

Social spending

In 2012-13, public social spending averaged an estimated 21.9% of GDP across the 34 OECD countries (Figure 5.7, Panel A). In general, public spending is high in continental and northern European countries, while it is below the OECD average in most countries in Eastern Europe and outside Europe. Belgium, Denmark, Finland and France spent more than 30% of GDP on social expenditures. By contrast, Korea and Mexico spent less than 10% of GDP. Social spending in the emerging economies in the late 2000s was lower than the OECD average, ranging from around 2% in Indonesia to about 15-16% in Brazil and the Russian Federation (Figure 5.7, Panel A).

Public social spending in per cent of GDP increased in all OECD countries with the exception of Hungary from 2007-08 to 2012-13 (Figure 5.7, Panel B). **The growth fully took place during the period 2007-08, as a response to increased unemployment and other consequences of the economic crisis.** In this initial phase, Estonia and Ireland had the strongest increase in expenditure shares. From 2009-10 to 2012-13, fiscal consolidation reduced public social spending. Nearly two-thirds of the OECD countries reduced social spending in this period. The real drop in public social spending in some countries is larger than indicated by change in the shares of GDP, since the level of GDP also fell. Indeed in some countries, the rise of the ratio of public social spending in GDP is explained largely by the fact that GDP declined.

On average in the OECD, pensions, health services and income support to the working-age population and other social services each amount to roughly one-third of the total expenditures. In a majority of OECD countries, pensions are the largest expenditure area (Figure 5.8). In Anglophone countries and most other countries outside of Europe, health dominates public social expenditure. In a few countries, such as Denmark, Ireland and Norway, the largest share is devoted to income support of the working-age population.

Accounting for the impact of taxation and private social benefits (Figure 5.8) leads to a convergence of spending-to-GDP ratios across countries. Net total social spending is 22-28% of GDP in many countries. It is even higher for the United States at 29% of GDP, where the amount of private social spending and tax incentives is much larger than in other countries.

In Europe, people seem to be most satisfied with the health care provisions and less satisfied with the pension provisions, unemployment benefits and the way inequality and poverty are addressed (Figure 5.9). Satisfaction with health care provisions is highest in Belgium, Luxembourg and the Netherlands and lowest in Greece and Poland. Satisfaction with pension provisions is highest in Austria, Luxembourg and the Netherlands and lowest in Greece and Poland. Satisfaction with how inequality and poverty are addressed is in general quite low.

Definition and measurement

Social expenditure is classified as public when general government controls the financial flows. Sick leave benefits financed by compulsory contributions to social insurance funds are considered “public”, whereas sick leave benefits paid directly by employers to their employees are classified as “private”. The spending shown in Figure 5.7 is recorded before deduction of direct and indirect tax payments levied on these benefits and before addition of tax expenditures provided for social purposes. Data after considering the impact of private social spending as well as the tax system are presented in Figure 5.8. Spending by lower tiers of government may be underestimated in some federal countries.

Public social spending totals reflect detailed social expenditure data for 1980-2009. Consistent with these historical series, public social expenditure totals were calculated for 2010, 2011, 2012 and estimated for 2013, based on national sources for non-European OECD countries, and/or the OECD Economic Outlook, No. 93, May 2013, and the European Union’s Annual Macroeconomic Database (AMECO).

Data on satisfaction with welfare state performance are from the Eurobarometer surveys. The latest wave of the Social Climate survey, carried out by TNS Opinion & Social network in the 27 Member States of the European Union in 2012, evaluated Europeans’ current perceptions of their own situation and of their country. Sample sizes vary between 1 000 and 1 500 depending on the country, and data should be interpreted carefully. For more information, see http://ec.europa.eu/public_opinion/index_en.htm.

Further reading

Adema, W., P. Fron and M. Ladaique (2011), “Is the European Welfare State Really More Expensive? Indicators on Social Spending, 1980-2012 and a Manual to the OECD Social Expenditure Database (SOCX)”, *OECD Social, Employment and Migration Working Papers*, No. 124, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5kg2d2d4pbf0-en>.

European Commission (2012), “Social Climate”, *Special Eurobarometer No. 391*.

Figure notes

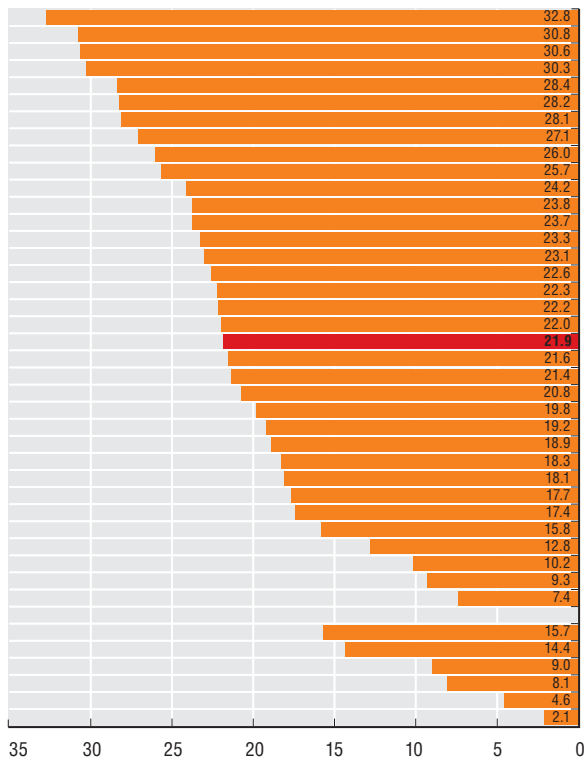
Figure 5.7, Panel A: Data refer to 2009 for Turkey, 2010 for Japan, 2012 for Chile, Korea, and Mexico and to the last years available for key partners.

Figure 5.8: Income support to the working-age population refers to cash benefits towards incapacity, family, unemployment and other social policy areas. Data for Israel concern public social spending only. Total net social expenditure data are not available for Hungary, Greece, Switzerland and Turkey. Data for Switzerland refer to 2008.

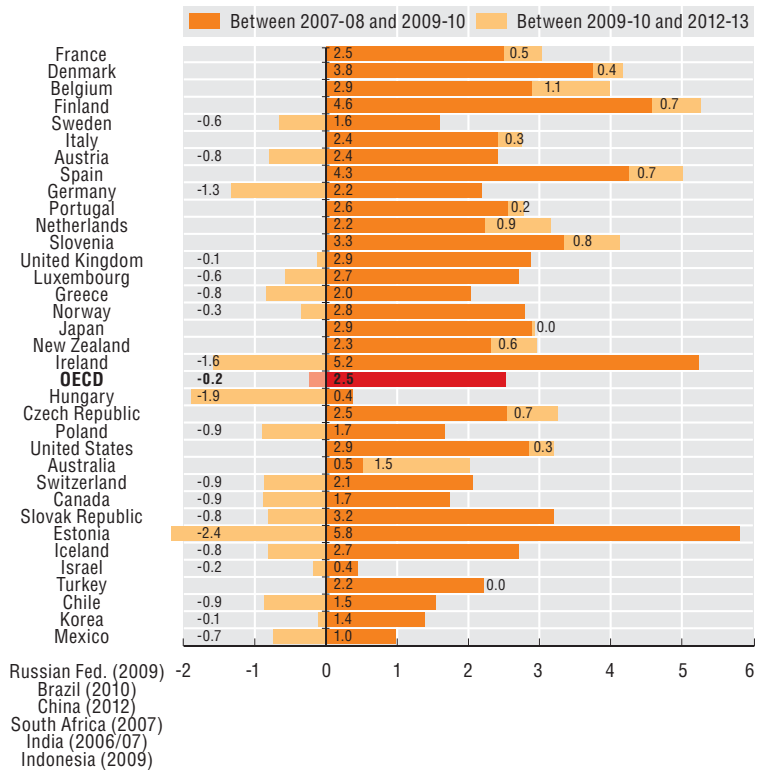
Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

5.7. Social expenditure increased during the crisis

Panel A. Public social expenditure in percentage of GDP, 2012-13

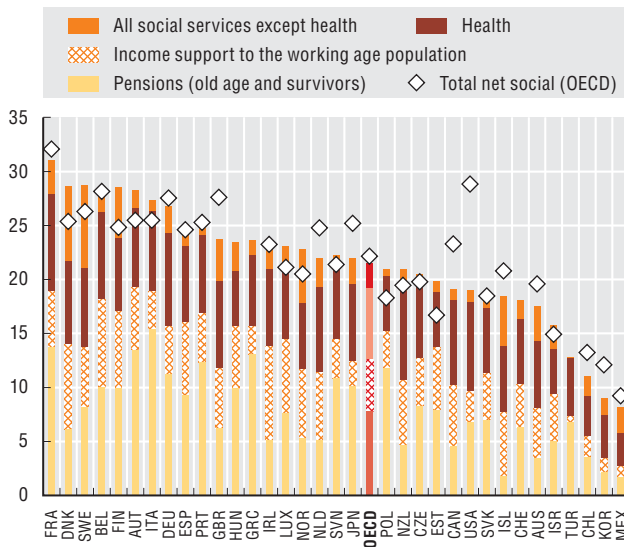


Panel B. Percentage point change



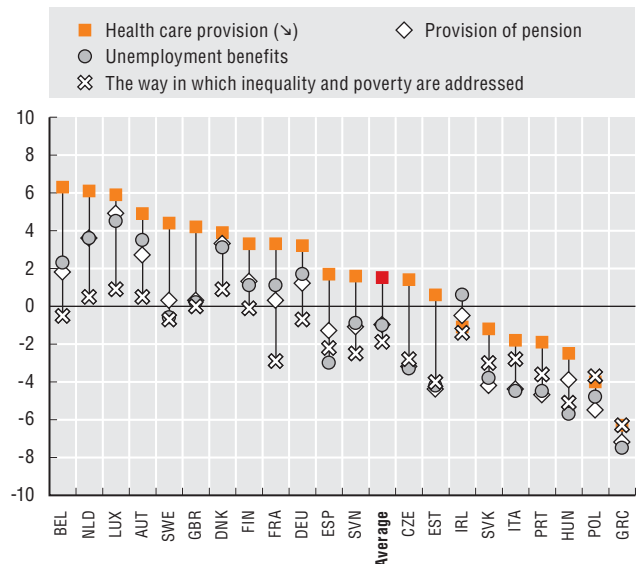
5.8. Most spending goes to pensions and health

Public social spending by broad policy area and total net social spending, in 2009, in percentage of GDP



5.9. Satisfaction with welfare state performance varies across European countries

Eurobarometer index on satisfaction for selected areas, 2012 (a neutral index is an index score close to 0 on a scale from -10 to 10)



Source: OECD Social Expenditures Database (SOCX); OECD Employment Outlook 2013; Instituto de Pesquisa Econômica Aplicada (IPEA), Brazil; Asian Development Bank (ADB-SPI); World Health Organization (WHO); European Commission (2012) (http://ec.europa.eu/public_opinion/index_en.htm).

StatLink <http://dx.doi.org/10.1787/888932966523>



From:
Society at a Glance 2014
OECD Social Indicators

Access the complete publication at:
https://doi.org/10.1787/soc_glance-2014-en

Please cite this chapter as:

OECD (2014), "Social spending", in *Society at a Glance 2014: OECD Social Indicators*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/soc_glance-2014-20-en

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