

Definition and measurement

Social support to those in need is provided by a wide range of people and social institutions through a variety of means. Much of this support takes the form of social expenditures, which comprises both financial support (through cash benefits and tax advantages) and “in-kind” provision of goods and services. To be included in social spending, benefits have to address one or more contingencies, such as low-income, old-age, unemployment and disability.

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 Net National Income. The spending flows shown here are recorded on 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 countries, especially more decentralised or federal polities.

In 2005, gross public social expenditure was on average 24% of NNI across 30 OECD countries (EQ5.1). Cross country differences in spending levels are wide. Mexico and Korea spend 8% of NNI while Sweden spends 26 percentage points of NNI more. Sweden is closely followed by France, Luxembourg and Austria in terms of spending shares. In terms of cash transfers, these latter three countries spend considerably more than Sweden (as do others). A considerable number of countries cluster relatively tightly, just above and – particularly – just below the OECD average.

Cash benefits were larger than in-kind services in 25 countries. In Poland, Italy and Austria cash benefits exceeded in-kind benefits by at least 10 percentage points of NNI, while in Iceland, Canada and Mexico, services dominate, being at least 3 percentage points of NNI higher than cash benefits.

The three largest categories of public social spending are pensions (9% of NNI on average), health (7%) and income transfers to the working-aged (5%). Pension spending accounts for more than 12% of NNI in Austria, France, Germany, Greece, Italy, and Poland, and less than 5% in Australia, Canada, Iceland, Ireland, Korea, and Mexico. Gross public spending on social services exceeds 5% of NNI only in Denmark, Norway and Iceland.

Public social spending has been increasing as a share of NNI in the last generation and converging across OECD countries (EQ5.2). The overall rise has been on average 5 percentage points. Most of this average gain occurred during the period 1980-92. Thereafter there is less evidence of a time trend. The left panel of Figure EQ5.2 shows developments for selected high spenders, and the right panel shows developments for selected low spenders. Post-1992 stabilisation in spending shares seems to have come more strongly from the high spenders, with considerable falls in spending after 1992, in particular for Sweden. On the other hand the lower spending countries show a more steadily rising trend throughout the period. The upshot of such a pattern is a growing convergence in social spending patterns across the OECD, at least in terms of NNI shares.

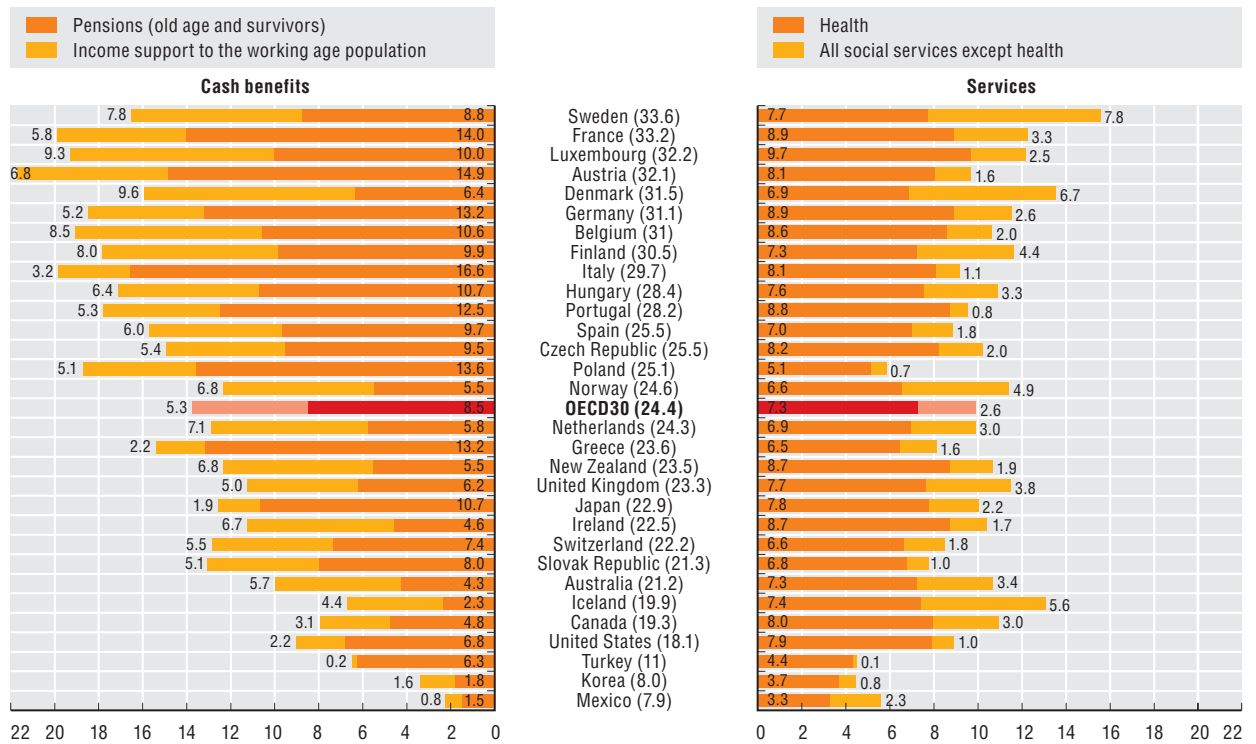
Figure notes

Figure EQ5.1: Countries are ranked by decreasing order of public social expenditure as a percentage of NNI. 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). 2004 data for Portugal.

Figure EQ5.2: Information for 1980 to 2005 is available for 23 countries, while information for the Czech Republic, Iceland, Korea, Mexico, and Poland is available for 1990 onwards. OECD-30 refers to an unweighted average of OECD countries, not including Hungary (data from 1999 onwards) and Slovak Republic (data from 1995 onwards). 2005 data for Portugal refers to 2004.

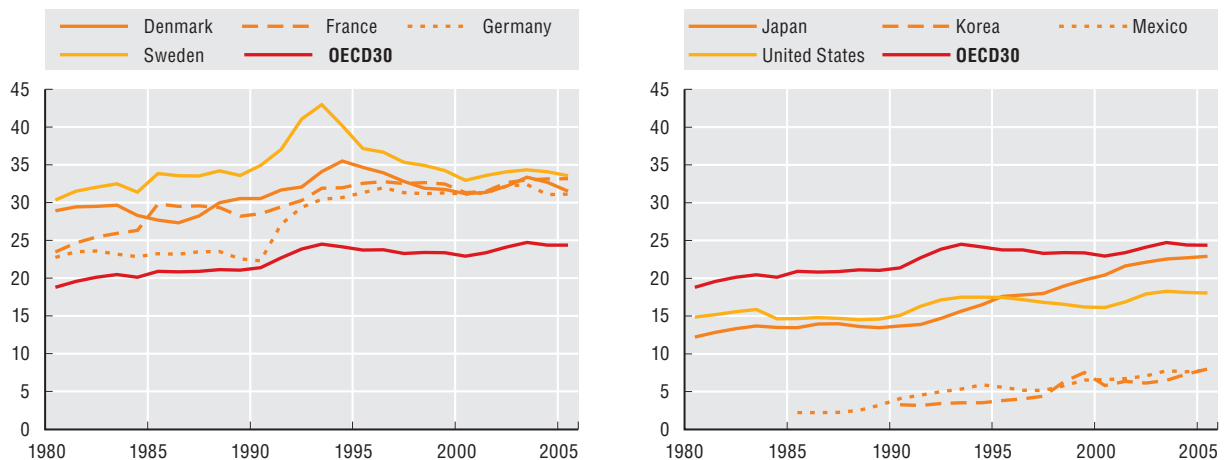
EQ5.1. On average public social spending accounts for one fourth of NNI across OECD countries

Public social expenditure by broad social policy area, in percentage of NNI, 2005



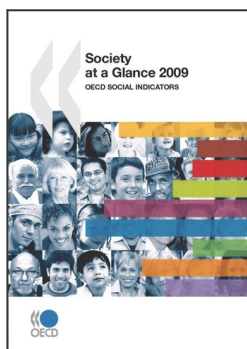
EQ5.2. Upward trends in public social spending-to-NNI ratio

Public social spending for selected countries, 1980-2005, in percentage of NNI



Source: OECD (2008), Social Expenditure Database, 1980-2005 (www.oecd.org/els/social/expenditure).

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