such changes was very limited.

A2. In 1990 the Netherlands also experienced a reform of the tax system which significantly altered gross spending levels. This reform included a partial shift from social security contributions levied on employers to employees who received a supplement from employers to compensate for the increased employee contributions (the so-called “Overhevelingstoelag”). In a similar way, gross social benefits were increased as benefit recipients were also compensated for the increase in social security contributions levied on benefit income. Net benefits changed little, unlike gross spending levels. It is estimated that the reform 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).

A3. Belgium is the only country for which a complete longitudinal net benefit data set is available. It is clear from the chart that in Belgium the tax system has not induced significant differences between 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.

Trends in social spending in Belgium

