

WHAT DO COUNTRIES REALLY SPEND ON SOCIAL POLICIES? A COMPARATIVE NOTE

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INTRODUCTION

Nowadays there is great interest in international comparisons of social protection systems. In response to this interest, the OECD social expenditure data base (SOCX) has been set up to serve the growing need for indicators of social policy across OECD's Member countries (OECD, 1996a). SOCX contains information on public social expenditure and such budgetary allocations are often used as a yardstick to assess the "social effort" of a country. But relying just on public expenditure data is likely to give an incomplete picture of the collectively decided social effort across countries. The purpose of this note is to provide a better and more comparable picture of social effort across countries.

Gross public social expenditure reflect budgetary resource allocation by different levels of government and social security funds. However, for two main reasons these data may sometimes fail to reflect the true public 'social effort' of a country. First, the expenditure budget does not fully account for the impact of relevant fiscal arrangements. In particular, tax systems significantly affect the degree to which expenditure budgets reflect true public social effort. In this context, account should be taken of: tax advantages for social purposes (*e.g.* child tax allowances); direct taxation of benefit income; and indirect taxation of consumption by benefit-recipients. Often governments claw back more money through direct and indirect taxation of benefit income than the value of tax advantages for social purposes. Hence, net expenditures are often less than gross expenditures.

Second, the budget does not account for transfers which, although publicly mandated, are not paid by government. For various reasons, including to reduce budget expenditure, governments sometimes choose to secure social support outside the public delivery system, while concurrently keeping control over the modalities of support through regulatory means. A number of recent social security reforms have entailed the "off-budget" provision of social protection by mandating economic agents – often employers – to provide social expenditures. For example, the new Sickness Act in the Netherlands – implemented in 1996 – stipulates that employers have to continue to pay employees 70 per cent of the full wage for the first year of sickness. These expenditures have thus been shifted from the public budget to the private sector.

There is a third reason why the government budget may fail to account for the social effort of a country: in many cases, efforts with a clear social purpose are undertaken by the private sector following private decisions. This is notably the case for the voluntary sector, which is important in some countries, and which in many cases receives indirect public support through, for example, tax exemptions (Adema and Einerhand, 1998). While clearly of importance, this type of social effort is not covered in the current note which is concerned only with effort based on political decisions.

Keeping this conceptual limitation in mind, it remains of interest to construct an indicator of net publicly mandated social expenditure which takes into account the great variety across countries in tax regulations and legal stipulations concerning private social spending provisions and thereby facilitates international comparisons. The aims of this note are to describe such an indicator; to explain how these cross-country differences have been taken into account; and to present initial estimates of net social expenditures for six countries for which relevant data are currently available: the United States, Germany, the United Kingdom, Denmark, the Netherlands, and Sweden.

CALCULATING NET PUBLICLY MANDATED SOCIAL EXPENDITURE

The OECD has developed a social expenditure data base (SOCX) as a tool for monitoring trends in social expenditure and for analysing changes in its composition. SOCX contains highly disaggregated time-series information for all OECD countries on *gross* direct public social expenditure. However, budgetary allocations, as contained in SOCX, do not fully account for all social effort in a given country and account for varying proportions of total effort across countries.

The aim of this note is to present fuller and more comparable data for a number of countries on that part of the domestic production which is directed towards social efforts. Specifically, the social indicators which will be developed concern that part of production to which recipients of publicly decided direct and indirect social support lay claim. Thus, information in SOCX will be supplemented with information on social effort through tax systems and publicly mandated private sector provisions. All the adjustments described in this note concern the treatment of cash benefits and fiscal measures. The value of provided social services (benefits in-kind) remains unaltered by the calculations.

The next sub-sections discuss in a more detailed step-by-step manner the various corrections necessary to measure net social effort (these adjustments are schematically presented in Table 1). Adema *et al.* (1996) contains a detailed discussion of the methodological concepts and data-related issues.

Table 1. **Gross to net expenditure adjustments: an overview**

+/-	Line number	Item
-	(1)	Gross direct public social expenditure (as presently in the SOCX database) Direct taxes and social contributions by transfer recipients
=	(2)	Net cash direct public social expenditure Indirect taxes on private consumption financed by net cash transfers
=	(3)	Net direct public social expenditure Tax breaks for social purposes
=	(4)	Net current public social expenditure
-	(5)	Gross mandatory private social expenditure Direct taxes and social contributions paid on mandatory private cash transfers Indirect taxes on consumption purchased out of net mandatory private cash transfers
=	(6)	Net current mandatory private social expenditure
	(7)	Net current publicly mandated social expenditure [(4) + (6)]
<i>Memorandum item:</i> Tax breaks for pensions		

Direct taxes and social security contributions on transfers

Government budgets contain information on gross expenditures related to transfers. 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. For example, in 1995 an unemployed person in the Netherlands whose last earnings were at the level of the Average Production Worker (APW) and who lived in a one-earner family, received annual unemployment benefits of Gld 39 504 and paid Gld 13 037 in income taxes and social security contributions (OECD, 1997). From the government perspective, *net* expenditures are often likely to be more relevant than gross expenditures and give a better impression of the resources being reallocated to benefit recipients. One step in the measurement of government effort is the deduction of direct taxation and social security contributions from the gross expenditure totals to arrive at *net cash direct public social expenditure* (2). (The number between brackets refers to the appropriate line in Table 1.)

Correction for the taxes and social security contributions paid on social transfers not only facilitates international comparisons but also gives a better impression of effort over time. For example, in 1994 old-age cash benefits and social assistance benefits became taxable in Denmark. Simultaneously, social assistance benefits were raised to preserve their net value unchanged which led

to an increase in gross expenditure of about DKr 5 billion, and a similar decrease in tax expenditures. Also, specific tax allowances for pensioners were abolished while benefits were increased by an equivalent amount: gross expenditures increased by about DKr 16 billion (Erhvervsministeriet *et al.* 1996). In both cases, net government spending was unaffected, but gross expenditures increased significantly. This example illustrates how failure to adjust for the influence of the tax system can lead to an inaccurate view of public social spending.

For the United States, Germany and the United Kingdom, the value of direct taxation of social transfers can be obtained directly from national sources. This is the most reliable source of information. For Denmark, the Netherlands and Sweden, use had to be made of information derived from microsimulation models. These models include detailed information on both the incomes received by households and their taxation. The models generate “average itemised tax rates” (AITR), *e.g.* average tax paid on public pension income. Subsequently, these tax rates were applied to the gross expenditure data in SOCX.

Benefit income can be taxed at a zero rate, a reduced rate or at the rate applicable to other income. In the parlance of public finance, the two first cases lead to “revenue foregone” of a specific value and constitute “tax expenditures”. This sort of tax relief is accounted for by making the adjustment for direct taxation. For example, income tax exemptions for those receiving “Industrial Disablement Benefit” in the United Kingdom are accounted for while establishing the amount of direct taxes paid over benefit income. So, in order to avoid double counting, the estimated value of this particular tax advantage (OECD, 1996*b*) is not included in the calculations concerning tax breaks for social purposes (see below).

Indirect taxes

Cash transfers made in the context of social expenditure are generally used by recipients to finance consumption of goods and services. For example, in 1993 excise tax on the consumption of beer amounted to 2.2 billion pounds in the United Kingdom (OECD, 1995). Calculating the flow back in indirect tax receipts to the Exchequer generated by cash transfers and deducting it from net cash direct social expenditure gives a measure of *net direct public social expenditure* (3).

An objection to similar treatment of direct and indirect taxes is that, unlike with direct taxes, there is nothing inevitable about indirect taxes: 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. It is an irrelevant argument that they could pay less if they consumed a different bundle of goods, as this bundle would bring them a lower level of utility.

Furthermore, in practice policymakers have recognised the link between indirect taxation and the position of those with low incomes or receiving benefit income. 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, when the Goods and Services Tax was introduced in Canada in 1991, a non-wastable tax credit was introduced to compensate those on low incomes for the regressive effects of the tax.

The approach followed here is to calculate an average implicit indirect tax rate based on aggregate data available for all countries (OECD, 1995). It is calculated as the ratio of revenue from general consumption taxes and excise to a broad consumption tax base (private consumption and government consumption minus government wages). Multiplying net cash direct public social expenditure with the minimum indirect tax rate leads to *net direct public social expenditure* (3).

In principle, 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. Unfortunately, data sets of this type are not readily available for all countries. Moreover, consumption surveys suggest tax payments which are well below actual tax receipts. Alternatively, a broader definition of indirect taxes (covering also customs duties and additional taxes on the use of goods such as licences for motor vehicles) and a smaller consumption base (just covering private consumption) could have been used to calculate the implicit indirect tax rate. However, Adema *et al.* (1996) find that the method described above appears to produce the least misleading results. 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 this type of benefit income is probably close to 1, so that resulting errors are likely to be very small.

Tax breaks for social purposes

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”. As noted above, 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. Thus, in order to avoid double counting, such tax expenditures are not considered here.

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 and 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.”¹ The value of such tax expenditures is added to net direct public expenditure to obtain an indicator of *net current public social expenditure* (4).

Tax allowances which mirror the effects of a cash benefit can be substantial. For example, in Germany the value of tax allowances for the costs incurred in raising children amounted to almost DM 21 billion in 1993 (Federal Ministry of Labour and Social Affairs, 1994). This is also the case for tax breaks to promote the purchase or use of private sector alternatives to public expenditure, such as tax advantages granted to employer contributions to health insurance programmes. For example, in the United States the value of tax advantages concerning employer contributions to medical insurance premiums and medical care amounted to 0.75 per cent of GDP in 1993.

Tax concessions towards current expenditures, e.g. medical expenses, are also classified as tax breaks for social purposes. For example, in the United Kingdom tax relief for private medical insurance premiums for those aged 60 and over was introduced in 1990-91. The cost for that fiscal year was £40 million, assuming an increase in take-up in the region of 10 per cent as a result of the new relief (HM Treasury 1989), and rose to about £80 million in 1993.

The nature of certain tax measures illustrates the relationship between direct cash transfers and tax breaks for social purposes. Consider the “Earned Income Tax Credit” (EITC) in the United States. In 1993, the cost of this programme amounted to about \$13.2 billion, of which \$10.8 billion concerned tax credits exceeding tax liabilities of recipients. These “refundable” tax credits constitute direct transfer payments from the government to the recipient and, as such, relevant expenditures are included in SOCX. The value of the remaining tax credits is taken into account in the calculations on tax breaks for social purposes.

The importance of the relationship between transfer payments, direct taxation, and tax breaks for social purposes is further illustrated by the 1993 reform concerning child benefits in Canada. The existing “Family Allowance”, “Child

Credit” and “Refundable Child Tax Credit”, were replaced by the “Child Tax Benefit”. This new programme is a “refundable” tax credit which entails monthly payments to families and, accordingly, the expenditures are included in SOCX. However, unlike the previous “family allowance” the new benefit is not taxed nor counted on the annual income tax records of the recipient.

In order to ensure comparability with the direct expenditures, a cash rather than an accruals basis is used for calculating the value of the relevant tax breaks for social purposes.² The data have been taken from national sources. Tax breaks for social purposes often concern medical expenditures, particularly in the United States, but there is a wide variety across countries. For example, there are tax breaks towards housing for older people (Denmark), specific tax breaks for low income groups (Germany, the Netherlands), tax breaks for lone parent families (the United Kingdom, the Netherlands) and tax breaks concerning severance pay (the United Kingdom) and supplementary unemployment benefits (the United States).³ Moreover, many countries have various tax breaks related to pension saving (see Box 1).

Box 1. Tax breaks for pensions

Tax breaks for social purposes in principle also encompass measures aimed at stimulating private pension take-up, *e.g.* tax exemptions for contributions to private pensions. However, such tax breaks on occupational and individual pension programmes are difficult to deal with, both conceptually and in practical terms, because such programmes are aimed at yielding benefits in the future: taxation occurs at, and tax reliefs are given at, various stages of what is a form of contractual savings. Uncertainties about how to treat such programmes arise because their tax treatment needs to be considered in three different areas:

Contributions to programmes could be by employers or employees, out of taxed or untaxed income;

- The funds which invest the pension contributions on behalf of those contributing could be taxed or untaxed;
- The payment of pension or annuity or lump-sum benefits at the end of the contributions period could be taxed or untaxed.

Due to the complexity of calculations arising from these issues, there is no comparable data set available on the value of tax breaks for pensions. Therefore, they are considered as a memorandum item and not included in the central calculations considered in this note. For those countries for which some information is available (the United States and the United Kingdom), what is presented reflects the cost to public budgets – on a cash basis – of the current tax system in the current financial year on tax breaks on contributions, regardless of what effects the current tax system may have on revenues in future years.

Mandatory private social expenditures

Net public social spending gives an impression of net budgetary efforts in the social field, but should be complemented by information on how much social support is mandated on the private sector. Governments exercise control over the terms – level, coverage and duration – under which such private benefits are provided.⁴ It can therefore be argued that they are in many ways similar to government expenditures.⁵ The total of these mandated private expenditures is captured under the heading of *gross mandatory private social expenditure* (5).

As with public social expenditure, gross mandatory private social expenditures are subject to adjustment for direct and indirect taxation. The revenue of direct taxation of mandatory private social transfers was obtained from national sources for the United States, Germany and the United Kingdom. For Denmark and Sweden use had to be made of microsimulation models. The average itemised tax rates (AITR) for public sickness benefits and occupational injury payments were applied to the relevant expenditures in Denmark, whereas for Sweden the AITR for public sickness benefits was applied to expenditures concerning employer-provided sick pay. Concerning indirect taxation, the implicit indirect tax rate, described above, was applied to the mandatory private expenditures after direct tax, leading to *net current mandatory private social expenditure* (6). Adding this indicator to net current public social expenditure leads to *net current publicly mandated social expenditure* (7), which is a comprehensive indicator of social effort.

Mandated private sector benefits often concern stipulations on sickness benefits.⁶ In Germany, Denmark and Sweden, employers are mandated to pay sickness benefit (continued payment of wages) for a specific period of time and these expenditures are not reimbursed by the government. In the United Kingdom, the government reimburses employers for up to 80 per cent of sick pay; the remaining 20 per cent is categorised as mandatory private social expenditure. Mandatory sickness benefits in the United States are of little importance as only 6 jurisdictions have mandated “Temporary Disability Insurance Programmes”. Other mandated programmes concern occupational injuries and pensions. “Workers’ Compensation” in the United States covers government and private employees when they are injured in connection with their jobs. Mandatory pensions are important in the United Kingdom where individuals and firms under certain conditions are allowed to opt out of the “State Earnings Related Pension Scheme”(SERPS).

Data on expenditure under mandatory private programmes have been taken from national sources (Adema *et al.* 1996). An unambiguous categorisation of mandatory private social expenditures is difficult, and sometimes it is not possible to separate mandatory from non-mandatory private social expenditures in available data. For example, some transfer payments have many voluntary

elements and cannot be considered as directly comparable with mandatory expenditures without such voluntary elements. Therefore, pension expenditures by Dutch industry-wide pension funds and those concerning specific groups of self-employed professionals are noted as a memorandum item.⁷

CROSS-COUNTRY COMPARISONS

The budgetary outlays as recorded in SOCX – current social expenditures denoted in national currencies – are related to GDP at market prices in order to facilitate comparison across countries. The social indicators developed here aim to measure that part of domestic production to which recipients of collectively decided direct and indirect social support lay claim to (by doing so, they account for the value of indirect taxation on the consumption of benefit income). Consequently, the indicators presented here are related to GDP at factor costs which does not include the value of indirect taxation and government subsidies to private enterprises and public corporations. However, in order to facilitate comparison with information in SOCX, some indicators of government social effort related to GDP at market prices are presented in the bottom part of Table 2.

The magnitudes of the various adjustments, as presented in Table 2, reflect the importance of particular institutional features in each country:

- **Direct taxes and social security contributions:** The United States and the United Kingdom tax public and mandatory private benefits to a very limited extent. Denmark, Sweden and, particularly, the Netherlands tax these benefits rather heavily.⁸ Germany is in an intermediate position, requiring most beneficiaries to pay social contributions, while most cash transfers are exempt from direct taxation, with the exception of mandatory private sickness benefits.
- **Indirect taxes:** The results indicate a sharp difference in the value of benefit income clawed back through taxes on consumption between the European countries on the one hand and the United States on the other.⁹
- **Tax breaks for social purposes** (excluding pensions): This form of social provision is used only to a limited extent in Denmark, the Netherlands, and Sweden. The United Kingdom is in an intermediate position.¹⁰ Tax breaks for social purposes are more prominent in Germany (for children) and particularly the United States (employer contributions for medical insurance premiums and medical care).
- **Mandatory private benefits:** These expenditures are most significant in Germany where employers are forced to pay sickness benefits for up to 6 weeks. Duration of similar provisions in Denmark and Sweden is relatively limited. “Workers’ Compensation” is the main mandatory private programme in the United States. Apart from the Netherlands with its occupational pension programmes with certain mandatory elements, the

Table 2. **Gross to net expenditure adjustment as a percentage of GDP at factor costs, 1993**

+/-	Line number	Item	Denmark	Germany	Netherlands ¹	Sweden	United Kingdom	United States
	(1)	Gross direct public social expenditure (as presently in the SOCX database)	35.2	32.4	34.0	42.4	26.9	16.3
-		Direct taxes and social contributions paid on transfers	4.5	2.9	6.5	5.9	0.2	0.1
=	(2)	Net cash direct public social expenditure	30.7	29.6	27.5	36.5	26.7	16.2
-		Indirect taxes on consumption purchased out of net cash transfers	4.5	3.3	2.7	4.1	2.6	0.5
=	(3)	Net direct public social expenditure	26.3	26.3	24.7	32.4	24.0	15.7
+		Tax breaks for social purposes on public and private social expenditure	0.1	0.9	0.1	0.0	0.4	1.2
=	(4)	Net current public social expenditure	26.4	27.2	24.9	32.4	24.4	17.0
	(5)	Gross direct mandatory private social expenditure	0.7	1.8		0.7	0.3	0.5
-		Direct taxes and social contributions paid on mandatory private cash transfers	0.2	0.6		0.2	0.0	0.0
-		Indirect taxes on consumption purchased out of net mandatory private cash transfers	0.1	0.2		0.1	0.0	0.0
=	(6)	Net current mandatory private social expenditure	0.4	1.0		0.4	0.2	0.5
	(7)	Net current publicly mandated social expenditure [4+6]	26.7	28.2		32.8	24.6	17.5
<i>Memorandum adjustments:</i>								
		Tax breaks on pension programmes ²	I/A	I/A	I/A	I/A	3.1	1.0
<i>Memorandum items:</i>								
		Pensions under administrative extension			0.7			
		Indirect taxes	20.2	15.2	13.9	17.3	16.3	9.1
Related to GDP at market prices								
		Gross direct public social expenditure	30.5	28.7	30.6	38.3	23.4	15.0
		Net current public social expenditure	22.8	24.0	22.4	29.2	21.2	15.6
		Net current publicly mandated social expenditure	23.1	24.9		29.6	21.4	16.1

1. Values of tax breaks for social purposes for the Netherlands concern 1994.

2. Information not available.

Source: Calculations based on Adema *et al.* (1996), "Net Public Social Expenditure", Labour Market and Social Policy Occasional Papers, No. 19, OECD, Paris.

United Kingdom is the only country with mandatory pension provisions. The size of these payments is presently limited, but is expected to increase in importance with the maturing of the relevant pension plans.¹¹

The available data on tax breaks for pensions indicate that tax concessions can be an important tool for the stimulation of private pension take-up. For example, in the United Kingdom tax relief for personal and occupational pension programmes and the contracted-out rebate of National Insurance contributions amounted to 3.1 per cent of GDP in 1993.

The net effect of the corrections is that, except for the United States, net social effort, as measured by the indicator of net publicly mandated direct social expenditure, is significantly lower than suggested by gross budget data (consider lines 1 and 7 in Table 2). For Denmark, Sweden and the Netherlands, the adjustments reduce gross social spending by 8.5 to 9.6 per cent of GDP. For Germany (4.2 per cent of GDP) and the United Kingdom (2.3 per cent of GDP), the corrections are more limited. By contrast, the budget data for the United States underestimate total social effort, and the available data on tax breaks for pensions strengthen this conclusion.

The upshot of these results is that there seems to be a significant convergence of levels of social effort across countries when these are considered within a more comprehensive framework which accounts for fiscal and legislative arrangements rather than just budget allocations.

CONCLUSIONS

In summary, this note considers adjustments to gross social expenditure data which allow conclusions to be drawn about the net cost of social protection. It reflects the results of an initial study which inevitably was affected by data limitations. Nevertheless, these limitations do not seem to be so great as to invalidate the results generated.

Based on the information provided in this note, and considering only the six countries covered, the cross-country variation in *gross* direct public expenditures is considerably larger than the variation in *net* current public social expenditure (as evidenced by a standard deviation of 8.8 in the former case, as compared to 5.0 in the latter). The variation in net current *publicly mandated* social expenditure is marginally higher than the variation in net current *public* social expenditure.

These observations suggest that statements on the social effort of government which do not take into account the role of mandatory private expenditures, taxation of cash transfers, indirect taxation of consumption out of benefits and tax breaks for social purposes can be misleading. The apparently large differences in gross direct public social expenditure are due in part to institutional differences in the ways in which social objectives are pursued by governments.

NOTES

1. Tax breaks for social purposes are what is defined as “social fiscal measures” in Adema *et al.* (1996).
2. Apart from data limitations, the calculations are affected by conceptual issues related to the choice of tax units across countries and problems encountered when aggregating the value of different social-fiscal measures, as these are often interdependent. This effectively means that estimates in this note are limited in scope but are comparable across countries: all social-fiscal measures targeted at families in general have been excluded as have fiscal measures towards housing. All exemptions from VAT, *e.g.* pharmaceutical products, are not recorded as tax breaks for social purposes, as the analysis in this note already account for them under the adjustment for indirect taxation.
3. Adema *et al.* (1996) contains a complete overview.
4. Governments can also influence negotiations leading up to collective wage agreements which contain stipulations on the private provision of social expenditures. The extent to which this is done is impossible to measure.
5. There is scope for behavioural differences: sickness absenteeism is likely to be regarded differently by employers if they are directly responsible for continued wage payment in case of sickness as compared with a situation where the employer pays premiums to a public sickness fund, regardless of the number of days lost because of sickness.
6. The brief description of the mandatory private social expenditure programmes concerns the situation in 1993.
7. Whether the institutional practice of “administrative extension” of collective agreements between employers and employees results in mandatory private social expenditures is debatable. In the Netherlands, initially voluntary collective agreements which also cover pensions are often enforced on a whole industry by administrative extension. In this case, the data do not separate the expenditures made by employers who were party to the initial (voluntary) agreement from those by employers who were not. In contrast with other compulsory arrangements, the Dutch authorities do not have any influence on the terms agreed in the initial collective agreement. The authorities can only use the tool of administrative extension on request by the parties concerned; and most of the companies and employers involved were party to the initial voluntary agreement. Thus, such expenditures have many voluntary elements and cannot be considered as directly comparable with mandatory expenditures without such voluntary elements. Nonetheless, this is a borderline case, with clear elements of compulsion, and consequently the value of such expenditures is noted as a memorandum item.

8. For the Netherlands it was possible to check these results with other available research on taxation of benefits. Earlier work concerning 1990 showed that the value of direct taxation of benefits amounted to 5.1 per cent and 5.5 per cent of GDP at market prices (respectively: Einerhand *et al.*, 1995, and Centraal Bureau voor de Statistiek, 1994). The estimate of 5.1 per cent was based on a more limited scope of expenditures than the SOCX database. The 5.5 per cent was obtained while using the same scope as SOCX. Therefore, the estimate of 6.5 at GDP at factor costs (equivalent to 5.9 at GDP at market prices) for the Netherlands based on the microsimulation method, is in line with earlier work.
9. Alternative methods for calculating the value of indirect taxes on benefit income may affect levels, but not the ranking across countries (Adema *et al.* 1996).
10. The "married couples allowance" in the United Kingdom is here not considered to be a tax break for social purposes because, if the cash equivalent of the tax relief were paid, it would not be considered as being social expenditure. However, the "married couples allowance" is extended to lone parents. This is considered to be social as the attribute which brings eligibility – the presence of dependent children – is a common definition for eligibility to cash transfers in social protection systems. In contrast, the attribute for a married couple – a marriage contract – is not. Hence (although not considered here), the French "quotient familiale" method of taxation would be considered to be a tax break for social purposes.
11. The data do not reflect reforms of sickness programmes in the Netherlands and the United Kingdom which have taken place after 1993. These reforms increased the importance of mandatory private benefits in both countries.

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