

Public social spending is high in many OECD countries

January 2019

www.oecd.org/social/expenditure.htm

Public social expenditure was just over 20% of GDP on average across the OECD in 2018.



The largest spending item is public spending on pensions worth 8% of GDP on average across the OECD and over the last decade such spending has increased by 1 per cent per year.



At over 10% of GDP, private social spending on health insurance and pensions is highest in the Netherlands, Switzerland and the United States.



After accounting for private social expenditure and the impact of the tax system, France is the biggest social spender at about 32% of GDP; net total social spending in the United States is second highest across the OECD at 30% of GDP.

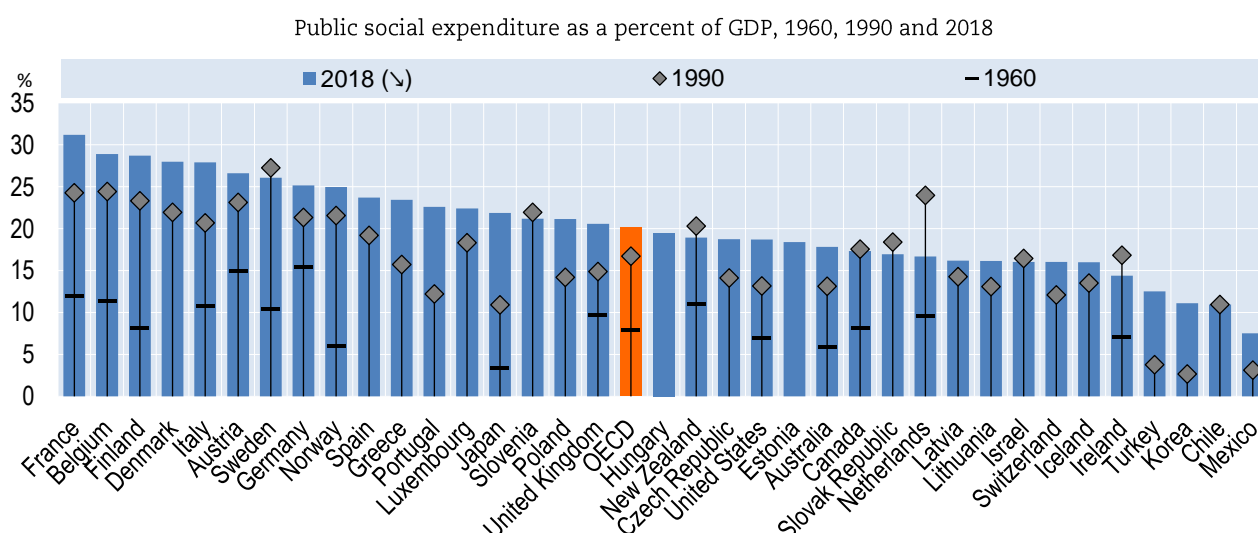
Public social expenditure amounts to just over 20% GDP on average across OECD countries

Public social spending-to-GDP ratios are highest at just over 30% of GDP in France, while Austria, Belgium, Denmark, Finland, Germany, Italy and Sweden also devote more than a quarter of their GDP to public social support. In contrast, public social spending in countries such as Chile, Ireland, Korea, Mexico and Turkey, accounts for less than 15% of GDP (Figure 1).

At its peak during the Great Recession, public social expenditure amounted to 21% of GDP on average across the OECD. Spending has edged downwards since 2009, but in 2018 the average across the OECD was still above 20%. Since 2009, public social

expenditure to GDP ratios fell in almost two-thirds of OECD countries, and the decline was most pronounced in Ireland (see notes to Figure 1), and in Hungary. In both countries the fall was related to declining spending on income support to the working age population and GDP growth (the denominator in the spending-to-GDP ratio). In contrast, in Finland, Norway and Korea spending-to-GDP ratios increased by 2 percentage points over the same period. The increase was largely related to more spending on pensions (all three countries), while in Korea increased spending on Health and Early Childhood Education and Care (ECEC) also played a role.

Figure 1. Public social spending amounts to just over 20% of GDP on average across the OECD



Note: Estimated for 2018, on the basis of national sources for non-European OECD countries, and/or OECD (2018), the OECD Economic Outlook 103 A, as in June 2018 and EC DG ECFIN (2018), the European Union's Annual Macro-economic database (AMECO) as at May 2018. For detail on the underlying methodology regarding estimates for recent years, and the detailed social expenditure programme data, see the manual to the OECD Social Expenditure database (SOCX).

The real GDP growth rate for Ireland jumped up in 2015 to just over 25%. This was related to a small number of multinational enterprises (MNEs) relocating their intellectual property assets to Ireland in 2015, which resulted in a huge increase in the Irish capital stock, which was accompanied by a substantial increase in exports through contract manufacturing production of goods by one firm under the label of another firm, see OECD (2018), Economic Surveys – Ireland.

Instead of 2018, data refer to 2017 for Canada, Chile and Israel, 2016 for Australia, Mexico and Turkey and 2015 for Japan. Instead of 1990, data for Chile, Israel and the Slovak Republic refer to 1995, for Slovenia to 1996, and for Latvia to 1997. Data for 1960 are only available for Australia, Austria, Belgium, Canada, France, Finland, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, the United Kingdom and the United States.

Source: OECD (2019), OECD Social Expenditure Database, (www.oecd.org/social/expenditure.htm).

Figure 1 suggests that it takes some time for social protection systems to develop into comprehensive welfare states. In many European countries, Australia, Japan and the United States social systems have expanded since 1960 though the rate of increase has slowed since 1990. Although still low in international comparisons, since 1990 public social expenditure-to-GDP ratios more than tripled in Korea and Turkey.

Pensions and health still remain the largest areas of public social spending

Figure 2.A shows that countries on average spend more on cash benefits (12% of GDP) than on health and social services (around 8% of GDP). Italy, Poland and Portugal spent just over 70%, and Greece 80%, of public social expenditure on cash benefits. In contrast, this proportion was just over 40% in Chile, Korea and Mexico, and 35% in Iceland.

At 8% of GDP on average across the OECD, public pension payments account for the largest part of social spending. However, there is large variation in public pension spending across countries, related to differences in the age structure of populations, the number of older people who have access to pensions and the characteristics of the pension system. For example, in 2015 public spending on pensions was only 2.3% of GDP in Mexico compared with over 16% of GDP in Italy and Greece (with declining GDP, the public pension spending-to-GDP ratio for Greece increased from 12.5% in 2008 to 17% in 2015).

To some extent this is explained by Mexico being a relatively young country, but also because Italian retirees are much more likely to receive a pension than in Mexico where fewer than half of older people receive a pension.

Income support to the working age population has decreased since the Great Recession

Economic trends affect spending-to-GDP ratios, and while in some countries contractions in GDP increased spending-to-GDP ratios, on average across the OECD real GDP grew by 2% per year since 2010. Economic trends also directly affect spending, especially in the area of labour market policy. The economic recovery has translated into a decline in spending on unemployment compensation from 1% of GDP on average in 2010 to 0.7% of GDP in 2015, and the fall in spending on unemployment compensation was most pronounced in Belgium, Germany, Iceland, Ireland, Spain and the United States. Over the same period public spending on family cash benefits fell from 1.4 to 1.2% of GDP across the OECD on average, with the largest reductions recorded for the Czech Republic, Hungary, Iceland, Ireland and Luxembourg.

The decline in public spending on unemployment compensation and family cash benefits drove the decrease in spending on the working age population over 2010 and 2015. (Figure 2.B). Public spending as a

In a small number of OECD countries (Canada, Israel, New Zealand, the Slovak Republic, Slovenia and Sweden) the public social spending-to-GDP ratio is the same now as it was in 1990, or is even lower. The Netherlands is the country with the biggest drop: health care reform in 2006 led to a shift away from public spending; since then, compulsory basic health insurance is being financed through private funds.

The Netherlands has a similar age structure as Italy and almost all Dutch retirees receive a pension. However, in Italy, public spending on pensions is 10.8 percentage points of GDP higher than in the Netherlands. This is partly because the Netherlands rely more on private pensions which accounted for 5.8% of GDP compared to about 1.3% in Italy (see below).

Public expenditure on health is the second largest spending item, behind pensions (Figure 2.A). On average OECD countries spent 5.7% of GDP on publicly-financed health services. France (8.8% of GDP), the United States (8.5%) and Germany (8.1%) spend most on health out of public sources.

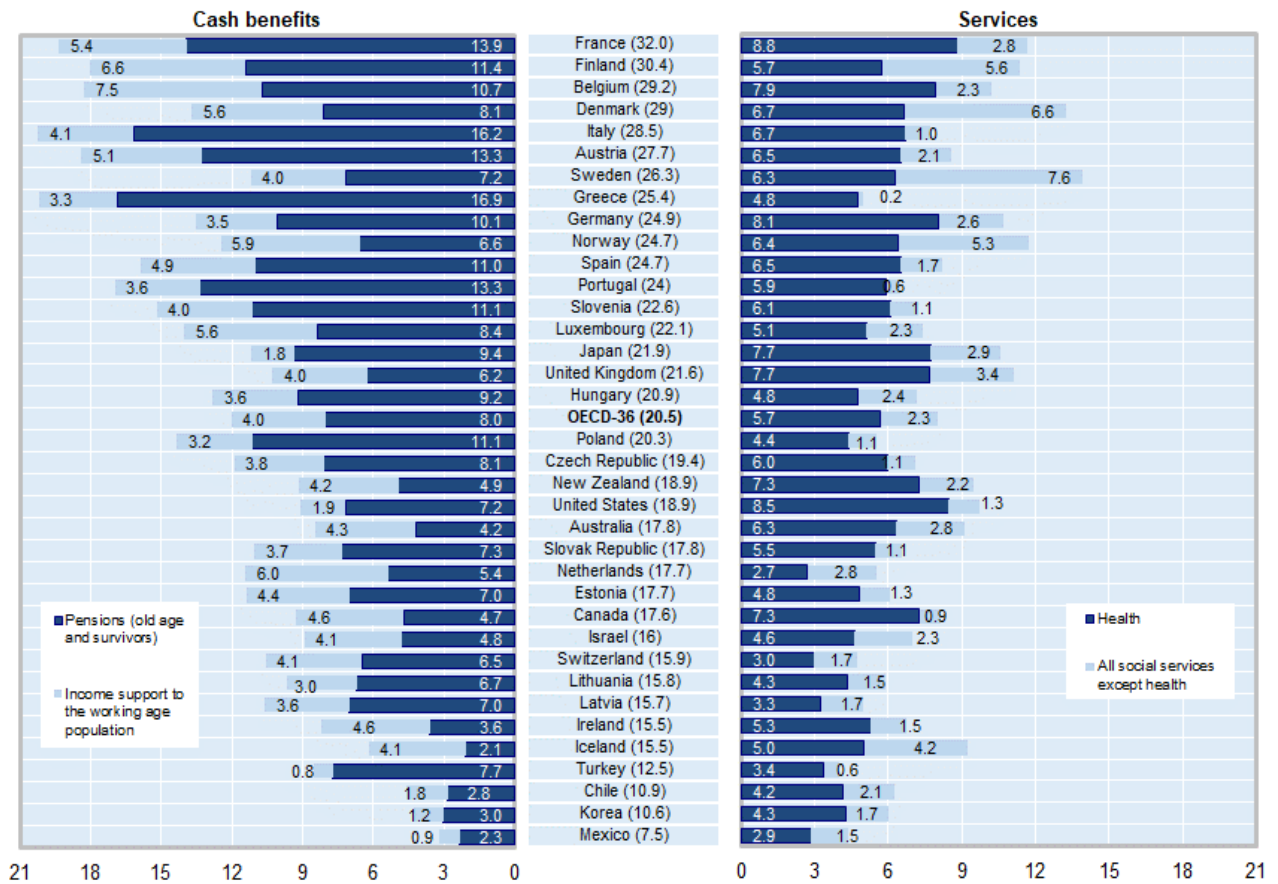
Income support to the working-age population accounts for 4% of GDP on average across the OECD (Figure 2.A), of which 0.7% is spent on unemployment benefits; 1.7% on incapacity benefits; 1.2% on family cash benefits; and, another 0.4% on other social supports in cash. Spending on social services other than health was on average around 2.3% of GDP, of which about 1% of GDP on family services (formal childcare); spending on services for the elderly and disabled is typically highest in the Nordic countries.

per cent of GDP on incapacity-related income support changed little since 2010 across the OECD on average. While public health expenditure as a share of GDP grew by 1.9% per year in the period 2001-2008 it shrunk by 0.6% in the period 2010-2015/16 (Figure 2.B). Annual growth rates in public spending on social services also declined: from 3.6% in the period before the Great Recession to only 0.9% in the five years thereafter.

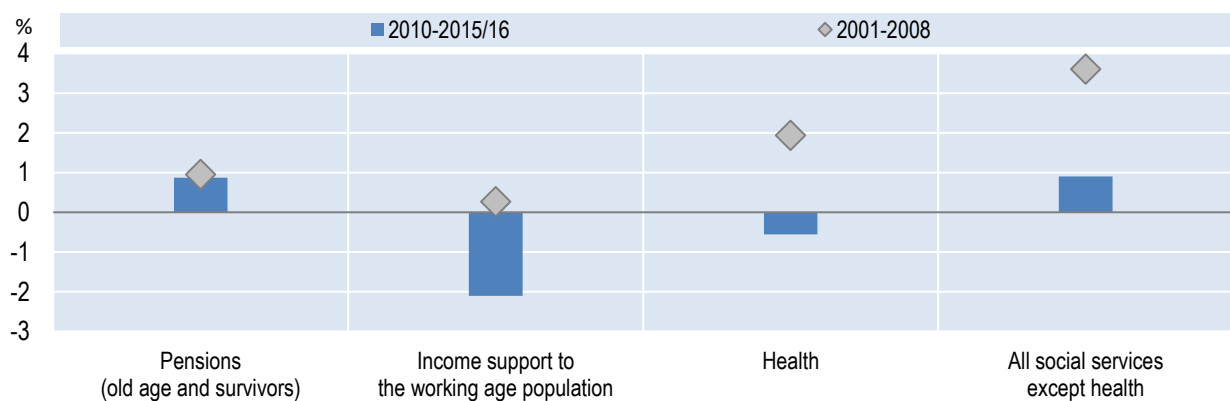
Figure 2.B shows that growth in pension spending was stable. Both before and after the Great Recession, public spending on pensions steadily grew by 1% per year on average across the OECD, reflecting an increasing number of people retiring and average life expectancy increasing. Furthermore, there is a growing number of retiring women with higher lifetime earnings, leading to greater pension entitlements and pay-outs than in the past, even though gender pension gaps remain substantial (OECD Pensions at a Glance, 2017).

Figure 2. Pensions and health expenditure are still the main items of public social spending

A. Public social expenditure by broad social policy area, in percentage of GDP, 2015/17 or latest year available



B. Average annual growth rate in public social spending as % of GDP by broad social policy area, 2001-2008 and 2010-2015/16
OECD average



Notes: A. Countries are ranked by decreasing order of public social expenditure as a percentage of GDP. Spending on Active Labour Market Programmes (ALMPs) cannot be split by cash/services breakdown; they are however included in the total public spending (shown in brackets). Income support to the working-age population refers to spending on the following SOCX cash categories: Incapacity benefits, Family cash benefits, Unemployment and other social policy areas categories. Other social services refer to services for the elderly, survivors, disabled, families, housing and other social services. Data for Chile, Israel and Korea refer to 2017, Australia, Mexico, New Zealand, the United States and Turkey to 2016, Poland to 2014, otherwise they refer to 2015.

B. Comparison between 2001-2008 and 2010-2015/16 has been chosen, leaving out 2009 as it is an extreme year with an average negative economic growth of -4.4%. Average annual GDP growth rate was more similar between these two periods (i.e. about 3.27 in 2001-2008 and 2.13 in 2010-2015). Data for Australia, Chile, Mexico, Turkey, Israel, Korea, New Zealand, and the United States refer to 2016, Poland to 2014, otherwise they refer to 2015.

Source: OECD (2019), *Social Expenditure Database (SOCX)* via www.oecd.org/social/expenditure.htm.

How social is spending on families redistributed across income groups?

Public social expenditure on family benefits (about 2.1% GDP) includes spending on: family allowances (0.8% GDP); income support during maternity, paternity and parental leave (0.4%); other cash benefits (0.1%); early childhood education and care (0.7%); and, home help and other benefits in kind (0.2%).

Family spending is often not targeted on low-income families. Child benefits are often paid to all children; income support during child-related leave periods are linked to work history; and eligibility to ECEC services is often not income-tested. In fact, in most OECD countries children from low-income families are least likely to use ECEC-services.

Figure 3.A shows for European countries that countries which have more means-tested family benefits pay a larger share of benefits to the bottom 40% of the income distribution. For most countries the share of means-tested benefits among family benefits is below 40%, while in Italy, the United Kingdom, Portugal and Greece 50 to 70% of family benefit spending is means-tested. In Italy and the United Kingdom means-testing of family benefits has traditionally been common, while in Greece the high proportion of means-tested benefits is related to more recent austerity reforms.

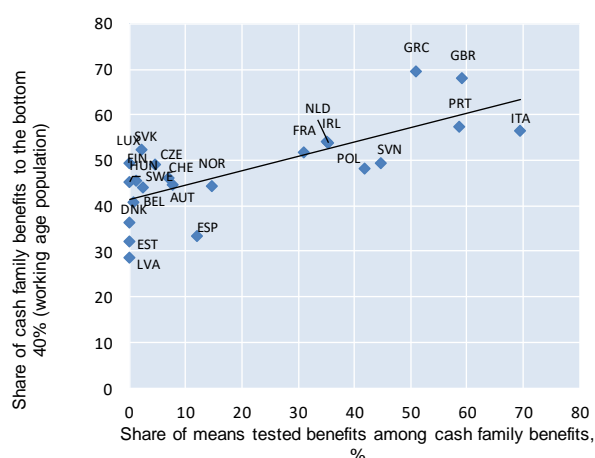
Figure 3.B relates the public social spending-to-GDP ratio (x-axis) to the child poverty rate (y-axis), defined as the share of children living in households with an income below 50% of the median. It shows that countries with higher public spending on families, such as the Nordic countries tend to report lower child poverty rates (OECD (2018), “*Poor children in rich countries: why we need policy action*”). The Nordic countries, Luxembourg and the United Kingdom spend most on families, all above 3% of GDP, whereas Turkey spends less than 0.5% of GDP.

Public spending on family benefits in Korea increased from about 0.2% in the early 2000s to 1.2% GDP in 2016. Spending in Israel on family benefits is close to the OECD average at almost 2% of GDP, but it has the second highest child poverty rate after Turkey. However, the population share of children below age 10 is among the lowest in Korea (9%) and the highest in Israel (about 20%): spending on family benefits per young child is higher in Korea than in Israel.

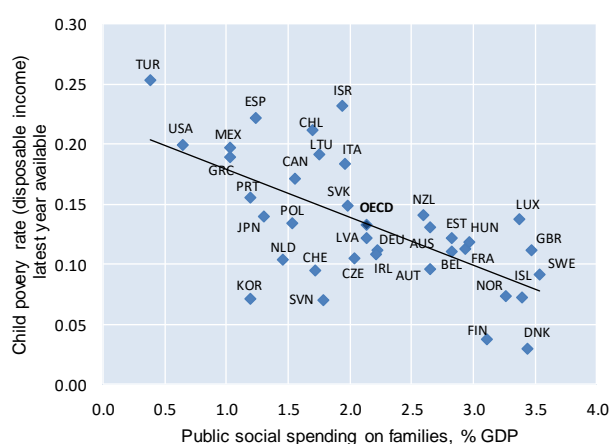
In addition, a significant component of public support for families can be “paid” through the tax system. Tax breaks towards families (e.g. child tax allowances, tax credits for working parents, or fiscal deduction of childcare costs) are not accounted for in Figure 3.B, and the value of such tax breaks can be large (see below).

Figure 3. Countries spending more on families tend to have lower levels of child poverty

A. Percentage of means tested benefits among family benefits and share of cash benefits to the bottom 40%, 2015 or latest year available



B. Public social spending on families in % of GDP and child poverty rate of disposable income, 2015 or latest year available



Note: Data based on 2015 except for public social spending on families based on 2014 for Poland and 2016 for Israel.

Source: A. EU Survey on Income and Living Conditions for European countries (EU-SILC) and European System of Integrated Social Protection Statistics (ESSPROS); B. OECD Social Expenditure Database (SOCX) and OECD Income Distribution Database.

When accounting for private social expenditures and the impact of taxes, social spending differences across countries diminish

Private social expenditure concerns social benefits delivered through the private sector (not including transfers between individuals) which involve an element of compulsion and/or inter-personal redistribution, for example through pooling contributions and risk sharing in terms of health and longevity. Private social expenditure can be mandatory (stipulated by law) or voluntary. Mandatory private social expenditure includes compulsory private health insurance schemes, pensions based on compulsory contributions, or sickness payments by employers. Voluntary private social expenditure includes, pension benefits based on past voluntary contributions, employer-provided childcare support, or benefits provided by charitable non-government organisations (NGOs). In 2015, private social spending totalled, on average, 3.6% of GDP across the OECD, of which 1.9% was mandatory and 1.7% voluntary. Private social expenditure is most important in the Netherlands, Switzerland and the United States where it amounted to 12-13% of GDP in 2015; it amounted to around 6% of GDP in Australia, Iceland and the United Kingdom.

The role of mandatory private health insurance has long been important in Switzerland, where such spending amounted to 4.7% of GDP in 2016. With health reform in the Netherlands in 2006 (see above) and the introduction of the Affordable Care Act in the United States in 2014, mandatory private health expenditure was just over 5.5% of GDP in 2015 in both countries. As the Affordable Care Act (“Obama care”) made *compulsory* a significant part of already existing employer-provided health plans, *voluntary* private health spending in the United States declined with its introduction from 6.5% of GDP in 2013 to 1.2% in 2015.

Pension benefits accruing from past mandatory contributions were 3.5% of GDP in Iceland, 4.4% in Switzerland and 4.9% of GDP in Australia (Superannuation). Mandatory incapacity benefits (occupational injury benefits and sick-pay) amounted to more than 1% of GDP in Germany, Norway and Iceland.

Pension payments based on past voluntary contributions can be an important part of national social protection systems. Such pension benefits based on occupational and industry-wide programmes or tax-supported collective or individual plans amounted to 6% of GDP in the Netherlands in 2015. Voluntary private pension expenditure is also important in the United Kingdom and the United States (4 to 5% of GDP) and Canada, Japan and Sweden (2 to 3% of GDP).

Individual out-of-pocket spending on health services is not regarded as social spending, but many private collective health insurance plans across the OECD involve pooling of contributions and risk sharing across the insured population. On average across the OECD, such private social health expenditure amounted to 0.6% of GDP in 2015, and exceeded 1% of GDP in Ireland, the United States and Canada.

Private social spending also includes social services and benefits provided by non-government organisations (NGOs) to those most in need, but as such outlays are often not centrally recorded, this spending is under-reported in SOCX.

Impact of tax systems

Tax systems can affect social spending in three different ways:

1. Governments can levy direct income tax and social security contributions on cash transfers to beneficiaries. In 2015 the Danish Government clawed back almost 5% of GDP through direct taxation of benefit income, and tax levied over benefit payments also exceeds 3% of GDP in Finland, Italy and Sweden.
2. Governments also levy indirect taxation on consumption out of benefit income. On average across the OECD, this was worth 2% of GDP in 2015. Tax rates on consumption are often considerably lower in non-European OECD countries where tax revenue on consumption out of benefit income often amounts to less than 1% of GDP. In Europe, such tax revenue can exceed 3% of GDP (Denmark, Finland and Sweden).
3. Governments can also use so-called “tax breaks with a social purpose” (TBSP) to directly provide social support or with the aim to stimulate the private provision of social support.
 - a) TBSPs which directly provide support to households are similar to cash benefits and often concern support for families with children, e.g. child tax allowances or child tax credits. Such TBSPs amounted to around 1% of GDP in the Czech Republic, France and Germany.
 - b) TBSPs to stimulate provision of “current” private social benefits is largest in the United States at 2.8% of GDP, of which more than 50% concerns exclusion of employer contributions of medical insurance contributions.

Accounting for these features results in a “net tax effect” (Figure 4). The value of benefit income clawed

back through direct and indirect taxation exceeds the value of TBSPs in almost all countries, particularly in Europe, and the claw-back is 5% of GDP or more in Austria, Finland, Italy, Luxembourg, Norway, Sweden and is highest at 8.1% of GDP in Denmark. The overall tax claw-back over social spending is below 0.5% of GDP or less in Turkey, Korea and Mexico, while in the United States the value of TBSPs exceeds the tax claw-back over benefit income.

Cross country rankings

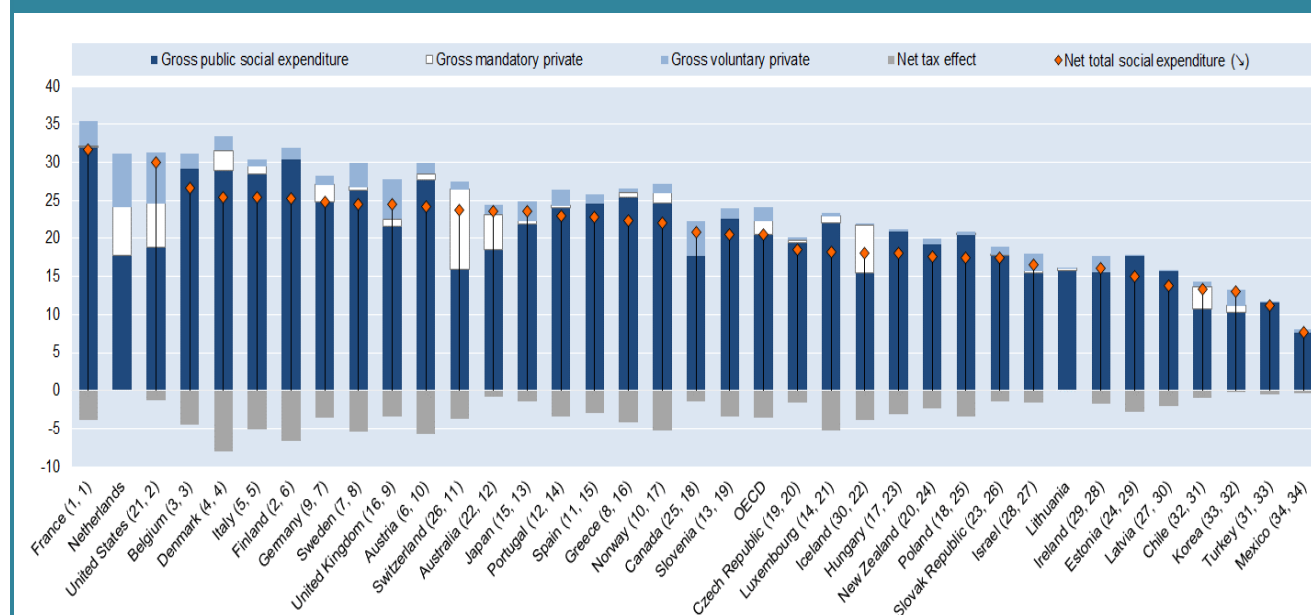
Putting together the information on gross public and private social spending and the impact of tax systems produces an indicator on net total social expenditure (Figure 4). This indicator shows greater similarity in spending levels across countries and changes in the ranking among countries.

Because of the large “net tax effect” and the limited role of private social spending, Greece, Luxembourg, Norway, Poland move significantly down the rankings (Figure 4). The “net tax effect” is also

considerable in Iceland, the United Kingdom and Switzerland, but this is compensated by private social benefits which ensures that in spending terms these countries move up the rankings in net total social expenditure.

The combination of small “net tax effects” and considerable private social spending ensures that Australia, Canada and in particular the United States move up the international social spending ladder. As private social spending (including health) is much larger in the United States than in most other countries, its inclusion moves the United States from 21st in the ranking of the gross public social spending to 2nd place when comparing net total social spending across countries. However, low-income workers do not often have access to private social benefits. Therefore, the higher ranking in total net social spending does not necessary contribute to more equal outcomes.

Figure 4. From gross public to total net social spending, as a percent of GDP at market prices, 2015



Note: The figures in brackets refers to the ranking of countries in term of gross public and net total social expenditure from number 1 being the highest spender to the lowest; i.e. the United States ranks 21 in OECD in term of gross public social expenditure and 2nd in term of net total social expenditure.

Data for Poland refer to 2013. No information available for Lithuania and the Netherlands.

The "Net tax effect" includes direct taxes and social contributions, indirect taxes and net tax breaks for social purpose similar to cash benefits (TBSPs). TBSPs can also include favourable tax treatment of household pension saving, tax relief for employers and private funds that ultimately benefit households e.g., favourable tax treatment of employer-benefits provided to households, favourable tax treatment of private funds. The value of these is not reflected in Figure 4, as this item is equivalent to financing of private social benefits, and needs to be excluded to avoid double counting when calculating total net (public and private) social spending. For most countries this would not matter as amounts are relatively small, except for the United States where the value of such TBSPs (2.8% of GDP) exceeds the tax claw-back over benefit income (2.0% of GDP).

Because of the complexities with calculating the value of tax reliefs for pension that are given at various stages (e.g. including tax exemptions for contributions to private pensions and tax relief for investment income of capitalised pension funds) there is no fully comparable cross-national data set available on TBSPs for pensions. Hence, available data are not included in the overall calculation of net total social spending.

Source: Social Expenditure Database (SOCX) via www.oecd.org/social/expenditure.htm

What is in the OECD Social Expenditure Database (SOCX)?

The new release of the *OECD Social Expenditure Database (SOCX)* includes detailed social expenditure programme data for 1980-2015/17 for 36 OECD countries. SOCX presents public and private benefits with a social purpose grouped along the following policy areas: old age, survivors, incapacity-related benefits, health, family, active labour market programmes, unemployment, housing and other social policy areas. SOCX includes public spending on early childhood education and care up for children under age 6, but SOCX does not include public spending on education beyond that age. SOCX includes indicators on aggregate public social spending for 2016-2017 based on national aggregates and estimates for 2018. The 2018 data were estimated on the basis of national sources for non-European OECD countries, and/or OECD (2018), OECD Economic Outlook103A, as in June 2018 and EC DG ECFIN (2018), the European Union's Annual Macroeconomic Database (AMECO) as in May 2018. SOCX also includes indicators on net (after tax) social expenditure for 34 countries for 2015 (information on taxation of benefits often does not become available until two years after the fiscal year). Time series for the majority of countries are available since 2001. Relevant fiscal detail involves direct taxation of benefit income, indirect taxation of consumption out-of-benefit income, and tax breaks with a social purpose.

Data for 26 European countries were provided by Eurostat as based on the information in their European system of integrated social protection (ESSPROS), while information for other countries is provided by national correspondents. Data on health and active labour market programmes were taken from OECD Health Data and the OECD/Eurostat Database on Labour Market Policies. Information on the direct taxation of benefit income and tax breaks with a social purpose was provided by the delegates to the Committee on Fiscal Affairs' Working Party No. 2 on Tax Policy Analysis and Tax Statistics.

It should be borne in mind that the quality of data on the effect of tax systems (frequently estimates based on tax models), and private and social spending and spending by local government (because of under-reporting), is not as high as the quality of information on budgetary allocations towards social purposes. For more detail regarding the sources and methodology underlying SOCX and its indicators on social spending, see the OECD 2019 Manual to the *OECD Social Expenditure Database (SOCX)* under www.oecd.org/social/expenditure.htm

Citation

Please cite as: OECD (2019), *Social Expenditure Update 2019, Public social spending is high in many OECD countries*, OECD Publishing, Paris.

Contact

Social Policy Division

OECD Directorate on Employment Labour and Social Affairs

Willem.Adema@oecd.org Tel: +33 1 45 24 15 57

Pauline.Fron@oecd.org Tel : +33 1 45 24 94 59

[@OECD_Social](https://twitter.com/OECD_Social)

The contributions by Emile Cammeraat, Maxime Ladaique and Helena Le Mezzo are gratefully acknowledged.

Useful links

This document as well as all figures and underlying data together with the 2019 Edition of the Manual can be downloaded via www.oecd.org/social/expenditure.htm.

SOCX is available via the OECD statistical browser OECD.Stat. To facilitate international comparisons, this information is related to gross domestic product, gross national income, total government expenditure, and in purchasing power parities per head.

References

OECD (2018), "[Poor children in rich countries: why we need policy action](#)", Policy Brief on Child Well-Being, OECD Publishing, Paris.

Further reading update

OECD (2017), *Pensions at a Glance*, <http://oe.cd/pag>.

OECD (2016), *Society at a Glance*, <http://oe.cd/sag>.

OECD (2018), *Focus on Spending on Health: Latest Trends* www.oecd.org/health/health-systems/Health-Spending-Latest-Trends-Brief.pdf

OECD (2018), *OECD Employment Outlook 2018*, www.oecd.org/els/oecd-employment-outlook-19991266.htm.

OECD (2018), *Is the Last Mile the longest? Economic gains from Gender Equality in Nordic countries*, <http://oe.cd/last-mile-gender-nordic>

OECD Family Database, www.oecd.org/social/family/database.htm.

OECD Income Distribution Database, <http://oe.cd/idd>.

Notes

Throughout this document, (↗) (or ↘) in the legend relates to the variable for which countries are ranked from left to right in increasing (or decreasing) order.

OECD in figures refers to unweighted average of OECD countries for which data are available.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law. <http://dx.doi.org/10.1787/888932315602>

Public social spending is high in many OECD countries

www.oecd.org/social/expenditure.htm