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Net Social Expenditure

Willem Adema

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SUMMARY

This paper contains an overview of *net* total (public and private) social expenditure indicators. These indicators have been developed to supplement available historical information on *gross* social expenditure trends by accounting for the varying impact of the tax system across countries. Tax systems can affect social spending in three ways:

- Governments levy direct taxes and social security contributions on cash transfers.
- Governments levy indirect taxes on goods and services bought by benefit recipients. And,
- Governments may award tax advantages similar to cash benefits and/or grant tax concessions aiming to stimulate purchase of insurance coverage by private agents.

The paper summarises the methodological framework as previously developed, but extends coverage to thirteen countries for which information for 1993 and/or 1995 is now available: Australia, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, the Netherlands, Norway, Sweden, the United Kingdom and the United States.

The indicators developed in this paper aim to measure what governments really devote to social spending, *net public social expenditure*, and what part of an economy's domestic production recipients of social benefits draw on, *net total social expenditure*.

RÉSUMÉ

Ce document comprend un exposé sur les indicateurs des dépenses sociales totales *nettes* (publiques et privées). Ces indicateurs ont été développés afin d'apporter un supplément aux informations historiques disponibles sur les tendances des dépenses sociales totales *brutes*, en tenant compte de l'impact qui varie selon le régime fiscal des différents pays. Le régime fiscal peut avoir une incidence sur les dépenses sociales de trois façons :

- Les gouvernements perçoivent des impôts directs et des cotisations de sécurité sociale sur les transferts en espèces.
- Les gouvernements perçoivent des impôts indirects sur les marchandises et les services achetés par les bénéficiaires. Et,
- Les gouvernements peuvent accorder des déductions fiscales similaires à des prestations en espèces et/ou accorder des allégements fiscaux dans le but d'inciter les agents (instituts et/ou individus) privés à avoir recours aux assurances sociales.

Ce document résume le cadre méthodologique tel qu'il a été développé précédemment, mais étend sa couverture à treize pays pour lesquels les informations pour 1993 et/ou 1995 sont maintenant disponibles : Allemagne, Australie, Belgique, Canada, Danemark, Finlande, Irlande, Italie, Norvège, Pays-Bas, Suède, le Royaume-Uni et les Etats-Unis.

Les indicateurs développés dans ce document ont pour but de mesurer quels sont les gouvernements qui se consacrent vraiment aux dépenses sociales, *dépenses sociales publiques nettes*, et quelle part de la production intérieure revient aux bénéficiaires des prestations sociales : *dépenses sociales nettes totales.*

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Introduction

1. Measuring available social provisions in a given society by only considering cash transfers and social services leads to an incomplete view of public social effort. Governments provide social support through the tax system, but the value of such measures is partly offset by the value of taxes paid by recipients of benefits. Hence, *net* expenditures (after tax is accounted for) are generally less than *gross* expenditures. As the rules for direct taxation of vary greatly between countries, as do the rates of indirect taxation on consumption, accounting for these differences presents a better view of public social effort across countries.

2. Governments also intervene by legal or fiscal means to influence private provision of social support. Governments can oblige employers to provide private social benefits and/or stimulate employers and individuals to purchase private insurance policies by awarding tax advantages. The resultant benefits received by households are also subject to taxation, often at a rate significantly above those paid by public benefit recipients. In all, the sum of public and private social benefits net of taxation is considerably smaller than aggregate public and private social transfers and services. The net total social expenditure indicators aim to provide a comprehensive view of that proportion of an economy's domestic production that is actually at the disposal of recipients of social benefits.

3. This paper first presents a concise overview of the scope of public and private social expenditure, and its size in gross terms, *i.e.* measured before tax. It subsequently extends existing methodological frameworks on the impact of the tax system on social protection for thirteen countries for 1993 and/or 1995: Australia, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, the Netherlands, Norway, Sweden, the United Kingdom and the United States. Section 4 draws all relevant information together and presents estimates on *net public social expenditure* and *net total social expenditure* for aforementioned 13 ountries. Finally, Section 5 sums up the main findings of the paper.

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1. The opinions expressed in this paper are the responsibility of the author who works in the OECD Social Policy Division. It is an expansion of the analysis published in Adema, and Einerhand, 1998, "The Growing Role of Private Social Benefits", Labour Market and Occasional Paper Series, No. 32, OECD. The author would like to thank Marcel Einerhand, John Martin, Mark Pearson, and Peter Scherer for their comments on previous drafts. Without the highly appreciated efforts of all those who provided information on the taxation of benefits in the countries covered in this study, it would have been impossible to complete this paper. Any remaining errors are the responsibility of the author.

SOCIAL EXPENDITURE: AN OVERVIEW

The scope of social benefits

4. The OECD defines social expenditures as (OECD, 1999):

> The provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare. Provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer.[2] Such benefits can be cash transfers, or can be the direct (in-kind) provision of goods and services. Since only benefits provided by institutions are included, transfers between households - albeit of a social nature -- are not.

5. Social support covers different circumstances that adversely affect the welfare of households: such benefits have a "social purpose" as they cover "social risks". The *OECD Social Expenditure Database* groups social benefits across the following areas: old-age cash benefits; disability cash benefits; occupational injury and disease; sickness benefits; services for the elderly and disabled; survivors; family cash benefits; family services; active labour market policies (ALMP)[3]; unemployment compensation; housing benefits; public health expenditure; and other contingencies *e.g.*, cash benefits to those on low income (See also SNA, 1993, Chapter 8).

6. The financial flows relevant to social support are important for the demarcation of the social domain. Three broad types of financial flows are relevant to the provision of gross social benefits (Table 1):

- Social benefits to individuals and households.
- Contributions to finance benefits to households by employers (including governments as employers), employees, and individuals.
- Tax financing by governments of benefits received by households.

Hereafter, these financial flows will be identified separately as social benefits, social contributions and flows concerning tax financing of benefits. The data in this paper concern benefits and tax breaks with a social purpose (shaded areas in Table 1), **not** contributions or tax financing of social benefits.

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2. Social benefits do not include remuneration (wages and salaries) for work, as it does not cover market transactions, *i.e.* payments in return for the simultaneous provision of services of equivalent value. Employer costs such as allowances for transport costs, holiday pay, etc. are part of remuneration in this sense.

3. Expenditures on active labour market programmes (ALMP) are considered to be within the scope of social expenditure as they represent the use of public funds to improve the beneficiaries' prospect of finding gainful employment. As these expenditures also provide social and economic benefits to employers, the social and economic benefits resulting from expenditures on ALMP are a joint product that cannot be separated.

7. There is, however, another public expenditure item that is not only relevant to the calculation of net social expenditure indicators (see Section 3), but which is also crucial for the demarcation of what is social and what not: tax breaks with a social purpose.

8. The scope of private social support is largely determined by government intervention through legal and fiscal intervention (tax breaks with a social purpose). This is because through legal and fiscal intervention towards private insurance plans, the government effectively introduces an element of redistribution. In case of mandatory benefits employers/individuals are forced to take-up protection provisions regardless of their risk-profiles or prevalent market prices. Public fiscal intervention to stimulate private take-up on a collective or individual basis means that the take-up decision is not fully determined by the individual risk-profile or prevalent market price (the same holds for social benefits derived from collective agreements or taken out by employers on a collective basis[4]). As such there is a high degree of similarity between these arrangements and legally stipulated private arrangements.

Table 1. Financial flows relevant to social support

Revenue	Expenditure
Gross Indicators	
Taxes, social security contributions and contributions to private institutions (*i.e.* private funds, NGOs).	Social benefits before taxation
Net indicators	
Taxes, social security contributions and contributions to private institutions minus direct and indirect taxes paid by benefit recipients.	Social benefits after direct and indirect taxation
	Tax breaks with a social purpose

Light shaded areas reflect social support received by households as recorded in this paper. The other items are social security contributions, contributions to private institutions and general tax financing of benefits. These “financing” items are **not** recorded in this paper, except when it concerns taxes and social security contributions paid by benefit recipients (see Section 3).

9. In contrast, take-up of individual insurance, even with a social purpose, is a matter for the persons concerned, and premiums are based on the individual preferences and the individual "risk profile". Such individual contracts, where contributions and the ensuing benefits are determined by market prices and the individual risk profile, are here considered as *purely private* and are outside the social domain (See Box and Figure 1). Such plans concern, for example, pension plans, health insurance packages or life insurance policies taken up by individuals without fiscal stimulus or legal stipulation.[5]

4 . Employers may also directly provide in-work benefits to an individual employee on an individual and voluntary basis. This may be done to attract or keep high quality labour and reduce firm adjustment costs. Those payments that do not concern a group of employees are not regarded as social. For example, an employer may contribute to the pension provision for a particular employee independently of what other employees may receive. Such payments are not regarded as social contributions as they are made on an individual and voluntary basis.

5. Life-insurance policies have a clear social purpose when such policies are paid out to survivors. However, in practice such policies are often marketed as a savings instrument (such policies can also be linked to individual mortgage-policies). Generally, payouts of life-insurance policies take place at the moment of policy-expiration rather than in case of death. Separate data on the “survivors component” are not available and therefore all benefit payments and relevant tax-expenditures have been omitted from the analysis.

Box: Private social benefits: an oxymoron?

In the first instance, the phrase "private social benefits" may appear to be an oxymoron, as what is "private" can be considered the opposite of "social". However, this paper uses a hierarchy in terminology. First, what is social and what not, is determined by the purpose of the benefits and the prevalence of redistribution in the provision of protection. Then, there is a demarcation on basis of whoever controls the relevant financial flows; public institutions or private bodies. In this sense "private" is not the opposite of "social", but of "public". This distinction between "private" and "public" is in line with conventions as in the National Accounts (SNA, 1993).

There may be a case for calling all private social benefits, non-public social benefits. However, this is not an ideal solution either, as it would explicitly give the impression that these benefits are not subject to government intervention. But, as documented throughout the paper, it is public intervention by legal or fiscal means that brings these benefits within the social domain.

By definition, benefits that do not contain an element of redistribution, such as insurance bought at prevailing market prices and risk-profiles are not social. Similarly, transfers between households, albeit with a social purpose, are also not social. The opposite of "social" in this paper is "purely private". In all, the concept of social protection used in this paper entails the categorisation of some, but not all, private expenditures within the social domain (see venndiagram).

Chart: "Social" versus "Purely private"

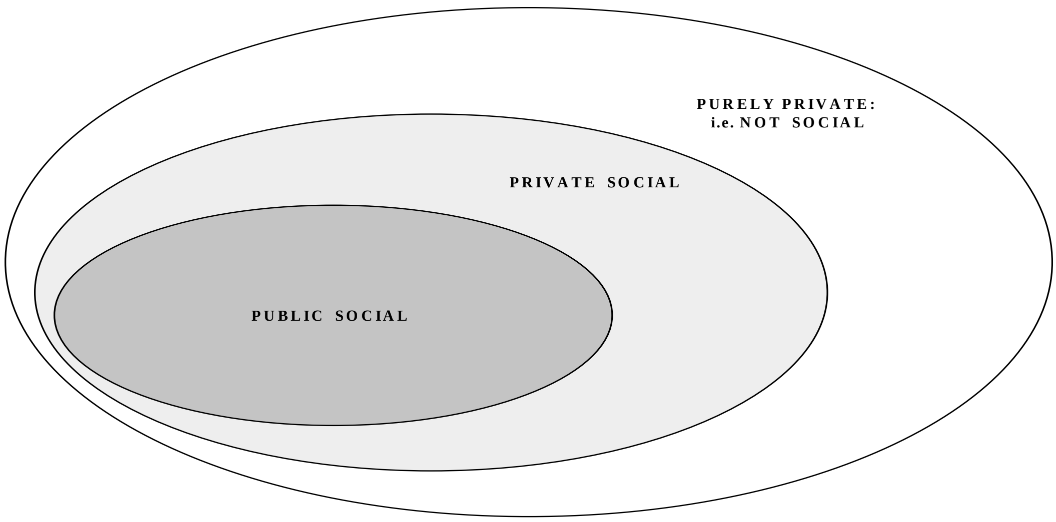
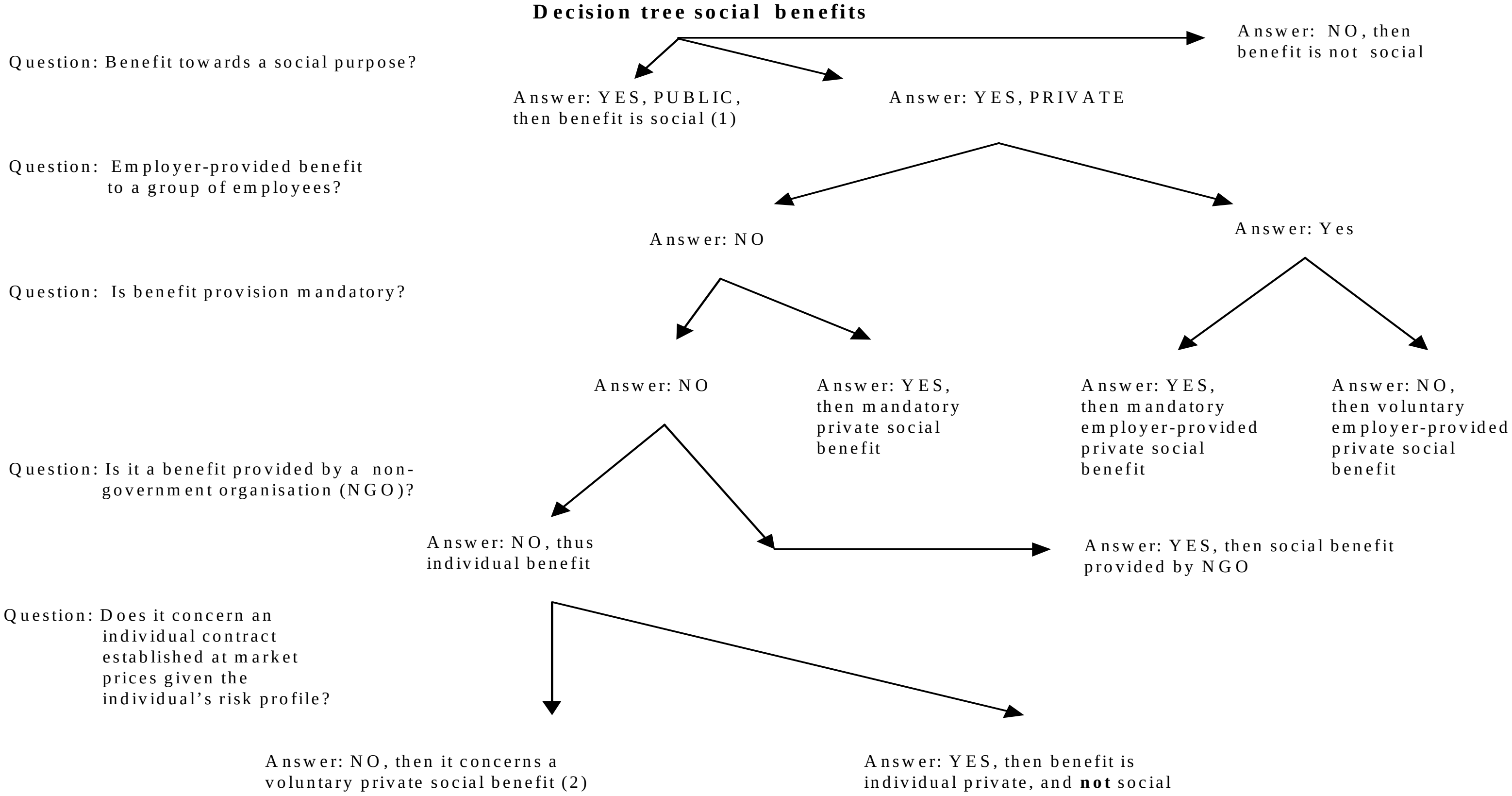


Figure 1. The scope of social benefits



Answer in CAPITALS, subsequent inference in normal font.

(1) Public: financial flows to benefits are controlled by general government (that is central, state, and local governments, including social security funds.

(2) Individual insurance contracts towards a social risk taken out with mutual benefit societies, e.g. by members of a specific occupation, and by groups of employees managed by a union are within the scope of private social support. Through "risk sharing", this type of "group insurance" is likely to ensure that the individual contributions are not fully determined by the individual risk-profile at going market prices.

Thus, if, and only if, the individual-risk profile fully determines insurance take-up the relevant benefits are not within the social domain. In theory this benchmark provides a clear distinction between what is social and what is not. In practice, however, this distinction is not that easily made. To illustrate the point, consider the case where the government fiscally stimulates individual pension provision at a digressive rate:

- An individual pays his/her first 1000 units in to his/her individual pension plan; the government provides a fiscal deduction of 200 units.
- For the second 1000 units paid in by the individual the government provides a fiscal deduction of 100 units. And,
- There is no fiscal stimulus regarding any contribution over and above the 2000 unit's threshold.

10. If the government's fiscal "subsidy" (or revenue foregone) is intended to serve a social purpose, then they are here regarded as being within the scope of public support (see below).[6] The relevant private benefit payments are considered social if they were not fully determined by the individual risk profile at going market prices. Thus, the pension payments accruing to contributions up to the "threshold-level" will be regarded as social. Pension payments accruing to contributions paid in over and above the threshold level are *purely private* and not social. These benefits do not derive from legal stipulations or fiscal advantages, but are completely determined by the individual risk-profile and prevailing market prices.

11. Thus, benefits accruing from, for example, individual savings plans are social in as much the underlying contributions were tax advantaged. It might be argued that only the value of the fiscal intervention towards the benefit should be considered social. However, relevant fiscal measures redistribute resources up to the level where tax-advantages no longer apply, and thus all benefits accruing from such contributions are included. In New Zealand, where favourable tax treatment concerns payments and not contributions, only the pension payments subject to tax-advantages would be included. Ideally, we would therefore only include those private benefits derived from fiscally stimulated contributions. However, the data that is presently available does not facilitate the distinction of fiscally advantaged and non-fiscally advantaged individual pension benefits on a comprehensive basis. Therefore, the data in this paper account for all disbursements of individual pension plans (the non-fiscally advantaged part of such benefits is relatively small at present; but will become more important over time with the maturing of relevant pension plans).

12. The treatment of privately provided health benefits and individual co-payments is arguably even more complex. In principle all payments that are done on basis of the individuals' risk profile and preferences at the going market price are not social. However, *prima facie* it is not always clear which of the payments by an individual fall into this category. Suppose an individual covered by private health insurance only, undergoes a medical intervention that costs 1000 units of which 800 units are paid by the private health insurer, leaving the individual with 200 units to pay. If the private health insurance system does not contain an element of redistribution, then there is no reason to regard this arrangement or benefits paid out of co-payments as social, as services provided reflect the prevailing market price and risk profile.

13. However, consider the case in which an individual is covered by a universal public health plan and a supplementary employment-based, tax-advantaged, private health insurance package. Suppose this individual undergoes a medical intervention at a price set at 1000 units of which 600 is paid by public

6. Fiscal measures to stimulate savings in general or savings by specific groups such as young persons are not considered as tax breaks for social purposes.

health insurance, 300 is paid by the private health insurer, leaving an individual co-payment of 100. Obviously, the public social benefits are 600[7] and private social benefits are 300 (the private health system is "redistributive" as it is tax-advantaged), but how to treat the individual co-payment? The question here is twofold: has the individual only undergone this medical intervention because of medical need (the social risk)? Is the total price of 1000 units a fully determined market price? If government subsidies or regulations influence the total price of the intervention (1000 units) and its occurrence, there is a strong case for bringing individual co-payments (100 units) into the social domain, as they are also subsidised and have to be made in order to address a social risk. In fact, governments often introduce co-payments, however small, to reduce the demand for health services. This suggests that government subsidies and regulations affect the demand for health services in a way not dissimilar to how individual pension plans are affected. However, this is likely to vary across the range of medical interventions. For example, the demand for cosmetic surgery is more likely to be affected by price setting and less likely to always address a medical need (social risk) than the demand for medical services at childbirth.

14. Data on public expenditure on health were taken from *OECD Health Data 98*. Indicators on private social health expenditure are estimates on the benefits to recipients that derive from private health plans which contain an element of redistribution (such private health insurance plan are often employment-based and/or tax-advantaged). Available data on individual payments do not separately identify individual co-payments, let alone whether such co-payments are made towards a social risk. By not including data on individual payments, it is thus implicitly assumed that none of the individual payments (including co-payments) are in any way subject to redistribution. This is a very strong assumption, which is unlikely to fully reflect reality, but it was judged more realistic for the purposes of this paper then the alternative -- to include all individual payments. The estimates on private social health benefits (see below) may thus somewhat underestimate the "true" social extent of health-care provisions.

15. Thus, mandatory and fiscal government intervention regarding employer and/or household based private insurance plans largely determine the scope of private social benefits.[8] Apart from these benefits, private social support is also provided by non-commercial non-government organisations (NGOs). Organisations such as the Red Cross or the Salvation Army provide benefits to people who for one reason or another do not receive sufficient support through the national social protection system, such as the homeless, drug-addicts, and other people with a multitude of social problems (OECD, 1999a). These NGOs are often supported by donations (from both households and employers), as well as substantial government subsidies and tax concessions (Pharoah, 1997). Although covered in the national accounts (SNA, 1993, Chapter 8), comprehensive data on benefits by NGOs that is comparable with the detailed information in the *OECD Social Expenditure Database* is not available. Hence, these benefits are not covered in this paper.

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7. Total public costs are higher as it also includes the value of tax financing the private health plan (but such amounts are difficult to allocate to a specific medical item).

8 . In some cases other benefits that are not mandatory or fiscally advantaged are also considered social as they are similar to those that are. Sometimes self-employed individuals insure themselves within an occupational framework against social risks. Similarly, groups of employees can take out insurance, possibly under union-management. Through risk sharing, this type of "group insurance" is likely to ensure that the individual contributions are not fully determined by the individual risk-profile at going market prices. This also applies to individual insurance through a mutual benefit society. Therefore, benefits towards social risks by relevant institutions are regarded as within the social domain.

Typology of social benefits

16. Three broad types of social provisions can be distinguished:

- **Public benefits**: Social benefits to households and individuals can be publicly or privately provided. In line with SOCX, social benefits are regarded as public when general government (that is central, state, and local governments, including social security funds)[9] controls relevant financial flows. Thus, social security contributions paid by employers to social security funds (receipts) are within the public sphere. Social benefits provided by governments to their own employees are also considered to be public. All social benefits not provided by general government are within the private domain (Table 2).

- **Mandatory private social benefits**: Private social benefits are only considered as mandatory if benefit-provision by employers or individuals, is statutorily enforceable. These benefits differ from public benefits in that financial flows are not channelled through the public system as defined above. Nonetheless, governments exercise control over the terms -- level, coverage and duration -- under which such private benefits are provided.

- **Voluntary private social benefits**: All social support which is not public or mandatory private is defined as *voluntary private* social support, and often such private social benefits are employment-related and stipulated in collective agreements. Such *voluntary employer-provided private social* benefits often top up public and mandatory private benefits. Employers may also provide such benefits voluntarily to their workforce or part thereof. Such voluntary benefits often receive tax advantages as in the United States where employer-provided health benefits are subject to considerable tax advantages (Gruber and Poterba, 1995). Tax advantages can also be given towards the take-up of individual private pension plans. Benefits deriving from these tax-advantaged provisions are considered to be private social benefits. The data presented in this paper concern estimates of benefits derived from contributions and tax advantages towards the provision of private benefits, not on contributions.

17. In practice, an unambiguous categorisation of *mandatory private* social benefits is hard to achieve. This is particularly so when benefits do not concern direct payments from employer to employee such as sickness benefits but are derived from mandatory and other types of contributions. In this case, benefit payment in year t, B(t), is related to contributions in previous years, C(t - n), and the rate of return on investment income, I(t-n):

$$B(t) = F\,[\,\Sigma\ (\,C(t-n), I(t-n)\,)\,]$$

The total amount of contributions (C) paid to a particular arrangement over the years can be sum of different types of contributions: mandatory contributions (Cm); collectively-induced contributions (Cc); the fiscally-advantaged individual contributions (Cf); and individual private contributions which are not fiscally advantaged (Ci). Consequently, in any particular year:

$$C = Cm + Cc + Cf + Ci.$$

Thus, benefit payments in year x can be related to four types of contributions made over previous years and the relative importance of the different types of contributions can shift from year to year.

9. Social security funds are social insurance schemes covering the community as a whole or large sections of the community that are imposed and controlled by government units (SNA, 1993, sections 8.63 and 8.64).

18. Often, data on benefit payments only record aggregate payments (Bx) and do not facilitate separate identification of payments due to different types of contributions (Cm, Cc, Cf, Ci). For example, data on pensions paid by Superannuation plans in Australia or private pension plans in the United Kingdom do not separately identify payments derived from mandatory contributions. Adema and Einerhand (1998) estimated that mandatory pension benefits in the UK amounted to 0.4% of GDP in 1995. Similar estimates on benefits deriving from mandatory contributions in Australia are not available and all Superannuation benefits are grouped under voluntary private social benefits. This has been done as the Superannuation benefits deriving from mandatory contributions are currently relatively small; but these benefits are expected to increase with the maturing of Superannuation plans.

The size of social benefits

19. Most social support is publicly provided. In European countries the share of **public social benefits** in total social expenditure exceeds 90%, except in the Netherlands and the United Kingdom (Table 1 – the *OECD Social Expenditure Database* contains a detailed overview of public and mandatory private social expenditure). Private spending is most important in North America, particularly in the United States where it amounts to one-third of all social benefits. Public social support mostly takes the form of income replacement (or other) cash benefits; public spending on social services (including health) is smaller than spending on cash benefits in all countries. However, this is subject to significant variation; services (including health) are relatively important in Denmark, Germany, Norway, Sweden and the United States (due to relatively large health benefits and low overall public spending compared to other countries). Health and pension benefits (old-age cash benefits and survivors benefits) are the largest items of public (and private) social support. Other examples of public social support are means-tested income support benefits, unemployment compensation, active labour market policies, housing, etc (OECD, 1999). The magnitude of gross public social expenditure seems to indicate that the "welfare state" is most comprehensive in Belgium, Denmark, Finland, Germany, the Netherlands, Norway and Sweden. However, as evidenced below, it is hazardous to draw such a conclusion only on basis of gross spending indicators.

20. **Mandatory private social benefits** often concern employer-payments to employees absent from work because of illness. Such employer-provided sickness benefits are recorded for Belgium, Denmark, the Netherlands, Norway, Sweden and the United States (data on this item Australia are not available for 1995[10]), and are most important in Germany (Table 2). For Australia and the United Sates separately identifiable death and injury benefits due to (occupational) accidents are also recorded. Mandatory benefits can also accrue from mandatory pension contributions to employer-based and/or individual pension plans, as recorded for Belgium, Finland and the UK. As described above, Australian "Superannuation" benefits derive in part from mandatory contributions, but relevant components cannot be separately identified.

10 . Survey data on sickness and maternity leave paid by employers in Australia indicates that the value of relevant benefits is around 0.8% of GDP in 1997. This is likely to underestimate the true size of benefits as the survey does not cover the first day of sickness nor those spells which last four weeks or more. Nonetheless, this estimate puts Australia among those countries where mandatory private sickness benefits are most important: the Netherlands, Norway and Germany.

Table 2. Gross total social expenditure, 1995, as a percentage of GDP

	Australia	Belgium	Canada	Denmark	Finland	Germany	Ireland	Italy	NL	Norway	Sweden	UK	US
Gross public social expenditure (1)	17.8	28.8	18.2	32.2	31.9	27.1	19.4	23.7	26.8	27.6	33.0	22.4	15.8
Pension spending (old age & survivors)	4.7	10.3	4.8	7.7	9.1	10.9	4.6	13.6	7.8	6.2	9.0	7.3	6.3
Unemployment	1.3	2.8	1.3	4.6	4.0	1.4	2.7	0.9	3.1	1.1	2.3	0.9	0.3
Disability spending (incl. Occupational injuries)	2.0	2.2	1.0	2.3	4.0	1.4	0.9	1.9	4.1	2.7	2.4	2.8	1.0
Sickness benefits	0.1	0.5	0.1	0.7	0.5	0.5	0.9	0.1	1.0	1.2	1.2	0.2	0.2
Public expenditure on health	5.7	6.9	6.6	5.3	5.7	8.1	5.2	5.4	6.7	6.6	5.9	5.7	6.3
Other (2)	4.0	6.1	4.5	11.7	8.6	4.7	5.2	1.8	4.1	9.8	12.3	5.5	1.5
Public cash benefits	10.7	19.7	11.4	21.4	22.9	17.3	13.2	18.0	19.7	15.6	21.4	15.4	8.7
Public social services and health	7.1	9.1	6.8	10.8	9.1	9.8	6.2	5.7	8.1	12.0	11.6	7.0	7.1
Gross mandatory private social expenditure (1)	0.3	0.0	..	0.5	0.2	1.6	..	..	0.8	0.9	0.4	0.4	0.5
Gross voluntary private social expenditure	2.8	0.6	4.5	0.9	1.1	0.9	1.8	1.7	4.4	..	2.1	4.2	7.9
Voluntary private social cash benefits (3)	1.9	0.2	3.5	0.7	1.0	0.7	1.2	1.4	3.1	..	2.0	3.9	2.8
Voluntary private social health benefits (4)	0.9	0.5	0.9	0.1	0.1	0.1	0.6	0.2	1.2	..	0.1	0.3	5.0
Gross total social expenditure (5)	20.9	29.4	22.7	33.6	33.2	29.6	21.1	25.4	31.9	28.5	35.5	27.0	24.1
Total cash benefits	12.9	19.9	14.9	22.6	24.0	19.6	14.4	19.5	22.4	16.5	23.8	19.7	12.0
Total services	8.0	9.5	7.8	10.9	9.2	9.9	6.8	5.9	9.5	12.0	11.7	7.3	12.1
Public share in total social expenditure	85.0	97.9	80.4	95.9	96.2	91.6	91.7	93.3	84.0	96.9	93.1	83.2	65.3
Private share in total social expenditure	15.0	2.1	19.6	4.1	3.8	8.4	8.3	6.7	16.0	3.1	6.9	16.8	34.7
Services/Cash ratio (6)													
Public social expenditure	66.7	46.0	59.8	50.7	39.6	56.6	47.1	31.6	44.9	76.5	54.2	45.3	81.9
Total social expenditure	62.3	47.9	51.9	48.4	38.1	50.6	47.3	30.5	42.6	72.4	49.2	37.1	101.0

(1) Source: OECD, 1999, *Social Expenditure Database*, Paris. Overall, compared to data on public social benefits the quality of data on private social benefits is relatively low. This is particularly so when central recording of private benefits is not stipulated. For example, employers do not have to report their actual spending on continued wage payments to their employees in case of sickness, and sometimes the aggregate value of such benefits can only be estimated by using information in Labour Costs Surveys and surveys on sickness absenteeism.

(2) Includes public spending on grouped across the following social policy areas: services for the elderly and disabled; family cash benefits; family services; active labour market policies (ALMP); and other contingencies (*e.g.*, cash benefits to those on low income).

(3) Data provided by national authorities, except for the US: Kerns (1997; and 1997a), while data on severance payments in *Italy* were taken from Ministerio del Bilancio (1997).

(4) Voluntary private social health benefits consist mainly of health benefits based on employer-provided plans (financed by employer and employee contributions). In general, estimates are based on information on private health expenditure (OECD, *Health Data 98*) and information on the financing of health care as financed by employer and employee contributions to private health insurance funds (Schneider, *et al.*, 1998). For detailed information on estimation methods see, Adema and Einerhand (1998). For *Australia* data were taken from AIHW (1998) estimates on Germany were refined on basis of information provided by the Federal Ministry of Labour and Social affairs.

(5) For *Norway*, voluntary private social pensions are grouped under public benefits. As in the other Scandinavian countries, private social health benefits are likely to be very small in *Norway*.

(6) Expenditure on social services includes items grouped under the following social policy areas: services for the elderly and disabled, survivor benefits in-kind, family services, administration of public employment service, health, and social services (*e.g.* rehabilitation for substance abusers).

21. Pension benefits constitute a major component of **voluntary private social benefits**. Private pension benefits are of considerable importance in Canada, the United Kingdom, the Netherlands, Sweden, Australia, and Ireland.[11] Benefits are either regular payments, but in some countries also include considerable lump sum payments (see Box). Private pension benefits mostly concern employer-based plans, but also cover benefits stemming form individually based tax-advantaged plans in Australia, Belgium, Canada[12], Denmark, the United Kingdom and the United States.[13] Data on current pension benefits do not, however, fully reflect the importance of private pension programmes. Often current contributions (and assets held by pension funds) exceed the magnitude of current benefits (Adema and Einerhand, 1998). For example, although individually based plans in Canada are relative "mature" compared to other countries, their importance is expected to grow over time: current benefits amount to 25% off private benefits while accumulated assets amount to 41% of all relevant assets (Statistics Canada, 1996 and 1996*a*). The importance of these private benefits is expected to grow with maturing pension plans.

22. The other major item of private social support concerns private social health benefits: *i.e.* that part of private health benefits stemming from private health plans containing an element of redistribution (*e.g.* tax-advantaged employment-based health plans). In the absence of a comprehensive data set on such benefits, Table 1 presents relevant estimates.[14] Private social health benefits are almost negligible in the Scandinavian countries, Italy and Germany[15], while they by far the most important in the United States, where there is no universal health-care coverage for workers. Stimulated by fiscal measures, employers in the United States often -- albeit at a declining rate (Farber and Levy, 1998), provide health care coverage for their employees, leaving individual take-up as the only alternative. Large private health benefits in the United States are also due to high overall health care costs; per capita health consumption expressed in US

11. The pension payments in Belgium, Denmark, Ireland, the Netherlands and the United Kingdom are employer-provided pensions related to collective agreements and/or occupational pension plans. Private pension benefits in Denmark are limited in magnitude as the supplemental earnings-related benefits (ATP) are partly incorporated in separate public benefits. For a concise overview of the pension system in the UK, see Adema and Einerhand, 1998, p. 18.

12. The private pension benefits in Canada mainly concern employer-based plans: registered pension plans (RPPs); deferred profit sharing plans (DPSPs) and group-registered retirement savings plans (GRRSPs). The data also include benefits out of registered retirement savings plans (RRSPs) which are individually based tax-advantaged programmes. RPPs and RRSPs are subject to similar tax treatment, which exemplifies the similarity of employer-provided plans and fiscally advantaged individual plans.

13. The private pension benefits in the US include payments out of employer-provided defined-benefit and defined-contribution plans (*e.g.* "401(k) type plans") and tax-advantaged individual plans: Individual Retirement Accounts and Keogh-plans.

14. In general, these estimates are based on two sources: 1) *OECD Health Data 98* contains information on aggregate private health expenditure; and 2) Schneider *et al.* (1998) that presents information on the financing of health care. The latter source contains detailed information for several years in the 1980-1994 period, and identifies those health care components, which are publicly financed, financed through employer and employee contributions to private health insurance funds, and financed by the individual. The information on the magnitude of the individually financed component of health care has been used by subtraction to estimate the private social health benefit component in total private health consumption. For *Australia* (not covered by Schneider *et al.*, 1998) data were taken from AIHW (1998).

15 . For a large part, private health insurance in Germany (PKV insurance) does not involve social redistribution or risk sharing (premiums mostly depend on individual risks). However, some pensioners and employees with an annual income exceeding DM 76.500 ($53 500 in 1995) have a financial incentive to take-up private health insurance as they receive a supplement towards their premiums (the supplement is paid by the pension insurance or employer). According to national authorities, the value of such private social health benefits is estimated to amount to about 20 per cent of all private health benefits. The estimates for Germany have been adjusted accordingly.

dollars is about twice as high in the United States as in the other countries (Adema and Einerhand, 1998). These relatively high health care costs are related to a variety of interacting factors: relatively high factor costs (high wages and the use of modern and expensive technology); a relatively commodious package of goods and services provided; and relatively high operating costs of the US health system. More detailed analysis of the comparative costs of the US health care can be found in, for example, Cutler and Scheiner (1998), McKinsey (1996), and Schieber, Poullier and Greenwald (1994).

23. Apart from health and pensions (all countries), private benefits also cover disability benefits (Belgium, Finland, Germany, the Netherlands, Sweden, the UK and the US), sickness benefits (Finland, the Netherlands, the UK and the US), and family benefits (Germany). Severance payments are recorded for Italy and the United Kingdom. Other examples of private social benefits concern, supplementary unemployment compensation (in the United States), child-care provisions, or maternity pay and parental leave provisions. However, comprehensive information on spending by employers on family-related benefits is not available across countries.

Box: The "social value" of current private lump sum benefits

The social benefits as recorded here reflect payments as received by households in a given year. The benefits received by households would equal the "true social value of such payments" if they consume such benefits in the year of receipt. However, in some countries, *e.g.* Australia, Ireland, Italy, the United Kingdom and the United States, payments by pension funds consist of lump-sums to a considerable extent (such payments are often subject to favourable tax treatment -- see the next section). These payments are unlikely to be "consumed" completely in the year of receipt. They are often used towards paying off mortgages, holidays, but also to acquire annuities.

As private lump sum payments are frequently reinvested in annuities they lead to a steady (*e.g.* monthly or quarterly) income stream that is similar to regular payment of pensions. Thus the true social value of current lump sum payments to recipients could be captured by estimating the cumulative value of the imputed future income stream (whilst accounting for rates of return on investment). Of course, individuals who have already retired receive payments out of annuities acquired in the past. An alternative way of recording current social benefits would be to calculate the income stream generated by past lump sum payments, rather than current lump sum payments. The difference between the two can be substantial. For example, extremely rough estimates on regular payments accruing from reinvested lump sum payments under the Superannuation programme in Australia, point to imputed benefits of about 1.0% of GDP as opposed to current lump sum payments of 2.5% of GDP in 1996. The data in this paper record current lump sum payment by private funds as those reflect current payment to households, as reliable data or estimates on regular payments accruing from annuities financed out of lump sum payments is not available on a comprehensive basis.

THE TAX SYSTEM AND SOCIAL BENEFITS

24. The information on cash transfers and social services presented thus far fails to reflect the true extent of "social effort" as it does not reflect the impact of the tax system. In this context the following items should be taken into account (the items in between brackets refer to Figure 2, which presents an overview of relevant flows):

- **Direct taxation of benefit income**: Governments levy income tax and social security contributions on cash transfers to beneficiaries (DT1). Thus, social redistribution of resources is lower than suggested by gross spending indicators. Cross-country differences in taxation levels are reflected in gross benefit levels and thus in aggregate spending.

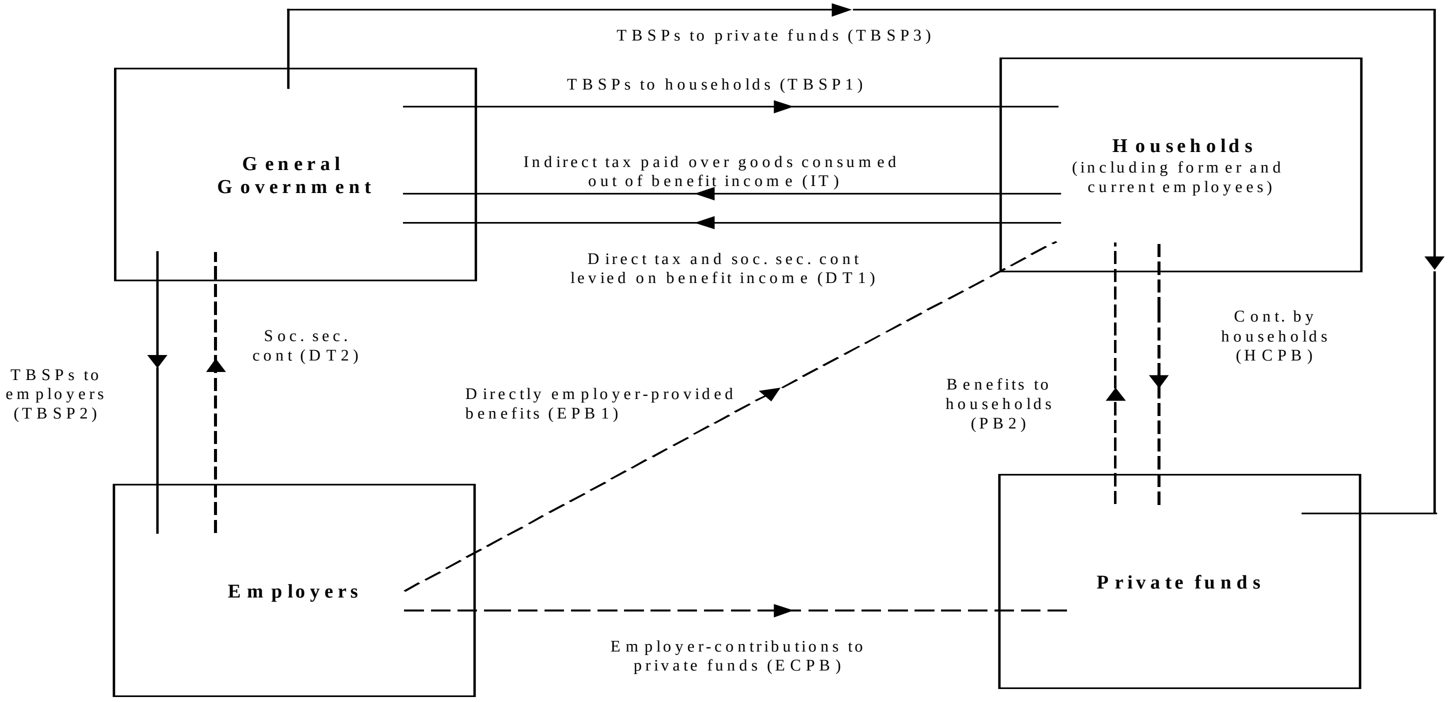
- **Indirect taxation of consumption by benefit-recipients**: Benefit recipients generally use benefit income to finance consumption of goods and services (IT), and these indirect taxes flow back into the Exchequer (IT). Similar to direct taxation, differences in indirect taxation across countries have implications for gross public social spending levels and support received by households.

- **Tax breaks for social purposes**: Governments also make use of the tax system to directly pursue social policy goals. Fiscal measures with social effects are those which can be seen as replacing cash benefits (*e.g.* child tax allowances) or stimulating the provision of private expenditures (*e.g.* tax advantages for the provision of private child-care facilities). Tax-advantages can be given to households (TBSP1), employers (TBSP2) and private funds (TBSP3).

25. Thus, tax systems can significantly affect the degree to which expenditure budgets reflect true public social effort. Usually, governments claw back more money through direct and indirect taxation of public benefit than the value of the tax advantages awarded for social purposes. Hence, *net public social expenditure* is generally less than gross spending indicators suggest. Furthermore, because of direct taxation of benefits and the indirect taxation of goods and services acquired that are financed with it, benefit income at the disposal of households is substantially smaller than suggested by gross indicators (Table 1). Accounting for tax rates on publicly and privately provided social benefits, facilitates the identification of the proportion of an economy's domestic production to which recipients of social benefits lay claim; *net total social expenditure*.

26. The analysis does not include all taxes and social security contributions paid by the aggregate of households and employers in a society as accounted for in the *Revenue Statistics* (OECD, 1998). The analysis is aimed at first round effects. For example, the analysis does not capture to what extent funds clawed back by governments over public benefits are re-routed into social protection systems, and possibly again subjected to taxation. The following sub-sections capture the impact of each of three tax items listed above while briefly describing measurement techniques. Relevant adjustments -- direct and indirect taxation, concern the treatment of cash benefits. The value of provided services remains unaltered by the calculations.

Figure 2. The tax system and social benefits (1)



(1) This chart abstracts from the role of non-commercial non-governmental organisations (NGOs). The donations by both households and employers, as well as the benefits provided by NGOs can be tax-advantaged. Often governments subsidise or provide tax relief to these organisations.

Tax flows relevant to calculations (unbroken lines): Tax and social security contributions paid by households over public and private benefit income (DT1); indirect taxes paid by households over goods consumed with out of benefit income (IT); Contributions by households to employer-based benefit plans and/or tax-advantaged individual plans (CPB1). Tax breaks for social purposes. *Households* (TBSP1): Tax concessions similar to cash benefits or intended to stimulate take-up of individual insurance plans. *Employers* (TBSP2): Fiscal measures towards hiring specific groups of workers, or measures intended to stimulate provision of employer-provided social benefits such as child-care facilities or employer-based health/pensions plans. *Private funds* (TBSP3): *e.g.* tax relief on investment income of pension funds.

Other tax items that are not separately included in the calculations (dashed lines): Social security contributions paid by employers (DT2). Social benefits directly provided by employers to household may be tax-advantaged (EPB1). Contributions by employers (ECPB) and households (HCPB) towards employer-based social benefit plans and/or tax-advantaged individual plans may not be taxed at source or at a reduced rate. Benefits provided by private funds (derived from ECPB and HCPB) to households may not be taxed at source or at a reduced rate (PB2).

Direct taxes and social security contributions on transfers

27. In some OECD countries almost all benefits are paid net of tax; in others they are taxed in the same way as income from work. In the United Kingdom, for example, the recipient of an unemployment benefit whose last earnings were those of a average production worker (APW) and who lived in a ‘one-earner’ family with two children received the equivalent of $18,659 in 1995, on which he or she did not pay tax. By contrast, a similar person in the Netherlands received annual unemployment benefits of $24,613 but paid $7,716 in income taxes and social-security contributions. Including housing and family benefits his or her net income was $19,753 (OECD, 1998*a* and 1998*b*). Unemployment benefits in the Netherlands may be higher than in the United Kingdom, but differences are not as high as gross payments suggest. Similarly, mandatory and voluntary private social cash benefits (often sickness payments and private pensions) are subjected to direct taxes and social security contributions; thus relevant net amounts are lower than gross spending indicators suggest.

28. The adjustment for direct taxation on cash benefits has been calculated on basis of estimates supplied by national sources on “average itemised tax rates” (AITR): the average tax paid on a particular spending item, *e.g.* average tax paid on public pension income. The AITRs were estimated on basis of a variety of national sources including “microsimulation-models” and administrative data. Available tax records give relevant information for some countries and some items (*e.g.* Ireland, Germany, the United Kingdom and the United States). Otherwise “microsimulation-models” which contain detailed information on both the incomes received by households and their taxation, were used to generate itemised tax rates (Australia, Belgium, Canada, Denmark, Italy, Finland, the Netherlands, Norway, Sweden). Subsequently, these AITRs were applied to the gross benefits, as discussed above. The level of available detail varies across countries. For example, information on Belgium concerns tax and social security contributions paid over aggregate publicly controlled social expenditure, while information on Denmark was available at the detailed social expenditure programmes level as recorded in SOCX (OECD, 1999).

29. The adjustments in this paper on direct and indirect taxation (see below) only concerns cash benefits. The value of provided social services (benefits in-kind) remains unaltered by the calculations.

30. There are large differences in levels of direct taxes and social security contributions paid by recipients of social benefits across countries. As Table 3 reveals, almost 25% of gross public social benefits is clawed-back by the exchequer in Denmark and the Netherlands, and claw-back rates are also substantial in Sweden (21.7%), Finland (20.7%), and Norway (16.2%). Private pension benefits are also taxed rather heavily in these “high taxation countries”, as in Canada. In terms of taxies levied on public cash benefits Belgium (8.7%), Italy (11.4%), and Canada (11.7%) hold a middle position. Australia, Ireland, the United Kingdom and the United States tax public benefits relatively lightly: taxes paid over benefits make up 2.1% to 3.4% of gross public spending on cash benefits.

31. Furthermore, there is considerable variation in the way in which different benefits are taxed. For example, means-tested benefits are often not taxable, while employer-provided sickness benefits are usually taxed in line with wage income. Among public social benefits, cash payments to civil servants and other public employees are taxed most heavily in all countries. Disregarding these benefits, taxes and social security contributions levied on “OASDI-benefits” (Old-age, Survivors, Disability and Occupational Injuries) amount to less than 4% of all relevant payments in Australia, Germany, Ireland, the United Kingdom and the United States, and taxation of unemployment benefits is comparably low. These low taxation levels are related to the prevalence of income and means testing in determination of benefit-eligibility in the four English-speaking countries, while in Germany the Constitutional Court (Bundesverfassungsgericht) has ruled that taxation of some benefits is incompatible with the Constitution.

Table 3. Direct tax/gross benefit spending ratios for selected items, 1993-1995 (1,2)

	Australia	Belgium (3)	Canada	Denmark		Finland (4)	Germany (5)		Ireland	Italy	Netherlands		Norway	Sweden		United Kingdom		United States	
Tax/benefit spending item	1995	1995	1995	1993	1995	1995	1993	1995	1995	1995	1993	1995	1995	1993	1995	1993	1995	1993	1995
Gross public spending on cash benefits	2.5	8.7	11.7	19.4	24.1	20.7	5.8	6.6	3.1	11.4	26.8	24.7	16.2	20.9	21.7	2.1	2.3	2.9	3.4
Gross public OASDI spending (6)	3.1	..	16.3	18.2	28.0	24.4	3.9	5.0	5.7	12.3	20.4	19.6	18.3	24.2	25.3	3.0	3.3	2.4	3.0
Civil servants pensions	9.3	..	..	34.0	38.5	..	12.2	14.4	10.5	..	21.1	28.1	..	..	..	11.4	12.2	7.4	7.6
OASDI (excluding civil servant pensions)	1.5	..	..	15.7	26.5	..	3.8	4.3	1.0	..	26.9	23.5	..	..	..	1.7	2.0	0.8	1.5
Unemployment	3.4	..	21.9	30.7	27.1	22.2	0.0	0.0	1.6	13.0	29.5	30.8	21.7	29.8	30.8	0.9	0.6	5.4	5.9
Family cash benefits (excl. mat. & pat, 7)	0.6	..	0.0	0.0	0.0	0.0	9.2	9.8	..	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Sickness benefits (public and private, 8)	3.9	..	21.9	27.7	27.9	32.5	32.0	32.7	18.8	26.5	36.4	34.6	25.3	30.1	31.4	18.6	21.1	20.7	22.3
Private pension benefits	4.2	..	28.3	34.0	38.5	25.2	10.1	10.8	10.8	5.4	33.0	27.0	..	29.8	28.5	11.4	12.2	7.4	7.6
Total gross public spending	1.5	6.1	7.2	13.0	16.2	14.9	3.5	4.0	1.9	8.7	19.4	17.5	8.5	13.9	14.2	1.4	1.6	1.6	1.9

(1) The ratio reflects the direct tax and social security contributions paid over cash benefit grouped in a specific spending category. These tax/ spending ratios are not equivalent to Average itemised tax rates concerning a particular benefit. For example, family allowance are not taxed in *Australia*, however, there a small amount of tax paid is allocated to the "Sole Parent Benefit" (included in Family cash benefits).

(2) ".." indicates that the relevant estimate cannot be obtained: either because information on gross spending for the relevant item is not available or because the available on taxes and social security contributions is not detailed enough to present relevant estimates.

(3) For *Belgium* available information on taxes and social security contributions only facilitates calculations on aggregate of public and mandatory private social expenditure.

(4) The estimates for *Finland* account for "church tax" levied on the income of individuals who are members of the State Church (about 87 per cent of the population). The tax base and allowances are identical to those for municipal taxation purposes (OECD, 1998, *The Tax/Benefit Position of Employees*, p. 191). If the church tax were not included in the calculations (see notes to Table 6), the tax/gross spending ratio on public spending on cash benefits would be 19.9 per cent (as opposed to the 20.7 per cent reported here).

(5) For *Germany* only aggregate information on social security contributions paid over public cash benefits (not including civil servant benefits) is available. The aggregate has been allocated to OASDI while assuming that no tax is being paid over unemployment benefits. Calculations regarding private pensions also cover health contributions made by benefit recipients.

(6) OASDI covers public spending on old-age cash benefits, survivors, disability cash benefits and occupational injury and diseases.

(7) In Germany, publicly provided child benefits are generally not subject to taxation, except the family supplements on wages for civil servants.

(8) Concerns public sickness benefits for *Australia*, *Canada*, *Ireland*, *Italy* and the *Netherlands* (1993). *Denmark*, the *Netherlands* (1995), *Norway* and *Sweden* benefits concern both public and mandatory private sickness benefits. For *Germany* only mandatory sickness benefits are included as information on taxes paid over public sickness benefits is not separately identifiable. For the *United Kingdom* (Statutory Sick pay and Income Support, and continued wage payments in case of illness) and the *United States* (Temporary Disability Insurance through both public and private funds, as well as sick-pay to government employees) the benefits concern public and voluntarily employer-provided sickness benefits. Data on *Sweden* covers separately identifiable information on public, mandatory private and voluntary private sickness benefits.

Sources: Data provided by national authorities for all countries, except for *Australia*: estimates provided by NATSEM on basis of the STINMOD Microsimulation model and the 1995-96 Survey of Incomes and Housing Costs; *Italy*; Calculations based on the ISTAT Microsimulation model MASTRICT; and the *United States*: IRS (1997), Internal Revenue Service (US Department of the Treasury), Internet: http://www.irs.ustreas.gov/prod/tax_stats/index.html.

32. Family allowance and family support benefits are generally not taxed nor subject to social security contributions. Australia, Germany and Norway are the only three countries of those covered where some taxes are levied on family cash benefits. In both Australia and Norway it concerns small amount of taxes levied on separately identifiable lone parent benefits: “Sole Parent benefit” (Australia) and “Transitional Allowance” (Norway). While in Germany family supplements to civil servants are also taxable.

33. In general, sickness benefits (cash transfers in case of absence of work due to illness) are taxed as income from work (OECD, 1998*a*), regardless of whether such benefits are classified as public or private (mandatory or voluntary). Therefore, relevant tax/spending ratios are well above those concerning many other social security benefits rate, except for those countries where social security benefits are taxed rather heavily (Denmark, Finland, the Netherlands, Sweden and to a slightly lesser extent Norway). In most countries where moderate tax levies apply to public sick pay (Ireland, the United Kingdom, the United States), the overall tax spending ratio on sickness benefits can be high. This is because relatively highly taxed sickness benefits to government employees or employees in the private sector dominate overall spending on sickness benefits.

34. The tax/spending ratio for private pensions is between 25 and 38 percentage points range for Canada, Denmark, Finland, the Netherlands, and Sweden[16]; around 10 to 12 percentage points in Germany, Ireland and the United Kingdom, about 7.5 percent in the USA, and only 4.2 per cent in Australia.[17] This is because “Superannuation” benefits in Australia often concern tax-free lump sum payments. In all countries the tax-benefit ratio tax-benefit for private pensions is high compared to other benefits, but only in Canada and Denmark are private pensions the highest taxed item. In most countries, pension income is subject to tax rules (*e.g.* age allowances) that are favourable compared to those applying to earnings.

35. Direct tax levels can change significantly over time. The available data on Denmark illustrate this point. In 1994 old-age cash benefits and social assistance benefits became taxable in Denmark. Simultaneously, social assistance benefits were raised to preserve their net value unchanged which led to an increase in gross expenditure of about $ 0.8 billion, and a similar decrease in tax expenditures (which are not recorded under gross benefits -- see Table 1). Also, specific tax allowances for pensioners were abolished while benefits were increased by an equivalent amount: gross expenditures increased by about $2.5 billion (Erhvervsministeriet, *et al.*, 1996). On the whole the tax spending ratio on public cash benefits increased by almost 5 percentage points to 24.1% in 1995 (Table 3), and the increase was particularly significant for taxes levied on old-age, survivors and disability benefits, as opposed to unemployment benefits. The net effect of the change in tax parameters in 1994 on social benefits will be discussed below.

16. For Norway, both pensions administered by the National Insurance Scheme and supplementary, occupational benefits for public and private workers, are included under OASDI spending (private pension benefits cannot be separately identified). The Average Itemised Tax Rate on Occupational public and private pensions is 20.3 per cent.

17 . For estimates on taxes paid on pension benefits use could be made of administrative data for the United Kingdom and the United States (IRS, 1997). Information on the other countries was made available by national authorities, or estimated by the author on basis of other available pertinent information.

Indirect taxes

36. Recipients of social benefits generally use their benefit income to finance consumption of goods and services such as housing, food, clothing and so on. For example, in Germany in 1996 duties on coffee amounted to $1.5 billion (OECD, 1998), part of which was paid by benefit recipients. The relevant indirect tax rates differ across countries, which has implications for benefit levels, and thus gross spending, in each country.

37. An objection to similar treatment of direct and indirect taxes is that, unlike with direct taxes, there is nothing inevitable about indirect taxes: people can avoid them, either by purchasing untaxed or low-taxed goods or not purchasing anything. However, non-consumption is not a viable option, and the argument relating to the composition of consumption is also flawed. It is true that there is nothing inevitable about consumption of cigarettes and alcohol which are highly taxed in most OECD countries, but continued purchase of such goods out of benefit income reflects a judgement by the recipient on the worth of such consumption. Depending on their preferences, benefit recipients have to pay indirect taxes in order to maximise the utility from their consumption of benefit income. It is an irrelevant argument that they could pay less if they consumed a different bundle of goods, as this bundle would bring them a lower level of utility.

38. In principle, it would have been desirable to allow for different spending patterns between income groups by using data sets on household expenditure patterns. The detailed information in such surveys theoretically facilitates the calculation of implicit indirect tax rates by group of beneficiaries. Unfortunately, data sets of this type are not readily available for all countries. Moreover, consumption surveys suggest tax payments that are well below actual tax receipts. The chosen methodology may also be criticised for implicitly assuming that benefit recipients do not save but consume all their benefit income. However, the marginal propensity to consume out of benefit income is probably close to 1, except for (private) pension benefits. Hence, resulting errors should not be overestimated.

39. Policymakers have recognised the link between indirect taxation and the position of those with low incomes or receiving benefit income. The extension of the VAT base to cover domestic fuel in the United Kingdom in 1993, for example, was accompanied by changes in benefit payments (particularly to the elderly) to compensate them for the reduction in the real value of the benefits. Similarly, projected indirect tax reforms in Australia also reflect the interrelation of indirect taxation, direct taxation and the financial position of benefit recipients and low-income earners (Prime Minister of Australia, 1999). By July 2000, the Goods and Services Tax at a rate of 10% -- some basic items such as food will not be taxed, will supersede the Wholesale Tax and some other current indirect tax items. Concurrently, the direct tax structure will be changed and a compensation package for social security recipients, old-age pensioners and low-income earners will be introduced.

40. The approach followed here is to calculate an average implicit indirect tax rate based on aggregate data available for all countries (Adema *et al.*, 1996; OECD, 1997*a* and 1998*b*). It is calculated as the ratio of revenue from general consumption taxes and excise to a broad consumption tax base (private consumption and government consumption minus government wages). It emerges that the burden of indirect taxation is smallest in Non-European countries (Australia, Canada and the United States), average indirect tax rates are in the 13.5 to 20.5 percentage points range in most European countries, while for Denmark and Norway the relevant rate is approximately 25 percent (Table 3).

41. The changes in the Danish tax system in 1994 also induced higher government income from taxes on production sale transfers and goods and services; the minimum average tax rate increased by 1.2 percentage points.

Table 4. Average indirect tax rates, 1995

Item (1, 2)	Australia (3)	Belgium	Canada (3)	Denmark	Finland	Germany	Ireland (3)	Italy (4)	NL	Norway (3,5)	Sweden (3)	UK (3)	US (3)
1 Private final consumption expenditure	302	4947	430	520	298	1975	22	1087	381	458	861	445	4780
2 Private consumption plus government consumption minus government wages	329	5152	556	590	382	2294	24	1174	409	525	1001	533	5180
3 General consumption taxes plus Excise duties (5110+5121)	27	749	57	149	69	330	5	160	64	126	186	78	274
4 Taxes on production sale transfer (5100)	35	889	66	153	73	362	5	184	69	144	194	84	314
5 Taxes on goods and services (5000)	44	964	72	162	75	376	6	199	76	149	199	88	358
6 Minimal estimate of indirect tax rate [3/2]	8.2	14.5	10.3	25.3	18.1	14.4	20.6	13.6	15.7	24.0	18.6	14.6	5.3
7 Maximal estimate of indirect tax rate [5/1]	14.4	19.5	16.8	31.1	25.2	19.1	25.1	18.3	20.1	32.5	23.0	19.9	7.5

(1) All totals in line 1 to 5 are in billions of national currency.
(2) The 4-digit codes in the second column refer to the categorisation used in the OECD *Revenue Statistics*.
(3) If data on government wages were not available in the National Accounts, then final government consumption as in the national accounts was multiplied by the ratio NW to derive relevant information (the ratio NW is non-wage government consumption to final government consumption as recorded in OECD Analytical Database - ADB).
(4) Amounts denote trillions of national currency.
(5) Excises for Norway (5121) do not include excises on oil and gas products.
Sources: OECD, *National Accounts 1983-1995*, Paris (Lines 1 and 2) and OECD, *Revenue Statistics*, Paris, (lines 3,4, and 5).

Tax breaks for social purposes

42. Many governments of OECD countries pursue social policy objectives through the tax system. Two main types of such measures can be distinguished. One is reduced taxation on particular sources of income or types of household. For example, old age pensions could be taxed at a zero or reduced rate which would lead to "revenue foregone" of a specific value and constitute "tax expenditures". This sort of tax relief is equivalent to a variation in direct taxation of benefit income and has already been accounted for in the section on direct taxation. So, in order to avoid double counting, the estimated value of this particular tax advantage is not considered here. For example, income tax exemptions for those receiving "Industrial Disablement Benefit" in the United Kingdom (OECD, 1996) are accounted for while establishing the amount of direct taxes paid over benefit income and are not covered again in this section.

43. The second group of tax measures with social effects are those which can be seen as replacing cash benefits or stimulating the provision of private expenditures (*e.g.* tax advantages for the provision of private child-care facilities). These are termed tax breaks for social purposes, which are defined as:

> "those reductions, exemptions, deductions or postponements of taxes, which: *a)* perform the same policy function as transfer payments which, if they existed, would be classified as social expenditures; or *b)* are aimed at stimulating private provision of benefits".

44. **Tax breaks which mirror the effect of cash benefits** can be substantial. For example, in Germany the value of tax allowances for families with children amounted to slightly over $14.6 billion in

1995. Similarly, in Belgium, tax advantages given to families with children, and handicapped dependants amount to about $2.2 billion.[18]

45. The "Earned Income Tax Credit" (EITC) in the United States illustrates the relationship between direct cash transfers and tax breaks for social purposes. In 1995, the cost of this programme amounted to almost $26.0 billion, of which $20.8 billion concerned tax credits exceeding tax liabilities of recipients (IRS, 1997). These "refundable" tax credits constitute direct transfer payments from the government to the recipient and, as such, relevant expenditures are recorded under public benefits (OECD, 1999). The value of the remaining tax credits is taken into account in the calculations on tax breaks for social purposes.

46. The TBSPs, which are aimed at stimulating take-up of private provision, can be categorised in two broad groups:

- **Tax breaks on "current" private social benefits**. These tax breaks can be aimed at stimulating take-up of private medical insurance. For example, in the United States the value of tax advantages concerning employer contributions to medical insurance premiums and medical care is significant and amounted to almost 0.83% of GDP in 1995.

- **Tax breaks for pensions**. Tax breaks for social purposes encompass measures aimed at stimulating private pension take-up, such as tax exemptions for contributions to private pensions, and tax relief for investment income of capitalised pension funds can be substantial. For example, tax relief on investment income on private pension plans in Canada (RPPs and RRSPs) amount to almost 2% of GDP in 1995/6.

47. Table 5 reveals that Belgium and Germany use their tax system relatively extensively for the provision of benefits similar to cash transfers.[19] Tax breaks to stimulate provision of private (employer-provided) health plans and/or facilities are most prevalent in the US and to a lesser extent Canada and Ireland.[20]

48. The value of tax breaks towards pensions is substantial: favourable tax-treatment of pension contributions amounts 1 to 2.4 per cent of GDP -- in ascending order: the United States, Australia, Ireland, the Netherlands, Canada[21] and the United Kingdom (Table 5). Not surprisingly, these are also the countries

18 . The TBSPs for Belgium and Germany do not include tax advantages towards married people. These are regarded as part of the basic tax structure and therefore not considered as tax expenditures. Nevertheless, such tax advantages can be substantial in magnitude; estimated to be around 1 per cent of GDP in Germany (no separate data available on Belgium). In any case, benefits to married persons are not deemed to be part of the social domain. The French "quotient familiale", valued at almost 1% of GDP in 1994 (OECD, 1996) benefits married persons and their children. The value of benefits to children would be accounted for, were it separately identifiable.

19 . To extend the analysis, the indirect taxes paid over TBSPs similar to cash benefits could be calculated and covered in the calculations. The next step would be to investigate the amount of tax revenue re-invested in the social protection system, and that is probably again subjected to taxation, and so on. The modus operandi in this paper reflects a "first difference approach".

20 . TBSPs to current private benefits also include favourable tax treatment of benefits provided by NGOs or towards donations by households and employers to NGOs. These are largest in the United Kingdom and the United States. For example, tax concessions on donations to NGOs amounts to almost $20 billion in the USA in 1995.

21 . Deduction on contributions (personal income tax) to the Public Canada Pension Plan and the Quebec Pension plan as well as towards private RRSPs and RPPs are considered part of the tax structure and have been included while calculating the AITR on private pensions.

where private pension benefits are most important (see the previous section). However, the appropriate methodology concerning calculating the value of these TBSPs towards funded programmes is still under debate (see Annex 1). Therefore the value of such tax breaks is listed as a memorandum item and not included in the calculations of net social spending indicators (see the next section).

Table 5. Tax breaks for social purposes as a percentage of GDP, 1993 - 1995 (1,2)

	Australia	Belgium	Canada	Denmark		Germany	
Item (3,4)	1995	1995	1995	1993	1995	1993	1995
TBSPs similar to cash benefits (4)	0.3	0.8	0.3	0.1	0.1	0.8	0.8
TBSPs towards current private social benefits	0.0	N/A	0.2	N/A	N/A	N/A	N/A
Total TBSPs	0.3	0.8	0.5	0.1	0.1	0.8	0.8
Memorandum item							
TBSPs on pensions (5)	1.7	N/A	2.2	N/A	N/A	0.1	0.1

	Ireland	Netherlands		United Kingdom		United States	
	1995	1993	1995	1993	1995	1993	1995
TBSPs similar to cash benefits	0.2	0.1	0.1	0.3	0.3	0.2	0.3
TBSPs towards current private social benefits	0.2	0.0	0.0	0.1	0.2	1.0	1.2
Total TBSPs	0.4	0.1	0.1	0.5	0.5	1.2	1.4
Memorandum item							
TBSPs on pensions (5)	1.9	2.0	1.9	2.6	2.4	0.9	0.9

(1) There is no international, or sometimes national, consensus on how to demarcate fiscal measures used as social expenditure instruments. Therefore, the results presented here are therefore only indicative and provisional (see Adema, *et al.*, 1996, for more detail).

(2) Data on Italy is not available. Information on Finland and Sweden has not been included, as relevant tax breaks have already been accounted for in the direct tax adjustments. TBSPs towards private pensions in Norway are very small: 0.04 per cent of GDP.

(3) Revenue forgone, cash basis.

(4) "N/A": information not available; "0.0" item does not exist or, when it concerns tax benefits similar to cash benefits, that relevant tax advantages have been accounted when calculating the adjustment for direct taxation.

(5) Available data on TBSPs for pensions reflects the cost to public budgets -- on a cash basis -- of the current tax system in the current financial year. The data abstract from the effects the current tax system may have on revenues in future years.

Sources: For *Belgium*, *Denmark*, *Ireland*, *Norway* and the *United Kingdom*, unpublished information was kindly made available by national authorities. Published sources have been used for the following countries: *Australia* : The Australian Treasury (1997), "Tax expenditures Statement, 1996-97", Australian Government Publishing Service, Canberra; *Canada* : Department of Finance (1997), "Tax Expenditure Report", Ottawa; *Germany* : Bundesministerium für Arbeit und Sozialordnung (1998), "Materialband zum Sozialbudget 1997", Bonn, p. 507; *the Netherlands* : CPB (1997), "Fiscale behandeling van pensioenbesparingen in discussie", Werkdocument No. 100, Centraal Planbureau, 's-Gravenhage; *the United States* : OMB (1997), Budget of the United States Government, Analytical Perspectives, Fiscal year 1997, United States Office of Management and Budget, Government printing Office, Washington, D.C.

INTERNATIONAL COMPARISONS

The framework: a concise overview

49. In order to facilitate international comparison of spending indicators, information on gross benefits and the taxes discussed above have been integrated in a framework that derives net social expenditure indicators (Adema and Einerhand, 1998). Table 6 presents a schematic overview of this framework (below, the number in between brackets refers to the appropriate line in this Table).

50. First of all, direct taxes clawed-back by the Exchequer and the imputed value of indirect taxation on goods consumed out of public benefits are subtracted from gross public social expenditure (1). Subsequently, the value of tax breaks for social purposes (excluding pensions) is added to obtain net current public social expenditure (4). From the government perspective, net public social spending gives a better impression of budgetary efforts in the social field and the proportion of net social output reallocated to benefit recipients.

51. In order to measure the social support that is provided under government control, the mandatory private benefits should also be included, and account taken of the fact that these benefits are also subject to direct and indirect taxation (lines 5 and 6). Net government controlled social expenditure is captured under the heading of net publicly mandated social expenditure (7). Finally, the gross voluntary private benefits are also adjusted for direct and indirect taxation: net direct voluntary private social expenditure (9)..

52. Adding together these net public, mandatory private and voluntary benefits gives an indicator on net total social expenditure (11), which quantifies the proportion of an economy's domestic production at the disposal of recipients of social benefits. However, as noted above, some tax Breaks for social purposes that are recorded under net current public social expenditure (4), are tantamount to financing private social benefits. For example, the TBSPs towards contributions to employer-provided health insurance are financing private health insurance.[22] Thus, while these TBSPs are clearly a public expenditure item, they finance private benefits and simply adding net public social expenditure to net private social expenditure would overestimate the amount of support received by households. Therefore, net total social expenditure (11) is the sum of net current public social expenditure (4) and net direct private social expenditure (10) minus TBSPs towards current private social benefits (3b).

53. Finally, to facilitate international comparisons on net social effort, the indicators are related to GDP ac factor cost rather then at market prices – the most frequently used indicator on the size of an economy. The rationale for this is that, since we have made an adjustment to benefits for the value of indirect taxation, GDP at factor cost is the most appropriate denominator (Adema, 1997).[23]

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22. The value of tax concessions to NGOs is also recorded under net current public social expenditure. If benefit payments by NGOs were included in the expenditure totals in Table 13, the value of relevant tax concessions would also have to be ignored in order to avoid double counting.

23. GDP at market prices captures gross expenditure on the final uses of domestic supply of goods and services at purchasers' values and includes indirect taxes. But net social spending accounts for the value of indirect taxes, which are levied by the government on benefit income. Thus, there is a case for adjusting the denominator (GDP) to account for the value of indirect taxes. Hence, the net social expenditure indicators are related to GDP at factor cost, which does not include the value of indirect taxation and government subsidies to private enterprises and public corporations.

Table 6. Calculating net total social expenditure: a concise overview

+/-	Line number	Item
	1.	Gross direct public social expenditure (as presently in the SOCX database)
-		Direct taxes and social contributions paid out of public cash benefits
=	2.	Net cash direct public social expenditure
-		Indirect taxes on private consumption financed by net cash transfers
=	3.	Net direct public social expenditure
+	3a	Tax breaks for social purposes that mirror cash benefits (1,2)
+	3b	Tax breaks for social purposes towards current private social benefits (1,3)
=	4.	Net current public social expenditure
	5.	Gross mandatory private social expenditure
-		Direct taxes and social contributions paid out of mandatory private cash benefits
-		Indirect taxes on consumption purchased out of net mandatory private cash benefits
=	6.	Net direct mandatory private social expenditure
	7.	Net publicly mandated social expenditure [4+6]
	8.	Gross voluntary private social expenditure
-		Direct taxes and social contributions paid out of voluntary private cash benefits
-		Indirect taxes on consumption purchased out of net voluntary private cash benefits
=	9.	Net direct voluntary private social expenditure
	10.	Net direct private expenditure [7+9]
	11.	Net total social expenditure [4+10-3b], (4)

(1) TBSPs on pensions are not included.
(2) TBSPs that mirror cash benefits, *e.g.* tax advantages given to families with children.
(3) TBSPs towards "current" private social benefits, *e.g.* tax breaks towards contributions to employer-provided medical insurance plans. These TBSPs are tantamount to financing private social benefits.
(4) In order to avoid double counting, net total social expenditure is derived by summing net public and net private social expenditure while subtracting tax advantages towards "current" private benefits (table lines: 11 = 4+10-3b).

The size of net social benefits

54. The size of the various adjustments, as presented in Table 7, reflect the importance of particular tax items in each country:

- **Direct taxes and social security contributions.** Australia, Ireland, the United Kingdom and the United States tax public benefits only to a very limited extent. Taxes and social security contributions do not exceed 2% of GDP in Germany, Canada and Belgium. Italy and Norway hold an intermediate position while Denmark, Finland, the Netherlands and Sweden tax public benefits rather heavily: levies exceed 5% of GDP. Supplementary pensions are taxed relatively heavily in Canada, Denmark, Finland, the Netherlands, and Sweden; while Germany, Ireland, the United Kingdom, and particularly the United States tax such benefits relatively lightly.

- **Indirect taxes.** The results indicate a sharp difference in the value of benefit income clawed back through taxes on consumption between the European countries on the one hand and the Non-European countries, particularly the United States on the other.

- **Tax breaks for social purposes** (excluding pensions): This form of social provision is generally less important in countries with relatively high direct tax levies: Denmark, Finland, the Netherlands, Norway and Sweden. Australia, Canada, Ireland and the United Kingdom are in an intermediate position. Tax breaks for social purposes are more prominent in Belgium and Germany (for children) and particularly the United States (employer contributions for medical insurance premiums and medical care).

55. In budgetary terms net government social effort as measured by **net current public social expenditure**, is highest in Germany, Sweden and Finland at over 25% of GDP, and lowest in Canada, Ireland and the United States at less than 18%.

56. Except for Australia, and the United States, net publicly controlled social effort, as measured by **net publicly mandated direct social expenditure**, is significantly lower than suggested by gross budget data (compare lines 1 and 7 in Table 7). For Denmark, Finland, the Netherlands, Norway and Sweden, the adjustments reduce gross social spending by between 9 and 14 percentage points. By contrast, the budget data for the United States slightly underestimate total social effort.

57. Considering **net total social expenditure**, it emerges that about one quarter of the economy's domestic production is claimed by recipients of social benefits in Denmark, Finland[24], the Netherlands, the United Kingdom and the United States. The lowest proportion (18.7%) is recorded in Ireland and the highest (27.7%) in Germany.

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24. Whether or not estimates on "church tax" levied in Finland on the benefit income of individuals are included in the calculations depends on the prevailing perspective. The "church tax" does not flow into government coffers, so there is no reason to account for this item while adjudicating net public spending. However, from the perspective of benefit recipients this item is important as it affects total disposable benefit income. Thus, when calculating net total social expenditure the estimates on "church tax" are accounted for.

Table 7: Net social expenditure indicators, 1993 - 1995, as a percentage of GDP factor costs (1)

			Aus (2)	Belgium (3)	Canada	Denmark		Finland (4)	Germany (5)		Ireland	Italy	Netherlands (6)		Norway (7)	Sweden		United Kingdom		United States	
		Item	1995	1995	1995	1993	1995	1995	1993	1995	1995	1995	1993	1995	1995	1993	1995	1993	1995	1993	1995
	1	Gross public social expenditure	20.3	31.9	20.8	35.3	37.6	35.7	30.2	30.4	21.8	26.5	32.8	30.1	31.5	40.9	36.4	26.0	25.9	17.0	17.1
-		Direct taxes and social contributions Paid over public cash benefits	0.3	1.9	1.5	4.6	6.1	5.1	1.1.	1.2	0.4	2.3	6.2.	5.1	2.7	5.7	5.2	0.4	0.4	0.3	0.3
	2	Net cash direct public social expenditure	20.0	30.0	19.3	30.7	31.5	30.6	29.1	29.2	21.3	24.2	26.6	25.0	28.8	35.2	31.2	25.7	25.5	16.7	16.8
-		Indirect taxes	1.6	4.4	2.0	7.4	8.0	5.5	4.1	4.2	4.4	3.3	4.1	3.9	6.9	6.9	5.8	3.8	3.7	0.9	0.9
	3	Net direct public social expenditure	18.4	25.6	17.3	23.3	23.5	25.1	25.0	25.0	17.0	20.9	22.6	21.1	21.9	28.4	25.4	21.9	21.7	15.8	15.9
+	3a	TBSP that mirror cash benefits	0.3	0.9	0.4	0.1	0.1	0.0	0.9	0.9	0.3	N/A	0.1	0.1	0.0	0.0	0.0	0.4	0.4	0.3	0.3
+	3b	TBSPs towards current private benefits	0.0	N/A	0.2	0.0	0.0	0.0	0.0	0.0	0.2	N/A	0.0	0.0	0.0	0.0	0.0	0.1	0.2	1.1	1.3
	4	Net current public social expenditure	18.7	26.5	17.9	23.4	23.6	25.1	25.9	25.9	17.4	20.9	22.7	21.2	21.9	28.4	25.4	22.5	22.3	17.2	17.5
	5	Gross mandatory private social expenditure	0.3	(3)	N/A	0.5	0.6	0.2	1.8	1.8	N/A	N/A	0.4	0.8	1.0	0.6	0.4	0.3	0.4	0.5	0.5
-		Direct taxes and social contributions paid over mandatory private cash benefits	0.0	..	..	0.1	0.2	0.0	0.6	0.6	..	..	0.2	0.3	0.3	0.2	0.1	0.0	0.1	0.0	0.0
-		Indirect taxes	0.0	..	..	0.1	0.1	0.1	0.2	0.2	..	..	0.0	0.1	0.2	0.1	0.1	0.0	0.1	0.0	0.0
	6	Net direct mandatory private social expenditure	0.3	..	..	0.3	0.3	0.0	1.0	1.0	..	..	0.2	0.5	0.6	0.3	0.2	0.2	0.3	0.5	0.5
	7	Net publicly mandated social expenditure [4+6]	19.0	26.5	17.9	23.7	23.9	25.2	26.9	26.9	17.4	20.9	22.9	21.6	22.5	28.7	25.6	22.6	22.6	17.7	18.0
	8	Gross voluntary private social expenditure (8)	3.2	0.7	5.1	0.7	1.0	1.2	1.1	1.0	2.0	1.9	4.9	4.9	..	2.4	2.3	4.3	4.8	8.6	8.6
-		Direct taxes and social contributions paid over voluntary private cash benefits	0.3	..	1.1	0.2	0.3	0.3	0.1	0.1	0.1	0.2	1.1	0.9	..	0.7	0.6	0.5	0.6	0.3	0.4
-		Indirect taxes	0.2	..	0.4	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.6	0.6	..	0.3	0.3	0.5	0.6	0.4	0.4
	9	Net direct voluntary private social expenditure	2.7	..	3.5	0.4	0.5	0.7	0.8	0.8	1.5	1.4	3.2	3.4	..	1.4	1.4	3.2	3.6	7.8	7.8
	10	Net direct private social expenditure [7+9]	3.0	..	3.5	0.7	0.8	0.8	1.9	1.8	1.5	1.4	3.4	3.8	..	1.7	1.6	3.4	3.9	8.4	8.3
	11	Net total social expenditure [4+10-3b] (9)	21.6	..	21.2	24.0	24.4	25.7	27.7	27.7	18.7	22.3	26.0	25.0	..	30.1	27.0	25.7	26.0	24.5	24.5

Table 7: Net social expenditure indicators, 1993 - 1995, as a percentage of GDP factor costs (continued)

	Aus (2)	Belgium (3)	Canada	Denmark		Finland (4)	Germany (5)		Ireland	Italy	Netherlands (6)		Norway (7)	Sweden		United Kingdom		United States	
Item	1995	1995	1995	1993	1995	1995	1993	1995	1995	1995	1993	1995	1995	1993	1995	1993	1995	1993	1995
Memorandum items																			
TBSPs towards pensions	1.9	N/A	2.2	N/A	N/A	0.0	0.1	0.1	2.1	N/A	2.2	2.1	0.04	N/A	N/A	3.0	2.8	1.0	1.0
Gross total social expenditure	23.9	32.6	25.9	36.5	39.2	37.1	33.0	33.2	23.7	28.4	38.1	35.8	..	43.9	39.1	30.5	31.1	26.1	26.2
Gross/Net Total social health (10)	7.6	8.2	8.6	6.7	6.3	6.5	8.8	9.3	6.5	6.3	9.2	9.0	..	7.4	6.6	6.7	7.0	12.1	12.3
Net total non-health social expenditure	14.1	..	12.3	17.4	18.1	19.2	18.9	18.4	12.2	16.0	16.8	16.1	..	23.0	20.9	18.9	19.1	12.4	12.1
Net public non-health social expenditure	12.2	18.9	10.4	16.9	17.4	18.5	17.2	16.7	11.5	14.9	14.9	13.6	14.4	21.1	18.9	16.0	15.7	10.6	10.6
Net total social expenditure in cash	12.5	..	12.4	12.2	11.6	15.5	17.0	16.5	11.1	15.7	15.1	14.3	..	16.0	14.1	17.5	17.6	11.3	11.1
Selected items related to GDP at market prices																			
Net current public social expenditure	16.1	23.9	15.7	20.2	20.2	22.4	23.0	23.1	15.5	18.7	20.4	18.9	19.2	25.6	23.1	19.6	19.3	15.8	16.1
Net direct mandatory private social expenditure	0.3	..	..	0.2	0.3	0.1	0.9	0.9	..	..	0.2	0.4	0.5	0.3	0.2	0.2	0.3	0.5	0.5
Net direct voluntary private social expenditure	2.3	..	3.1	0.3	0.4	0.6	0.7	0.7	1.3	1.3	3.4	3.6	..	1.3	1.2	2.8	3.1	7.2	7.1
Net total social expenditure (9)	18.4	..	18.3	20.8	20.9	23.0	24.7	24.7	16.6	20.0	23.5	22.3	..	27.2	24.5	22.4	22.6	22.5	22.5
Gross public social expenditure	17.8	28.8	18.6	30.5	32.2	31.9	26.9	27.1	19.4	23.7	29.6	26.8	27.6	36.9	33.0	22.7	22.4	15.6	15.8
Gross total social expenditure	20.9	29.4	22.7	31.6	33.6	33.2	29.4	29.6	21.1	25.4	34.3	31.9	..	39.6	35.5	26.6	27.0	24.0	24.1

(1) The numbers in square brackets refer to line numbers in the second column; "N/A" information not available; ".." cell with missing operand ("N/A").
(2) Data concern *Australia* (not including mandatory employer-provided estimates).
(3) Available information on taxes and social security contributions in *Belgium* only facilitates calculations for the aggregate of public and mandatory private social expenditure.
(4) Calculations for *Finland* on net public and net publicly mandated social expenditure do not account for "Church tax". Calculations on net total social expenditure does account for "Church tax" as it paid by the vast majority of Finnish taxpayers (87%) and thus affect net benefits at the disposal of the overall number of recipients.
(5) *Germany* : TBSPs do not cover the substantial magnitude (about 1 per cent of GDP) of tax advantages towards married people: the estimates on taxation of private social benefits cover the value of health insurance contributions by pensioners.
(6) *The Netherlands* : TBSPs for concern 1994 data.
(7) *Norway* : Private pension benefits due to collective agreements are included under public social expenditure. Relevant supplementary pension programmes mainly concern benefits to public employees, but also cover private sector employees. However, the private sector component is not separately identifiable.
(8) Data include voluntary private social cash benefits and voluntary private social health benefits (see notes below). Data do not include benefits provided by non-profit Organisations; information on the magnitude of relevant expenditure items is not available on a comparable basis.
(9) In order to avoid double counting, the value of TBSPs towards "current" private social benefits, *e.g.* tax breaks towards contributions to employer-provided medical insurance plans, have been ignored for the calculation of net total social expenditure (see memorandum items).
(10) Includes public expenditure on health, mandatory private health benefits (*United States*) and private social health benefits.

58. The ranking of countries also changes (Table 8). In terms of net government social effort Germany replaces Denmark as the biggest "public social spender". If data on the value of tax concessions to private pensions had been available for all countries on a comprehensive basis, it is likely that Australian, British, Canadian, Dutch, Irish and US spending levels would have increased relative to that of the other countries. Abstracting from health benefits, Sweden is the biggest social spender both in terms of government effort and available support to benefit-recipients, while net non-health social support is lowest in Canada, Ireland and the US.

59. If only social cash benefits and tax concessions are considered, then the United Kingdom with 17.6% of GDP (Table 7) ranks first among countries. This is because in comparison to other countries both spending on services and tax levels on private pensions are low.

60. Table 8 also reveals that high spending countries in gross terms are often also the countries that tax cash benefits rather heavily. There is a relatively high rank correlation coefficient between the ranking of the gross public and the public social spending indicators: 0.81 (on basis of lines 1 and 4). The rank correlation coefficient drops to 0.68 if total spending is considered (lines 3 and 6). However, high social spending countries are also those where direct service provision is high (it ranges from 10% to 14% of GDP in the Nordic countries). And services are not subject to direct and indirect taxation in our calculations. Therefore, it is not surprising to find that the rank correlation coefficient is 0.41 when only social benefits in cash are considered (lines 3b and 6b). Countries with high spending on cash benefits do not always levy high taxes on those benefits.

Table 8. Net social expenditure indicators, 1995, ranking among countries

	Social expenditure	Australia	Belgium	Canada	Denmark	Finland	Germany	Ireland	Italy	NL	Norway	Sweden	UK	USA
(1)	Gross Public social expenditure	11	..	10	1	3	5	9	7	6	4	2	8	12
(2)	Gross publicly mandated social expenditure	12	6	11	1	3	5	10	8	7	4	2	9	13
(3)	Gross Total social expenditure	10	..	9	1	3	5	11	7	4	..	2	6	8
(4)	Net public social expenditure	9	..	10	4	3	1	12	8	7	6	2	5	11
(5)	Net publicly mandated social expenditure	10	2	12	5	4	1	13	9	8	7	3	6	11
(6)	Net total social expenditure	9	..	10	7	4	1	11	8	5	..	2	3	6
	Non- health related social expenditure													
(1a)	Gross public social expenditure	10	..	11	1	3	6	9	7	5	4	2	8	12
(2a)	Gross publicly mandated social expenditure	11	5	12	1	3	7	10	8	6	4	2	9	13
(3a)	Gross total social expenditure	10	..	8	1	3	6	9	7	4	..	2	5	11
(4a)	Net public social expenditure	9		12	3	2	4	10	6	8	7	1	5	11
(5a)	Net publicly mandated social expenditure	10	2	13	5	3	4	11	8	9	7	1	6	12
(6a)	Net total social expenditure	8	..	9	5	2	4	10	7	6	..	1	3	11
	Social expenditure in cash													
(1b)	Gross public social expenditure	11	..	10	2	1	6	9	5	4	7	3	8	12
(2b)	Gross publicly mandated social expenditure	12	4	11	2	1	6	10	7	5	8	3	9	13
(3b)	Gross total social expenditure	10	..	8	2	1	6	9	7	4	..	3	5	11
(4b)	Net public social expenditure	8	..	10	7	1	2	9	3	6	12	5	4	11
(5b)	Net publicly mandated social expenditure	9	1	11	8	3	2	10	4	7	13	6	5	12
(6b)	Net total social expenditure	7	..	8	9	4	2	11	3	5	..	6	1	10

Sources: see Table 7.
".." Indicates that information on gross benefits and/or relevant taxes is not available, so that comparing gross with net items is impossible.

61. Accounting for the taxes and social security contributions paid on social transfers not only facilitates international comparisons but can also give a better impression of social effort over time. As discussed, the tax system in Denmark underwent significant changes in 1994 leading to marked increases in government revenue from direct and indirect taxation. However, it is clear from Table 6, that the net effect of such changes was very limited. In-between 1993 and 1995, gross public spending increased by 2.3% of GDP at factor costs, while net public spending only increased by 0.2% over the same period. Longitudinal net benefit data are only available for Belgium, and in that country the tax system has not induced significant differences between gross and net spending trends -- Annex 2. However, the Danish experience underscores the importance of developing and maintaining net social expenditure indicators.

62. The upshot of these adjustments is a marked convergence of social expenditure levels across countries. The convergence of aggregate spending levels is driven by two factors: *a)* the inclusion of private social, which are particular important in the United States benefits; and *b)* the impact of the tax system. For the 11 countries for which the data facilitate the calculation, the standard deviation in 1995 dropped from 7.2 (gross public social expenditure) to 2.8 (net total social expenditure).

CONCLUSIONS

63. This paper extends integrates information on cash-transfers, social services and tax systems for 13 countries, thereby facilitating a comprehensive analysis of net total (public and private) social support. Notwithstanding ongoing efforts to improve the existing information set, data limitations continue to exist. Available data on private social benefits are deemed to be of lesser quality than information on public spending. Data-limitations are most significant concerning employer-provided family benefits and benefits by non-government organisations. Furthermore, methodological and data problems affect the measurement of tax breaks towards pensions.

64. Nevertheless, these limitations are unlikely to render the generated results invalid. Private social family benefits are small in comparison to private social health and pension benefits, and although the public costs of tax breaks with social purposes can be significant, their magnitude remains small in comparison with direct benefit payments. Therefore, the following general conclusions can be drawn:

- Accounting for private social benefits and the impact of the tax system on social expenditure has an equalising effect on levels of social effort across the thirteen countries studied.

- Except for Australia, and the United States, public social effort is significantly below that what is suggested by gross budget data. This is because most countries, and particularly Denmark, Finland, the Netherlands, Norway and Sweden, put significant tax levies on social benefits and ensuing consumption.

- Accounting for both the tax system and the role of private social benefits reveals that the proportion of an economy’s domestic production to which recipients of social benefits lay claim is similar in Denmark, Finland, the Netherlands, the United Kingdom and the United States.

65. The apparently large differences in gross direct public social expenditure levels are related to the variety in which governments pursue social objectives by mandating of fiscally stimulating private provisions. Observations on social expenditure levels across countries that do not account for private social benefits and the impact of the tax system are prone to be misleading.

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ANNEX 1 TAX BREAKS ON PENSIONS

A1. Tax breaks for social purposes encompass measures aimed at stimulating private pension take-up, e.g. tax exemptions for contributions to private pensions. However, such tax breaks on occupational and individual pension programmes are difficult to deal with, both conceptually and in practical terms. This is so, because such programmes are aimed at yielding benefits in the future: taxation occurs at, and tax reliefs are given at, various stages of what is a form of contractual savings. Uncertainties about how to treat such programmes arise because their tax treatment needs to be considered in three different areas:

- Contributions to programmes could be by employers or employees, out of taxed or untaxed income.

- The funds, that invest the pension contributions on behalf of those contributing could be taxed or untaxed.

- The payment of pension or annuity or lump sum benefits at the end of the contributions period could be taxed or untaxed.

A2. Due to the complexity of calculations arising from these issues, there is no comparable data set available on the value of tax breaks for pensions. For the United Kingdom and the United States there is some data available on the cost to public budgets -- on a cash basis -- of the current tax system in the current financial year. These data abstract from the effects the current tax system may have on revenues in future years.

Table Annex 1: Value of tax breaks on pensions, 1995 (cash basis)

Australia (fiscal year 1995/1996)	Australian Dollars (millions)	As a percentage of GDP
A) Tax Expenditures through retirement and other Employment termination tax concessions	8665	1.77
Under taxation of employer contributions		
Deduction of employer contributions	3900	0.80
Deduction for self-employed/unsupported	150	0.03
Under taxation of fund earnings	3460	0.71
Under taxation of unfunded lump sums	1120	0.23
Superannuation rebate - low income earners	35	0.01
Superannuation rebate - low income spouse	0	-
B) Offsets	350	0.07
Tax on funded lump sums before 1/7/83	40	0.01
Tax on funded lump sums from 1/7/83	310	0.06
Total Tax expenditures Old-age pensions (A-B)	8315	1.70
Canada	Canadian dollars (millions)	in per cent of GDP
Non-taxation of investment income, personal income tax, RRSPs	4080	0.51
Non-taxation of investment income, personal income tax, RPPs	10260	1.28
Non taxation of employer paid premiums, Canada and Quebec Pension plans	1450	0.18
Total	15790	1.97
Deduction on contributions (personal income tax) to RRSPs and RPPs is part of the tax system and has been included while calculating the AITR on private pensions.		
Ireland (fiscal year 1995/1996)	Irish Pounds (millions)	in per cent of GDP
Employees' contribution to approved Superannuation schemes	113	0.28
Employers contributions to approved Superannuation schemes	198	0.49
Exemption of net income of approved Superannuation funds	399	0.99
Retirement annuity premiums	56.9	0.14
Total		1.91
United Kingdom (fiscal year 1995/1996)	Pound Sterling (millions)	In per cent of GDP
Relief for occupational pension schemes	7500	1.12
Relief for contributions to personal pensions	2100	0.31
Incentive for personal pensions and new contracted-out occupational programmes	225	0.04
Contracted-out rebate for occupational and personal pensions plans (National Insurance contributions)	7300	1.06
Total		2.53
United States (fiscal year 1995/1996)	US Dollars (millions)	In per cent of GDP
Net exclusion of pension contributions and savings (1):		
Employer plans	52070	0.77
Individual retirement accounts	7720	0.11
Keogh plans	3315	0.05
Total		0.93

(1) Only federal taxes are considered.

Sources: *Australia*: Department of the Treasury, *Tax Expenditures Statement 1996-97*, Australian Government Publishing Service, Canberra; *Canada*: Department of Finance (1997), *Tax Expenditure Report*, Ottawa; *Ireland*: Revenue Commissioners (1998), Statistical report of the Revenue Commissioners, 1997, Government Publications Sales Office, Dublin, *forthcoming*; *United Kingdom*: Inland Revenue (1996), *Tax Ready Reckoner and Tax Reliefs*, HMSO, London; *United States*: OMB (1997), *Budget of the United States Government, Analytical Perspectives, Fiscal year 1998*, United States Office of Management and Budget, Government Printing Office, Washington, D.C.

ANNEX 2 TAXES AND SOCIAL SPENDING TRENDS

A1. Accounting for changes in the tax system not only facilitates international comparisons but can also give a better impression of social effort over time. As discussed, the tax system in Denmark underwent significant changes in 1994 leading to marked increases in government revenue from direct and indirect taxation. However, as Table 6 revealed, the net effect of such changes was very limited.

A2. In 1990 the Netherlands also experienced a reform of the tax system which significantly altered gross spending levels. This reform included a partial shift from social security contributions levied on employers to employees who received a supplement from employers to compensate for the increased employee contributions (the so-called “Overhevelingstoeslag”). In a similar way, gross social benefits were increased as benefit recipients were also compensated for the increase in social security contributions levied on benefit income. Net benefits changed little, unlike gross spending levels. It is estimated that the reform increased public social spending from 1989 to 1990 by 1.4% of GDP: 5% of gross public spending in 1990 (Tweede Kamer der Staten-Generaal, 1990, p. 5).

A3. Belgium is the only country for which a complete longitudinal net benefit data set is available. It is clear form the chart that in Belgium the tax system has not induced significant differences between gross and net spending trends. However, the Danish and Dutch examples illustrate how failure to adjust for the influence of the tax system can lead to an inaccurate view of public and total social spending, and underscores the importance of developing and maintaining net social expenditure indicators.

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