OECD
BETTER POLICIES FOR BETTER LIVES

The rise and fall of public social spending with the COVID-19 pandemic

January 2023 http://www.oecd.org/social/expenditure.htm

Key findings

- With the outbreak of the COVID-19 pandemic, the public social spending-to-GDP ratio increased from 20% of GDP in 2019 to 23% in 2020 across the OECD on average. This surge in the spending-to-GDP ratio was largely (over 80%) due to an increase in spending rather than a decline in GDP.
- Individual country experiences differ markedly. Canada, Spain and the United States recorded the highest increases in the public social spending-to-GDP ratio from 2019 to 2020 (more than 6 percentage points (ppt)), while Denmark, Hungary and Sweden had the lowest increases (less than 1 ppt).
- The increase in the public social spending-to-GDP ratio in 2020 is largely related to an increase in spending on health, unemployment and active labour market programmes as well as income-tested cash support programmes in response to the outbreak of the COVID-19 pandemic.
- Looking back, the Global Financial Crisis led to a peak in the public social spending-to-GDP ratio at 20.6% in 2009, and it took 10 years of continuous economic growth for it to fall to 19.8% of GDP across the OECD on average. By contrast, since the peak in 2020 the average public spending-to-GDP ratio fell rapidly to 22% of GDP in 2021 and was estimated to have been about 21% of GDP in 2022.
- At almost 8% and 6% of GDP on average across the OECD respectively, pensions and health are the main areas of public social spending.

The public social spending-to-GDP ratios are estimated to have increased by almost 3 percentage points, on average across OECD countries, during the COVID-19 pandemic

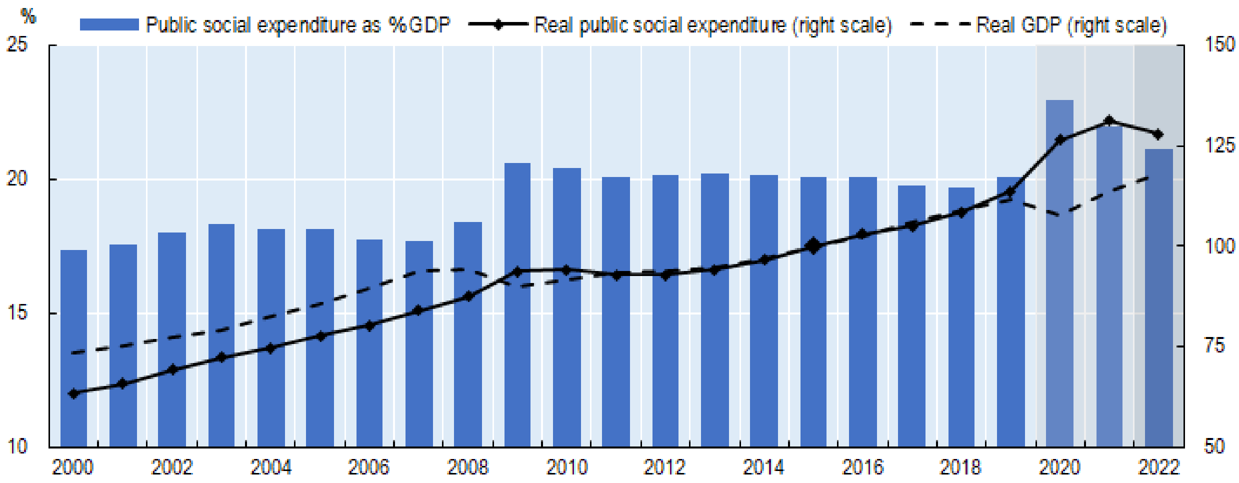
The public social spending-to-GDP ratio has increased significantly since the beginning of the pandemic (Figure 1). On average, across the OECD, the public social spending-to-GDP ratio increased by almost 3 percentage points (ppt) from about 20% in 2019 to 23% in 2020. About 2.5 ppts of the 3 ppt change was caused by an increase in public social spending, while 0.5 ppt was related to a decrease in GDP (The "twin-statistics brief" discusses "Private social expenditure and the influence of the tax system").

After the initial rise with the outbreak of the pandemic, spending-to-GDP ratios declined almost as rapidly as they increased: public social spending fell from 23%, on average across the OECD, in 2020 to an estimate of 21% in 2022. This evolution contrasts starkly with the aftermath of the 2008/09 global financial crisis (GFC). The public social spending-to-GDP ratio increased from 17.7% of GDP in 2007 to 20.6% in 2009 across the OECD on average, but in subsequent years, the ratio only decreased to 20% in 2011 and remained at this level until the outbreak of the COVID-19 pandemic. These different patterns are largely related to a much stronger economic recovery following the COVID-19 pandemic compared to the global financial crisis (OECD, 2022[1]), and a slowdown in the pace of real public social spending growth after COVID peaked in 2020/21 (Figure 1), as inflation picked up strongly in 2022 (OECD, 2022[1]).

Across 31 OECD countries with available data, real public social expenditure increased by 11% in 2020 and a further 4% in 2021, but it is estimated to have declined by 2% in 2022 (Figure 1). During the same period, for the 31 OECD countries at hand (see the note to Figure 1) real GDP decreased by 4% in 2020, but it increased by 6% in 2021, and a further 3% in 2022. However, the situation varies greatly across countries (see also the individual country trends presented in the online Annex to Figure 1).

Figure 1. Public social spending-to-GDP ratios changed rapidly with the COVID-19 pandemic

Public social spending in % of GDP and real public social spending and real GDP (Index 2015=100, right scale), on average across the OECD 2000-2022



Note: For EU countries data for 2020-2022 were estimated on basis of OECD Economic Outlook 112 (November 2022) and DG ECFIN (2022), the European Union's Annual Macro-economic database (AMECO) as in November 2022. For the United Kingdom, data for 2021 were estimated on basis of OECD Economic Outlook 112 (November 2022) and National Accounts Blue Book 2022. For Korea and the United States, data for 2021-22 were estimated based on national budget data. Spending totals for 2020 and 2021 are subject to revision, but these are likely to be small (light shade); the estimates for 2022 are most likely to be affected by data revisions to spending and GDP (dark shade).
OECD public social expenditure to GDP ratio for 2020 is estimated based on trend in OECD 35; for 2021 and 2022 it is estimated based on trend in OECD 26. Data for real trends in public social expenditure and GDP refer to OECD 31 countries with available data, i.e., OECD countries except Australia, Canada, Colombia, Costa Rica, Japan, Mexico, and Türkiye. Real trend in public social expenditure for 2022 is estimated based on trend in OECD 26. Public social expenditure is deflated using CPI and GDP using GDP deflator.
Source: OECD (2023) OECD Social Expenditure database, (www.oecd.org/social/expenditure.htm).

Figure 2 illustrates the recent variation in public social spending-to-GDP-ratios across countries. Between 2019 and 2020, Canada (6.2 ppts), Spain (6.5 ppts) and the United States (5.7 ppts) recorded the largest increases in the public social spending-to-GDP ratio. In most countries, spending to GDP ratios declined in 2021; but in Chile social spending continued to increase so that between 2019 and 2021 the social spending to GDP ratio grew by almost 8 ppts. By contrast, Denmark, Norway and Sweden were the only countries to record a decrease in social spending-to-GDP-ratio, albeit a small one (less than 1 percentage point) over the 2019/21 period.

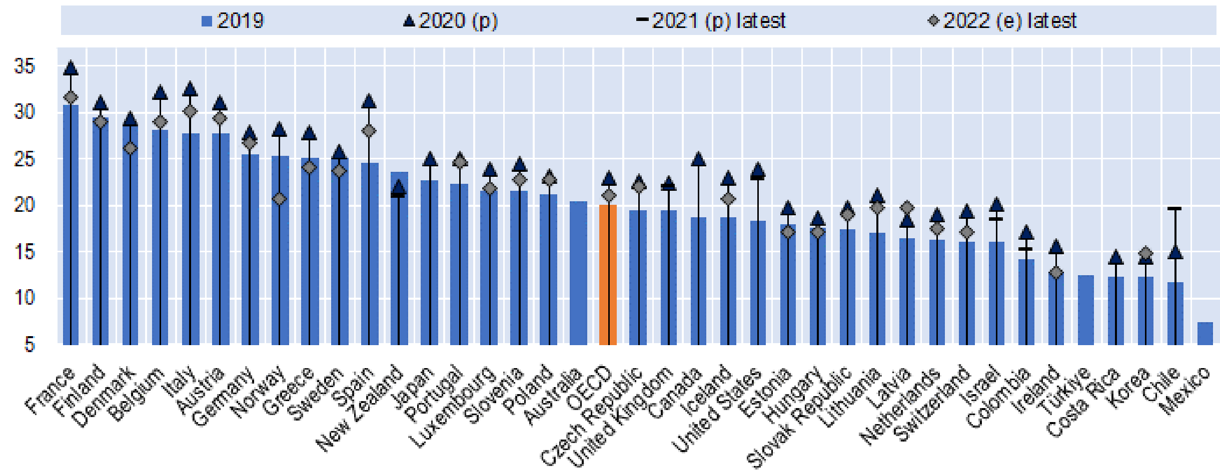
The increase in public social spending in 2020 was largely related to higher public spending on health, unemployment, active labour market programmes and income-related cash payments in response to the outbreak of the COVID-19 pandemic (OECD, 2022[2]). Across OECD countries with available data, on average total health spending as a percentage of GDP increased by almost a full percentage point between 2019 and 2020 from 8.8 to 9.7% of GDP (OECD, 2022[3])). Unemployment benefits as a percentage of GDP increased on average by roughly 0.8 percentage points between 2019 and 2020, from 0.7 to 1.5%

across OECD countries with available data (OECD, 2022[4]) - Austria had the highest growth in spending in this category from 1.3% of GDP in 2019 to 3.2% in 2020. Spending on active labour market programmes was 0.6% of GDP in 2019, and 1% of GDP in 2020; Australia, Canada, the Netherlands, New Zealand and the United States recorded the largest increases in such spending (OECD, 2022[4]). Chile's exceptional spending increase was due to its "Programa Ingreso Familiar de Emergencia" (Emergency Family Income Support) provided large scale financial aid to support families with children in view of the health and economic consequences of the COVID-19 pandemic. The programme was phased out in 2022.

Inflation reached levels not seen over the past four decades in most OECD countries in 2022. The rapid price increases will affect the lowest-income groups hardest, and social protection policy will be challenged in the near future (2023 and 2024) to provide timely and targeted cash transfers for working-age households (OECD, 2022[5]) and pensioners (OECD, 2022[6]).

Figure 2. Public social spending is worth 21% of GDP in 2022 on average across the OECD but levels differ greatly across countries

Public social expenditure as a percent of GDP, 2019- 2022



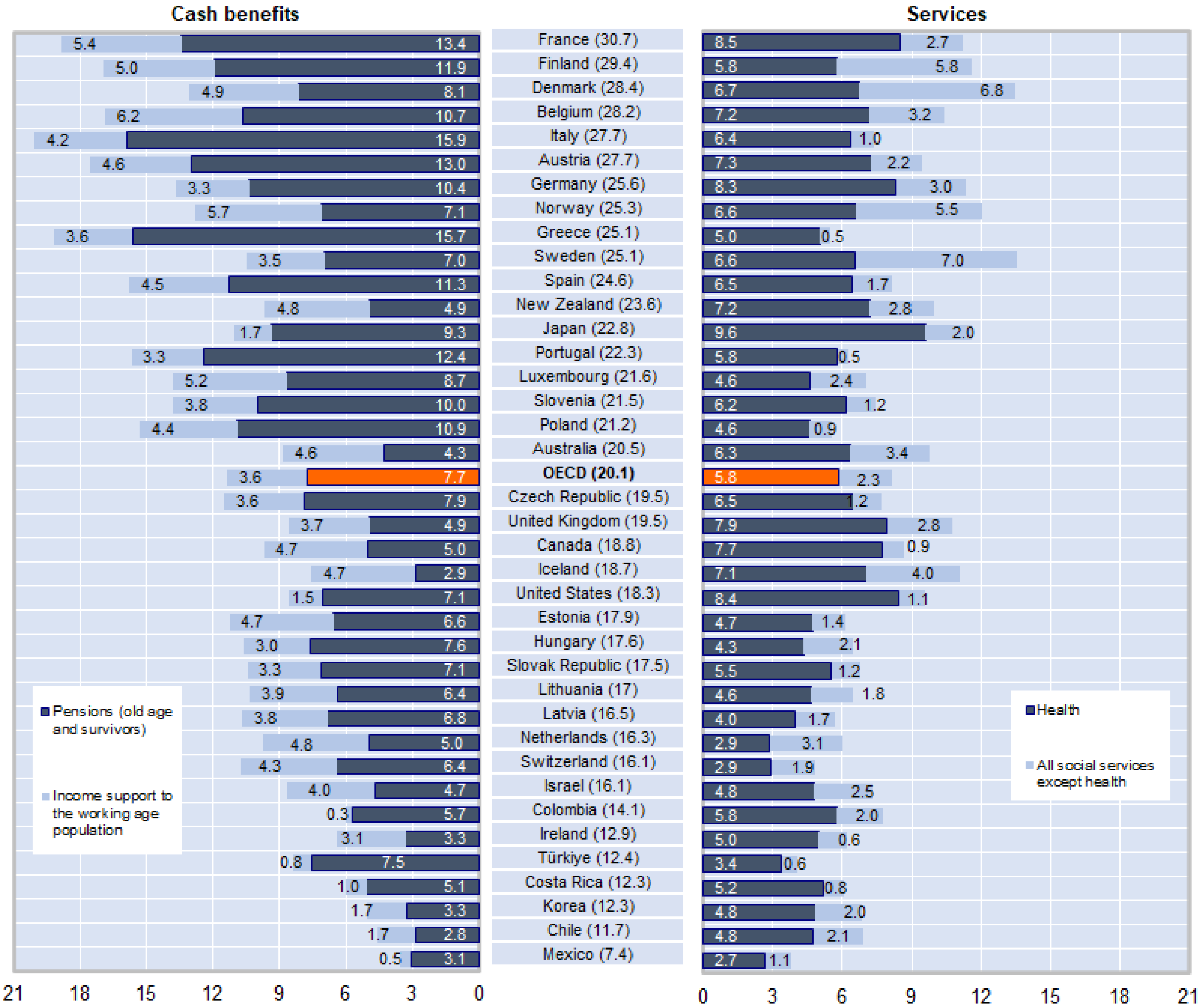
Note: For EU countries data for 2020-2022 were estimated on basis of OECD Economic Outlook 112 (November 2022) and DG ECFIN (2022), the European Union's Annual Macro-economic database (AMECO) as in November 2022. For the United Kingdom, data for 2021 were estimated on basis of OECD Economic Outlook 112 (November 2022) and National Accounts Blue Book 2022. For Korea and the United States, data for 2021-22 were estimated based on national budget data. Spending totals for 2020 and 2021 are subject to revision, but these are likely to be small; the estimates for 2022 are most likely to be affected by data revisions to spending and GDP. (p) refers to projections while (e) refers to estimates. OECD social expenditure to GDP ratio for 2022 is estimated based on the trend in OECD 26.
For Norway, the large increase in nominal GDP since 2021 is due to high energy prices (especially gas).
Source: OECD (2023) OECD Social Expenditure database, (www.oecd.org/social/expenditure.htm).

Pensions and Health are the main areas of public social spending

Across the OECD on average, old-age and survivor pension payments (7.7% of GDP) and health (5.8% of GDP) are the largest areas of public social spending. At over 15% of GDP, public pension spending is highest in Greece and Italy and lowest in Chile, while Iceland, Korea and Mexico spend around 3% of GDP on pensions. In France, Germany, Japan, and the United States public expenditure on health is over 8% of GDP, while it is less than 3% of GDP in Mexico, the Netherlands and Switzerland (Figure 3). These *public* spending differences are related to the age structure of populations, the number of older people who have access to pensions and health care, and the nature of health and pension systems – i.e., the generosity of systems and the extent to which countries make use of private health- and pension insurance plans, and in the case of health, differences in health prices.

Figure 3. Pensions and health expenditure are the main items of public social spending

Public social expenditure by broad social policy area, in percentage of GDP, in 2019



Notes: Countries are ranked by decreasing order of public social expenditure as a percentage of GDP. Spending on Active Labour Market Programs (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.

Source: OECD (2023), Social Expenditure (SOCX) via www.oecd.org/social/expenditure.htm . For detail on the underlying methodology regarding the detailed social expenditure programme data, see the manual to the OECD Social Expenditure database (SOCX).

For example, pension spending in Mexico is much lower than in Italy, because it has a relatively young population (OECD, 2019[7]), but also because Italian retirees are much more likely to receive a pension than in Mexico where fewer than half of the older people receive a pension. The Netherlands has a similar age structure as Italy and almost all Dutch retirees receive a pension. But in Italy, public spending on pensions is over 10 percentage points of GDP higher than in the Netherlands. This is because public pensions in Italy are relatively high, many people retire at early ages with limited adjustments of benefits, (OECD, 2021[8]), spending on public survivor pensions (more than 2.5% of GDP) is among the highest in the OECD, and because in the Netherlands relatively high earnings-related contributory pensions (including survivor pensions) are paid through private pension plans: private social pension expenditure in the Netherlands exceeded 5% of GDP compared to about 1.1% in Italy (OECD, 2023[9]). The "twin-statistics brief" discusses " Private social expenditure and the influence of the tax system".

Box 1. 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 1980-2019/21 for 38 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 2020-22 based on national aggregates where data is available and estimates otherwise. For EU countries, data for 2020/21-22 were estimated on basis of the OECD Economic Outlook Projections and the European Union's Annual Macro-economic database (AMECO), DG ECFIN, as in November 2022. For the United Kingdom, data for 2021 were estimated on basis of OECD Economic Outlook 112 (November 2022) and National Accounts Blue Book 2022. SOCX also includes indicators on net (after tax) social expenditure for 38 countries for 2019 (information on taxation of benefits often does not become available until two years after the fiscal year it concerns). Time series for most 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 25 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 Affair's 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) at www.oecd.org/social/expenditure.htm.

Income support to the working-age population accounted for almost 4% of GDP on average across the OECD in 2019. This amount includes public spending worth 1.6% of GDP on sickness and disability cash payments; 1.1% on family cash benefits such as child allowances and parental leave payments; 0.6% of GDP is spent on unemployment 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 almost 1% of GDP on family services – mostly Early Childhood Education and Care services for children aged 0-5 inclusive. Public spending on services for the elderly and disabled was just below 1% of GDP across the OECD on average, such spending is typically highest in Nordic Countries it amounts to around 2 to 4% of GDP (e.g., spending on home help services as well as residential services).

References

OECD (2023), *Social Expenditure (SOCX) Update 2023: Private social expenditure and the influence of tax systems*, http://www.oecd.org/social/expenditure.htm. [9]

OECD (2022), *Health expenditure*, https://www.oecd.org/els/health-systems/health-expenditure.htm. [3]

OECD (2022), *How inflation challenges pensions /*, OECD, Paris, https://www.oecd.org/pensions/How-inflation-challenges-pensions.pdf (accessed on 16 December 2022). [6]

OECD (2022), *Income support for working-age individuals and their families*, OECD, Paris, https://www.oecd.org/social/Income-support-for-working-age-individuals-and-their-families.pdf (accessed on 16 December 2022). [5]

OECD (2022), *OECD Economic Outlook, Volume 2022 Issue 2*, OECD Publishing, Paris, https://doi.org/10.1787/f6da2159-en. [1]

OECD (2022), *OECD Employment Outlook 2022: Building Back More Inclusive Labour Markets*, https://doi.org/10.1787/1bb305a6-en. [2]

OECD (2022), *OECD Labour market policies (LMP) Database*, https://www.oecd.org/els/emp/employmentdatabase-labourmarketpoliciesandinstitutions.htm. [4]

OECD (2021), *Pensions at a Glance 2021: OECD and G20 Indicators*, OECD Publishing, Paris, https://doi.org/10.1787/ca401ebd-en. [8]

OECD (2019), *Society at a Glance 2019: OECD Social Indicators*, OECD Publishing, Paris, https://dx.doi.org/10.1787/soc_glance-2019-en. [7]

Citation

Please cite as: OECD (2023), *Social Expenditure (SOCX) Update 2023: The rise and fall of public social spending with the COVID-19 pandemic*, OECD, Paris, http://www.oecd.org/social/expenditure.htm.

The “twin-statistics brief” discusses “ Private social expenditure and the influence of the tax system”.

Notes

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

Contacts

Willem ADEMA (✉ willem.adema@oecd.org) Maxime LADAIQUE (✉ maxime.ladaique@oecd.org)
Pauline FRON (✉ pauline.fron@oecd.org)

@OECD_Social

The contributions by Alexandre Lloyd and Alexandre Marin are gratefully acknowledged.