5. Public social spending

Definition and measurement

Social expenditure is classified as public when general government (*i.e.* central administration, local governments and social security institutions) controls the financial flows. For example, sickness benefits financed by compulsory contributions from employers and employees to social insurance funds are considered "public", whereas sickness benefits paid directly by employers to their employees are classified as "private". For cross-country comparisons, the indicator of social spending used here refers to public spending as a share of GDP. The spending flows shown here are recorded before deduction of direct and indirect tax payments levied on these benefits and before addition of tax expenditures provided for social purposes ("gross spending"). Spending by lower tiers of government may be underestimated in some federal countries. Private social spending, which is considerable in a number of countries such as Korea and Canada, is not considered here because of the considerably greater error in the data.

The Gini coefficient is a measure of income inequality. Values range between 0 – perfect equality – and 1 – all income goes to one person.

Public social spending measures the amount of resources committed by the government in the areas of pensions, benefits (social support) and health. A traditional argument for much social spending is to prevent disadvantage and thus enhance equity.

In 2007, public social expenditure averaged 19% of GDP across 34 OECD countries (Panel A, EQ5.1). Country differences in spending levels were wide. Mexico and Korea spent between 6 and 10% of GDP. France and Sweden spent about 20 percentage points more. Public spending is a feature of the continental European countries. Spending shares were lower than average amongst three of the four new member countries – Chile, Estonia, and Israel. Anglophone countries, with the exception of the United Kingdom, fell below the OECD spending average. However, country rankings changed considerably when net social spending (allowing for net taxes) was considered, with the United States, which tends to redistribute through the tax system, experiencing a big rise.

Social spending has grown marginally as a share of GDP across the OECD between 1982 and 2007 (Panel B, EQ5.1). The overall picture was a slight rise, by 2.5 percentage points on average, across the OECD. Especially big increases were found in Portugal, Japan and Turkey. Social spending in the Netherlands fell as a percentage of GDP for several reasons, including low GDP in the base year, relatively rapid GDP growth, and changes in the treatment of pensions, health reform and the approach to benefit indexation.

Countries with a more equal income distribution, as measured by the Gini coefficient, tended to have higher social spending (EQ5.2). Nordic and western European countries, which spend the most, had low income inequality. On the other hand Mexico and Turkey spent little and record high income inequality. Some countries (like Portugal and Italy) had high spending and quite high income inequality, probably reflecting on the types of social spending undertaken.

However, bigger rises in social spending experienced over the last generation in some countries do not appear to have contributed to reductions in income inequality (EQ5.2). This lack of a relationship could be because the types of social spending which rose were not income inequality reducing, or that social spending rose in some countries to try and partially offset the rise in inequality from market or other sources.

Figure note

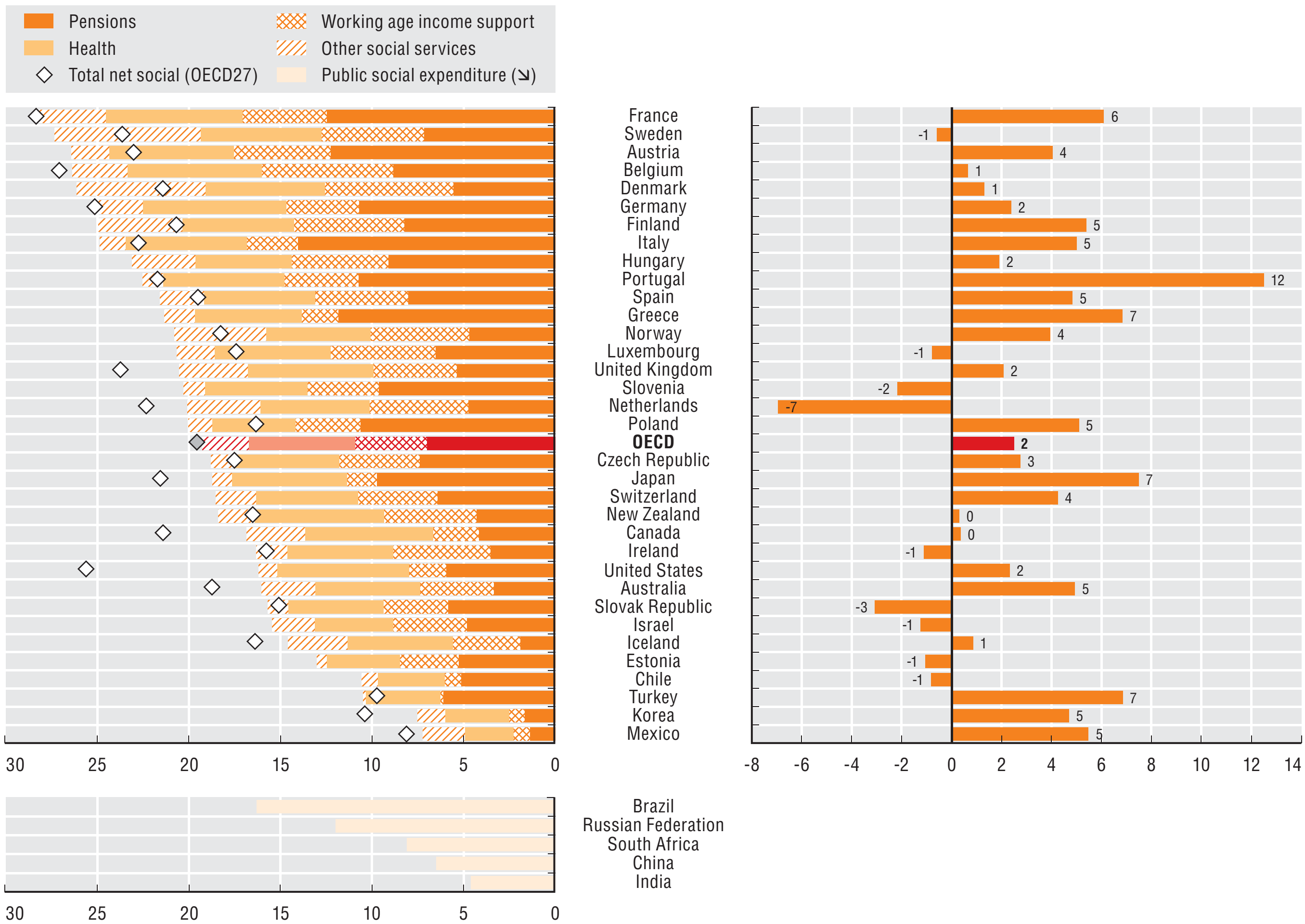
Figure EQ5.1, Panel A: Countries are ranked by decreasing order of total public social spending in 2007. Other social services include active labour market programmes (ALMPs). 2005 for Brazil, 2006-07 for India and 2008 for China.

Information on data for Israel: *http://dx.doi.org/10.1787/888932315602*.

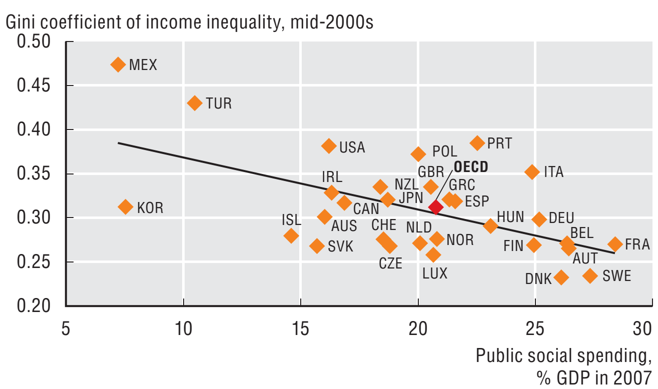
EQ5.1. More public social spending in most countries since the 1980s

Panel A. Public social spending by broad policy area and total net social spending, in 2007, in percentage of GDP

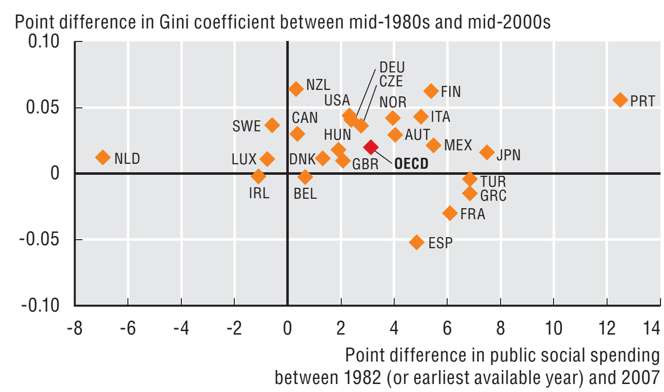
Panel B. Percentage points difference in public social spending as a % GDP between 2007 and 1982 or earliest available year



EQ5.2. High social spending countries have lower income inequality



EQ5.3. There is no relationship between rising social spending and income inequality



Source: OECD (2010), *Social Expenditure Database* (*www.oecd.org/els/social/expenditure*) and OECD (2010), *Employment Outlook* (*www.oecd.org/employment/outlook*) for Brazil, China, India, the Russian Federation and South Africa, OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries* (*www.oecd.org/els/social/inequality*).

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