PART II: THE SOCX MANUAL

II.1. Introduction

63. The *OECD Social Expenditure database* was developed in the 1990s to facilitate social policy analysis (OECD, 1996).[8] In principle the System of National Accounts (SNA) provides a comprehensive accounting framework for social expenditure and its financing (SNA, 1993). In practice, however, the aggregate nature of data included in 'social transfers' (cash and in kind) in the SNA proved inadequate for analysis of public social policy programmes and trends[9]: in the context of its work-programme on public spending the Secretariat tried unsuccessfully to establish on a comprehensive basis what spending items were included in the (sub-)aggregate spending amounts recorded as government outlays by function in the National Accounts (Varley, 1986, and Oxley *et al.*, 1990). As a result, when the *OECD Social Expenditure database* (SOCX) was set up in the early 1990s, it was designed to be transparent through the recording of spending items at a detailed level: the 'social expenditure programme' for all 34 OECD countries in national currency. For example, SOCX includes information for 50 separate social programmes for Canada, 65 for both the Netherlands and the US, and 300 for France. The detailed nature of expenditure data in SOCX constitutes an important form of quality control as the high level of transparency associated with detailed recording limits the scope for inappropriate recording (including double counting) of spending items in SOCX.

64. The detailed information on social expenditure items included in SOCX permits a variety of types of analysis of the effects of social policy to be undertaken. The detail in SOCX allows for in-depth study of national and cross-national social protection policy, as for example in the *OECD Economic Surveys* of individual member countries, and also allows for a grouping of expenditures to match the analytical needs of users, as for example: using different definitions of active social policy; an assessment of spending on all incapacity-related support programmes; an evaluation of expenditures targeted primarily at different age groups, etc. Both OECD analysts and external researchers make extensive use of information on trends and changes in the composition of social spending as in SOCX, for example: Caminada and Goudszwaard (2005); Castles (2004, 2008); Castles and Obringer (2007); Darby and Melitz (2007); Pearson and Martin (2005); Siegel (2005); Townsend (2007); Whiteford and Adema (2007); Kirkegaard (2009); Fishback (2010); Adema and Whiteford (2010); and, OECD (2011*a*) .

8 Prior to the 2010 release of SOCX the OECD produced six updated volumes of the database since the initial release; OECD (1999; 2000a; and 2001) via CD-ROM, while OECD (2004, 2007*a and 2009*) were released through the OECD Internet.

9 For the regular data collection for the National Accounts, countries only report two items that are directly related to public social expenditure: 1) social transfers in cash (D62); and 2) social transfers in kind (D63). Data recorded for the Classification of Function of Government (COFOG) typically record four public social expenditure items (spending by general government, central government, local government and social security funds, see OECD, 2010*a*), although national sources may provide more detail. For example, Statistics Canada reports about 20 items on public social transfers in Canada (*www.statcan.ca*).

65. SOCX also presents the aggregated public and private social expenditure grouped along nine social policy areas, and to facilitate international comparisons this information is related to gross domestic product, gross national income, total government expenditure, and in purchasing power parities per head. SOCX does not contain information on the financing of social programmes on a comprehensive basis.

66. The OECD has developed different and more comprehensive measures of the resources devoted to social policies in OECD countries; indicators on net (after tax) total (public and private) social expenditure. This work started in the mid-1990s with initial estimates on net public social expenditure for six countries (Adema *et al.*, 1996), but over the years the methodological framework and available data have been extended to cover 27 OECD countries: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Sweden, Spain, Turkey, the United Kingdom and the United States (detailed information per country is presented in Annex I.2). This work is undertaken in close collaboration with the OECD Centre for Tax Policy and Administration, and these indicators are treated as an integral part of SOCX, and will be updated as the rest of the database, *i.e.,* every two years. The next collection round is scheduled to start in 2011, with results to be released in 2012.

67. The *OECD Social Expenditure database* (SOCX) has been designed to be compatible with the System of National Accounts and *inter alia* the System of Health Accounts (OECD, 2000*b* and SNA, 1993). It is also broadly compatible with Eurostat's European System of Social Protection Statistics – ESSPROS, and the ILO Social Security Inquiry – SSI (Box II.1; Eurostat, 2008, and ILO, 2005). Information on social expenditure and recipiency of social support that is collected by the Asian Development Bank as part of its Social Protection Index initiative is also broadly compatible with the other databases (ADB, 2006 and 2008).

Box II.1: The relationship between OECD, Eurostat and ILO social accounting systems

Compared to SOCX, the scope of Eurostat's European System of Social Protection Statistics – ESSPROS (via *http://epp.eurostat.ec.europa.eu/portal/page/portal/social_protection/data*) and the ILO's Social Security Inquiry – SSI (via *www.ilo.org/dyn/ilossi/ssimain.home*), is wider as these systems also include information on financing of social expenditure. From a statistical perspective it may be desirable that the *OECD Social Expenditure database* is extended to include information on the financing of social programmes that is consistent with the *OECD Revenue Statistics* (OECD, 2010*a*), but the resources that would be required for such an exercise are likely to far exceed the gains that could be made in terms of strengthening policy analysis.

In terms of social domain, the OECD has arguably the largest scope as it has developed a methodology, which facilitates the comprehensive accounting of fiscal measures that affect social protection (see below). In terms of gross spending items, the SSI has a relatively large scope as it includes spending supporting basic education, as for example spending on school-books (SOCX reports public spending on education as a memorandum item, see Annex I.4). The scope of ESSPROS is narrower than that of SOCX and the SSI as it focuses on support that can be 'allocated' to individuals and, consequently, it does not include *all* spending on public health expenditures or labour market programmes. The ILO and the OECD both record spending on Active Labour Market Policies, with the OECD-definitions being the least restrictive as they include government subsidies towards the cost of employment of previously unemployed persons.

Functional categorisations in ESSPROS (Eurostat, 2008) and the Social Security Inquiry (ILO, 2005) are also slightly different from each other. ESSPROS groups items in 7 functions; the SSI identifies 11 functions; and SOCX has 9 social policy areas at present.

II.2. Defining the social domain

68. To facilitate cross-country comparisons of social expenditure, the first step is to demarcate what spending is 'social' and what is not. The OECD defines social expenditures as:

> "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."

69. Since only benefits provided by institutions are included in the social expenditure definition, transfers between households – albeit of a social nature, are not in the social domain.[10]

70. Social benefits include cash benefits (*e.g.,* pensions, income support during maternity leave and social assistance payments), social services (*e.g.,* childcare, care for the elderly and disabled) and tax breaks with a social purpose (*e.g.,* tax expenditures towards families with children, or favourable tax treatment of contributions to private health plans).

71. There are two main criteria which have to be simultaneously satisfied for an expenditure item to be classified as social. First, the benefits have to be intended to address one or more social purposes. Second, programmes regulating the provision of benefits have to involve either a) inter-personal redistribution, or b) compulsory participation.

II.2.1. Towards a social purpose

72. The *OECD Social Expenditure Database* groups benefits with a social purpose in nine *policy areas* (see also section II.3.1 for more detail):

- *Old-age* – pensions (see Box II.2), early retirement pensions, home-help and residential services for the elderly;
- *Survivors* – pensions and funeral payments;
- *Incapacity-related benefits* – care services, disability benefits, benefits accruing from occupational injury and accident legislation, employee sickness payments;
- *Health* – spending on in- and out-patient care, medical goods, prevention;
- *Family* – child allowances and credits, childcare support, income support during leave, sole parent payments;
- *Active labour market policies* – employment services, training, employment incentives, integration of the disabled, direct job creation, and start-up incentives;
- *Unemployment* – unemployment compensation, early retirement for labour market reasons;
- *Housing* – housing allowances and rent subsidies; and,
- *Other social policy areas* – non-categorical cash benefits to low-income households, other social services; *i.e.,* support programmes such as food subsidies, which are prevalent in some non-OECD countries.

10 Social spending does not include remuneration 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 towards transport, holiday pay, etc. are part of remuneration in this sense.

Box II.2: Earnings and deferred wages; the treatment of pensions and severance payments in SOCX

The definition of social spending explicitly rules out remuneration for work, and therefore items as holiday pay, costs incurred for transport to work and bonuses are not covered in the database. The exclusion of remuneration for current work effort from the social spending remit is uncontested, but what about "remuneration for past work or deferred wages"? In fact, a substantial part (*i.e.,* that part financed by employer contributions) of the pension payments by public and private pension funds can be argued to concern deferred wages. If social expenditure were not to include any such items then almost all pension payments would be excluded from SOCX, and other relevant databases as operated by, for example, Eurostat and the ILO. Instead, by convention, pensions (in general payments of people above retirement age), are considered to be part of social expenditure, also when co-financed by past employer contributions.

If pensions are considered to be social expenditure then the question arises which other similar payments should also be included in the database. General saving plans are often used for retirement, but it is unclear to what extent this is the case. Similarly, life insurance saving instruments across the OECD are also used for the same reason, but, again, there is insufficient detail in the available data to establish which particular programme or savings vehicle is geared towards retirement. Hence, such data are not included in SOCX.

Severance payments can also be used for retirement, and if pensions are included in SOCX, it would be consistent to also include severance payments if they are made towards retirement. However, severance payments are not exclusively made for retirement purposes. Severance payments are made when an employment relationship between employer and employee ceases to exist, and that can also be because an employee quits voluntarily or is dismissed.

In its balance of methodological choices, SOCX treats severance payments on retirement as retirement allowances similar to pensions, while severance payments to people below the normal retirement age are considered as separation payments and treated as remuneration. There is one exception: the OECD Labour Market Policy database and SOCX include "redundancy compensation", when such payments are made by public funds to workers "who have been dismissed through no fault of their own by an enterprise that is ceasing or cutting down its activities". This covers a small and specific group of all "severance payments", which are included under unemployment compensation.

In theory, SOCX should include that part of spending of the severance pay which is given to people who reach retirement, and exclude the rest. However, such a level of detail is generally not available, and choices on whether or not to include severance payments had to be made on a case-by-case basis.

By and large this issue is most relevant to the following three countries:

i) Spending on severance payments is worth about 1% of GDP in total in Italy and can be split in payments to (former) public and private employees. For public sector workers, available data confirm that the vast majority of payment is paid on retirement of the employee (INPDAP, 2008). While there are no statistics on the age of the severance payments to private sector employees, "…a significant majority of the aggregate amount of benefit is paid out to people who are retiring…". Eurostat therefore continues to classify the Italian severance payments in its Old Age function.

ii) New evidence from Japan suggests that voluntary private severance payments amounted to 2.9 % of GDP in 2007 (relevant statistics on severance payments/retirement income are published in the Tax Statistics published by the National Tax Office in Japan). The Japanese authorities assume that the majority of recipients of severance pay receive these payments on retirement, even though the statistics do not allow for an exact identification of that percentage.

iii) In Korea, total severance payments amount to 2.0% of GDP. The majority of severance payments are being made when workers are laid off or quit voluntarily before compulsory retirement age. Korean policy aims to convert severance payments into a corporate pension saving, leading to the so-called "Retirement Pension Benefits". However, while the government provides tax incentives to stimulate conversion, it is not mandatory, and the proportion of enterprises involved is around 15% (Ministry of Labor, 2009). Only a minority of all employer-paid severance payments (around 10 to 30% at maximum) concerned workers who retired, and therefore SOCX includes 20% (equivalent to 0.4% of GDP) of all spending on severance payments under mandatory private old-age expenditure. When in future more detailed information on severance payments made on retirement and the amount of Retirement Pension Benefits becomes available, such spending will be included in SOCX.

In sum, as most spending on severance payments in Italy and Japan seems to be made on retirement they are included in SOCX. For Korea, it is the other way round as only a minority of spending on severance pay goes to people reaching retirement. The error of including all severance payments under old age spending would be larger than when no such spending was recorded for Korea at all. To further reduce the margin of error SOCX includes 20% of all spending on severance payments until more comprehensive information on the issue becomes available.

73. The borderline of the social domain is not always immediately clear because policy objectives differ across countries. Tackling child poverty is an important policy objective in all OECD countries, and support for children (either through cash transfers, services or through the tax system) is considered as social. However, favourable fiscal treatment of marital status is not considered as social support in the *OECD Social Expenditure database*, as there is no OECD-wide agreement on whether such support reflects the pursuit of social policy objectives (across countries there are also different views on the basic economic unit, which is the appropriate basis for taxation).

74. In practice, data issues also play a role in determining whether certain items are considered social or not. For example, when saving programmes are earmarked towards income support in retirement (or towards contingencies covered by other social policy areas), they are considered to be 'social'.

75. Rent subsidies are considered social, as is residential support for the elderly, disabled and other population groups (as recorded under Old-age, Incapacity-related benefits, etc.). Mortgage relief for low-income households has some similarities with such programmes. However, it is unclear up to what level of income, or what level of property value, such support should be considered social. Relevant thresholds differ across countries, while, in any case, comprehensive cross-national data are not available. For these reasons, mortgage relief and capital subsidies towards construction of housing are not considered here.

76. For this issue of SOCX public expenditure on childcare and early educational services has been taken from national statistics, Eurostat and the annual (OECD/Eurostat) data collection on (pre-primary) education (OECD, 2010*b*). In order to get a better comparison of childcare support, indicators have been adjusted for cross-national differences in the compulsory age of entry into primary school. For example, in some (Nordic) countries children enter primary school at age 7, while attending pre-primary schooling the year beforehand. In order to improve the comparison, expenditure on these 6-year-olds was excluded (sometimes using estimates derived on basis of available data on spending on education and the number of 6-year-olds). Similarly, for countries where children enter school at age 5 (and which are not included in the childcare and pre-school data) pre-school expenditure data for Australia, New Zealand and the United Kingdom was adjusted by adding up the expenditure corresponding to 5-year-old children enrolled in primary school.

77. Nevertheless, there remain weaknesses in spending data, not least because local governments often play a key role in financing childcare services. This does not lead to recording issues in Nordic countries, but in other (often federal) countries, it is much more difficult to get a good view of public support for childcare across a country. This is because local governments may use different funding streams to finance childcare services, *e.g.,* non-earmarked general block-grants, as in Canada, or because information on spending by local governments on childcare is not reported to national authorities, *e.g.,* Switzerland. These issues are not restricted to federal countries. In the Netherlands, municipalities can provide childcare support for (groups) of their inhabitants, and they may finance this out of the general block-grant to municipalities. They can also use the central government funding stream to municipalities to support labour market integration for income support recipients, to finance, for example, childcare support for social assistance clients.

II.2.2. Inter-personal redistribution or compulsion

78. Expenditure programmes are considered 'social' if participation is compulsory, and if entitlements involve inter-personal redistribution of resources among programme participants; in other words, if entitlements are not the result of direct market transactions by individuals given their individual risk profiles. The provision of social services (by public authorities and/or non-government organisations) and social insurance and social assistance programmes practically always involves redistribution across households. Such programmes are either financed through general taxation or social security contributions,

which lead to the redistribution of resources across the population or within population groups (*e.g.,* all members of an unemployment insurance fund).

79. Inter-personal redistribution in private programmes is often introduced by government regulation or fiscal intervention. Governments may force individuals and/or employers to take up protection provisions regardless of their risk-profiles or the prevailing market prices. For example, through risk-sharing (*e.g.,* through forcing insurance companies to have one price for both sick and healthy people) public policy can subsidise sick people, and thus ensure redistribution between households. Public fiscal intervention to stimulate private take-up on a collective or individual basis also means that the take-up decision is not fully determined by the individual risk-profile or prevalent market prices (the same holds for social benefits derived from collective agreements or taken out by employers on a collective basis). There is a high degree of similarity between legally-stipulated private schemes and tax-advantaged plans.

80. Social benefits are also defined to include some (public and private) pension programmes that in theory do not necessarily involve redistribution of resources across households as, for example, the compulsory government managed individual savings scheme in Singapore (Ramesh, 2005). This is because just as with the provision of tax relief, compulsion reflects a policy judgement that coverage of these plans is desirable; hence, these programmes are considered social.

II.2.3. Public, private social and exclusively private expenditure

81. The distinction between public and private social protection is made on the basis of whoever controls the relevant financial flows; public institutions or private bodies. Public social expenditure: social spending with financial flows controlled by General Government (different levels of government and social security funds), as social insurance and social assistance payments. For example, sickness benefits financed by compulsory employer and employee contributions (receipts) to social insurance funds are by convention considered public. In line with SNA93[11], SOCX records pensions paid to former civil servants through autonomous funds as a private spending item (Australia (partially[12]), Canada, Denmark, the Netherlands, Sweden and the United Kingdom). All social benefits <u>not</u> provided by general government are considered 'private'.

82. Within the group of private social benefits, additional two broader categories can be distinguished:

- Mandatory private social expenditure: social support stipulated by legislation but operated through the private sector, *e.g.,* direct sickness payments by employers to their absent employees as legislated by public authorities, or benefits accruing from mandatory contributions to private insurance funds.

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11 SNA (1993), para 8.63 states: "… Social insurance schemes organized by government units for their own employees, as opposed to the working population at large, are classified as private funded schemes or unfunded schemes as appropriate and are not classified as social security schemes. …" In practical terms, for pension payments to former civil servants to be classified as private, these payments have to go through autonomous private funds (*e.g.,* separate pension and/or insurance companies), for which the government does not make up the deficit on a regular basis (*e.g.,* in practice benefit schemes which are defined contributions plans). Non-autonomous pension schemes (including pension benefits paid directly from the government budget) remain institutionally in the government sector.

12 The Australian pension arrangements for former civil servants constitute a hybrid of public and private components. The relevant pension payment is a defined benefit scheme which is guaranteed by the government and thus classified as public. In contrast, the lump-sum payment which many civil servants take on retirement is based on their compulsory contributions and interest rates; relevant spending has been grouped under mandatory private social expenditure for Australia.

- Voluntary private social expenditure: benefits accruing from privately operated programmes that involve the redistribution of resources across households and include benefits provided by NGOs, and benefit accruing from tax advantaged individual plans and collective (often employment-related) support arrangements, such as for example, pensions, childcare support, and, in the United States, employment-related health plans.[13]

83. SOCX includes data on the size of private social spending across the OECD, but this data is nevertheless deemed of lesser quality than information on budgetary allocations for social support.

84. Take-up of individual insurance, even with a social purpose, is a matter for those concerned, and premiums are based on the individual preferences and the individual risk profile. For example, if someone takes out private pension insurance which is actuarially fair, then there is no *ex ante* redistribution across households. The insurance company sets the price so that the individual can expect to receive compensation payments in return for exactly what it costs him or her. Such spending is not considered social, but 'exclusively private'. Table II.1 summarizes which expenditures are social and which are not. Box II.3 provides further detail on issues with the categorisation of benefits with a social purpose.

Table II.1: Categorisation of benefits with a social purpose [1, 2]

	Public		**Private**	
	Mandatory	*Voluntary*	*Mandatory*	*Voluntary*
Redistribution	Means-tested benefits, social insurance benefits	Voluntary participation in public insurance programmes. Self-employed 'opting in' to obtain insurance coverage.	Employer-provided sickness benefits, benefits accruing from mandatory contributions, to, for example, pension or disability insurance.	Tax-advantaged benefits, *e.g.,* individual retirement accounts, occupational pensions, employer-provided health plans
No redistribution	Benefits from government managed individual saving schemes		Non tax-advantaged actuarially fair pension benefits	*Exclusively private*: Benefits accruing from insurance plans bought at market prices given individual preferences.

(1) By definition transfers between individuals, even when of a social nature, are not considered to be within the social domain.

(2) The shaded cells reflect benefits that are NOT classified as social.

85. Life insurance savings plans are considered outside the social domain as comprehensive information on that part of life insurance payments which is earmarked for social purposes is not available; in fact, there is no comprehensive information on life insurance benefits. Although the practice of reinsurance makes it difficult to get a precise view on the importance of life-insurance arrangements, available information on life insurance premiums suggests that life insurance arrangements play an important role (OECD, 2010*c*). To a considerable extent, life insurance policies are taken up to cover mortgage arrangements, which are not considered to serve a social purpose, but private life-insurance benefits with a social element, such as payments towards death, disability, medical interventions and retirement, can be important and are included where these are separately identifiable (see below).

13 It might be argued that only the value of the fiscal intervention towards the private pension 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 should be included.

Box II.3: Identifying and categorising benefits with a social purpose

The *OECD Social Expenditure database* groups social benefits by the nature of provision into public, mandatory private and voluntary private social expenditure across nine different social policy areas. All other (insurance) arrangements with a social purpose, which are based on individual risk-profiles and obtained at prevailing market prices, are outside the social domain. Examples of such arrangements that do not involve redistribution or compulsory participation are individual pension plans and individual health insurance packages.

In theory, information on the purpose of social expenditure programmes, their redistributive nature, their legal basis and control of financial flows, provides clear benchmarks for identifying public, mandatory private, voluntary private and exclusively private programmes. Sometimes classification is straightforward. For example, income support during parental leave paid by a public insurance fund is 'public'; legally required continued wage payments by employers to fathers on paternity leave are 'mandatory private', while parental leave payments made by employers on their own initiative (or because they signed up to a collective labour agreement) are voluntary private. It is more difficult when payments involve a mixture of these forms, and in the absence of good data classification, decisions have to be made.

In particular, regarding private pension funds it can be very difficult to make an unambiguous categorisation between mandatory private benefits, voluntary private benefits, and benefits that are not considered part of the social domain. Classification problems are exacerbated by the fact that contributions that underlie pension payments are made over various years and the nature of the contributions can shift over time.

Consider the case where 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):

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

The total amount of contributions (C) paid to a particular arrangement over the years can be the sum of different types of contributions: mandatory contributions (Cm); (Cv); and, exclusively private contributions (Ce). In any particular year:

$$C = Cm + Cv + Ce.$$

Thus, benefit payments in a given year 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.

Often, data on benefit payments only record aggregate payments (Bx) and do not separately identify payments due to different types of contributions (Cm, Cv, Ce). For example, data on pensions paid by Superannuation plans in Australia or private pension plans in Switzerland do not separately identify payments derived from mandatory private, voluntary private or exclusively private pension contributions. All Superannuation pension payments (not the lump-sum payments) to former private sector workers are grouped under voluntary private social benefits, as the pension payments that derive from mandatory contributions are currently relatively small. However, with recently increased mandatory contributions rates, pension payments deriving from mandatory contributions in Australia are expected to increase with the maturing of Superannuation plans.

Individual pension plans, for example, individual retirement accounts in the United States, are only in the (voluntary private) social domain in as much the underlying contributions were tax advantaged (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 not include those private benefits that derive from non-fiscally advantaged contributions, but data, which allow for such a distinction is not always available. The decision on whether or not to include individual pension programmes is made on a case-by-case basis. For example, available tax data for the United States facilitates the identification of pensions and individual retirement disbursements, which are part of the social domain as defined above, and are therefore included in the private pension expenditure data in SOCX.

86. There are significant differences across countries in the extent to which social policy goals are pursued through the tax system or in the role of private provision within national social protection systems (as seen above). These differences point to substantial variance in the re-distributional nature of social systems. Some private social programmes may generate a more limited redistribution of resources than public ones, and tax advantages towards private pension and health plans are more likely than not to benefit the relatively well-to-do. Private employment-related social benefits mostly re-allocate income between the (formerly) employed population, and the same holds largely true for fiscally-advantaged individuals or group retirement plans. Cross-national differences in redistribution are not just related to individual programme design, but also to the overall level of social spending. Income redistribution in a high public spending country such as Denmark tends to be larger than in, for example, the United States, where private social spending plays a much more substantial role (OECD, 2008, and Whiteford and Adema, 2007).

II.3. Social expenditure programme data in SOCX

II.3.1 Categorisation of programmes across policy areas

87. The *OECD Social Expenditure Database* groups benefits with a social purpose in nine *policy areas* - Old-age, Survivors, Incapacity-related benefits, Health, Family, Active labour market policies, Unemployment, Housing, and Other social policy areas. Table II.2 Panel A shows the structure of SOCX database for public and mandatory private programmes. Table II.2 Panel B shows the simplified structure of SOCX database for voluntary private expenditure as the quality of information is not as high as on budgetary allocations, and spending detail by programme is not available on a comprehensive basis.

Table II.2: Structure of SOCX database for public and mandatory private programmes

Panel A: Programmes by social policy area (1-9) and type of expenditure (cash / in kind)

1. OLD AGE
   - Cash benefits
     - Pension
     - Early retirement pension
     - Other cash benefits
   - Benefits in kind
     - Residential care / Home-help services
     - Other benefits in kind
2. SURVIVORS
   - Cash benefits
     - Pension
     - Other cash benefits
   - Benefits in kind
     - Funeral expenses
     - Other benefits in kind
3. INCAPACITY-RELATED BENEFITS
   - Cash benefits
     - Disability pensions
     - Pensions (occupational injury and disease)
     - Paid sick leave (occupational injury and disease)
     - Paid sick leave (other sickness daily allowances)
     - Other cash benefits
   - Benefits in kind
     - Residential care / Home-help services
     - Rehabilitation services
     - Other benefits in kind
4. HEALTH
   - Benefits in kind
5. FAMILY
   - Cash benefits
     - Family allowances
     - Maternity and parental leave
     - Other cash benefits
   - Benefits in kind
     - Day care / Home-help services
     - Other benefits in kind
6. ACTIVE LABOUR MARKET PROGRAMMES
     - Employment service and administration
     - Labour market training
     - Youth measures
     - Subsided employment
     - Employment measures for disabled
7. UNEMPLOYMENT
   - Cash benefits
     - Unemployment compensation / severance pay
     - Early retirement for labour market reasons
   - Benefits in kind
8. HOUSING
   - Benefits in kind
     - Housing assistance
     - Other benefits in kind
9. OTHER SOCIAL POLICY AREAS
   - Cash benefits
     - Income maintenance
     - Other cash benefits
   - Benefits in kind
     - Social assistance
     - Other benefits in kind

Panel B: Categorisation of voluntary private expenditure

1. OLD AGE
   - Pensions to former private sector workers
   - Pensions to former civil servants
3. INCAPACITY-RELATED BENEFITS
4. HEALTH
9. OTHER SOCIAL POLICY AREAS

88. The nine policy areas are defined as follows; including examples of programmes (see Annex II.2 for details on codes of programmes):

- 1. Old-age – comprises all cash expenditures (including lump-sum payments) on old-age pensions. Old-age cash benefits provide an income for people retired from the labour market or guarantee incomes when a person has reached a 'standard' pensionable age or fulfilled the necessary contributory requirements. This category also includes early retirement pensions: pensions paid before the beneficiary has reached the 'standard' pensionable age relevant to the programme. Excluded are programmes concerning early retirement for labour market reasons which are classified under unemployment. Old-age includes supplements for dependants paid to old-age pensioners with dependants under old-age cash benefits. Old-age also includes social expenditure on services for the elderly people, services such as day care and rehabilitation services, home-help services and other benefits in kind. It also includes expenditure on the provision of residential care in an institution (for example, the cost of operating homes for the elderly). In order to remain consistent with the SNA93, SOCX now records pensions paid to former civil servants through autonomous funds as private spending items. Examples of programmes include:

– "250.10.1.1.1.1 Basic scheme: CNAV" is the French public basic pension scheme from "Régime général"

– "208.10.1.2.1.2 Assistance in carrying daily tasks for the elderly" is the Danish programme from municipalities that offers services to the elderly

– "392.20.1.1.1.1 Employees' pension funds" is the Japanese mandatory private occupational pension scheme

– "826.30.1.1.1.4 Public sector occupational pension" is the programme recording pension benefits to former civil servants in the United Kingdom.

- 2. Survivors – many countries have social expenditure programmes in the public sphere which provide the spouse or dependent of a deceased person with a benefit (either in cash or in kind). Expenditure in this policy area has been grouped under survivors. Allowances and supplements for dependent children of the recipient of a survivors' benefit are also recorded here. Examples of programmes include:

– "124.10.2.1.1.2 CPP and QPP: surviving spouse's pension" is the Canadian Pension Plan and Quebec Pension Plan programmes paying benefits to surviving spouses

– "348.10.2.2.1.1 Funeral expenses (means-tested)" is the Hungarian means-tested programme giving public support for funerals.

- 3. Incapacity-related benefits – disability cash benefits comprised of cash payments on account of complete or partial inability to participate gainfully in the labour market due to disability. The disability may be congenital, or the result of an accident or illness during the victim's lifetime. Spending on Occupational injury and disease records all cash payments such as paid sick leave, special allowances and disability related payments such as pensions, if they are related to prescribe occupational injuries and diseases. Sickness cash benefits related to loss of earning because of the temporary inability to work due to illness are also recorded. This excludes paid leave related to sickness or injury of a dependent child which is recorded under family cash benefits. All expenditure regarding the public provision of health care is recorded under health. Social expenditure on services for the disabled people encompasses services such as day care and rehabilitation services, home-help services and other benefits in kind. Examples of programmes include:

– "756.10.3.1.1.1 Disability pension: invalidity insurance (non means-tested)" is the Swiss public non-means tested disability insurance pension

– "442.10.3.1.4.4 Paid sick leave" is the public programme in Luxembourg reimbursing 100% of wage (up to a ceiling) for sick blue collar employees from the first day of sickness up to three months and sick white collar employees from the third month up to the 12th month of sickness

– "578.20.3.1.4.1 Sickness and waiting period benefit" is an estimation of mandatory benefits paid by employers in Norway during the first two weeks of sickness

– "752.30.3.0.0.0 Incapacity-related benefits" include Swedish voluntary private contractual disability pensions.

- 4. Health – social expenditure data in the health policy area is taken from the OECD *Health Data* (OECD, 2010*d*). All public expenditure on health is included (not total health expenditure): current expenditure on health (personal and collective services and investment). Expenditure in this category encompasses, among other things, expenditure on in-patient care, ambulatory medical services and pharmaceutical goods. Individual health expenditure, insofar as it is not reimbursed by a public institution, is not included. As already noted, cash benefits related to sickness are recorded under sickness benefits. Voluntary 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 plans are often employment-based and/or tax-advantaged).

  In this and the previous versions of SOCX, efforts have been made to limited double counting of spending on long-term care as reported by health and social policy authorities. In particular, recent improvements in the System of Health Accounts have brought greater transparency and better recording in this area (OECD, 2010*d*, 2000*b* and *www.oecd.org/health/sha*). For more information see Annex II.1.2.

- 5. Family – includes expenditure which supports families (*i.e.,* excluding one-person households). This expenditure is often related to the costs associated with raising children or with the support of other dependants. Expenditure related to maternity and parental leave is grouped under the family cash benefits sub-category (*OECD Family database* - Indicator PF1.1 and PF3.1 - www.oecd.org/els/social/family/database). Examples of programmes include:

– "56.10.5.1.1.1 Family allowance: National office for employees' family allowances" is the Belgian public programme giving child benefits to families

– "246.10.5.1.2.2 Maternity and parent's allowance" is the social security programme of income maintenance in the event of childbirth in Finland

– "203.10.5.2.1.6 Child care (pre-primary education)" is public spending in the Czech Republic towards formal day-care and pre-school services for children not yet 6 years of age. To get a good comparison of support for early care and education services (be it in (family) day-care, pre-school or, in some countries, school settings) account has been taken of cross-national differences in the compulsory age of entry into primary school. For example, in some (Nordic) countries children enter primary school at age 7, while 6-year-olds attend pre-primary school the year before. In order to improve the comparison, expenditure on these 6-year-olds was excluded (sometimes using estimates derived on basis of available data on spending on education and the number of 6-year-olds). Similarly, for countries where children enter school at age 5 (and which were not already included in the childcare and pre-school data) pre-school expenditure data for Australia, New Zealand and the United Kingdom was adjusted by adding up the expenditure on 5-year-olds enrolled in primary school (see also, the *OECD Family database* – Indicator PF3.1 - *www.oecd.org/els/social/family/database*).

- 6. Active labour market programmes – contains all social expenditure (other than education) which is aimed at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity. This category includes spending on public employment services and administration, labour market training, special programmes for youth when in transition from school to work, labour market programmes to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programmes for the disabled. For more detailed information regarding the categorization of expenditure on ALMP, see Annex II.1.3. Examples of programmes include:

– "484.10.6.0.1.1 National employment service (SNE) (Servicio nacional de empleo)" in Mexico

– "40.10.6.0.2.5 Support for training in institutions" in Austria

– "620.10.6.0.3.1 Employment-training rotation program" in Portugal

– "300.10.6.0.4.17 Programme for the subsidised employment of special social groups" in Greece

– "554.10.6.0.5.9 Vocational activities/community participation" in New Zealand

- 7. Unemployment – includes all cash expenditure to people compensating for unemployment. This includes redundancy payments to people who have been dismissed through no fault of their own by an enterprise that is ceasing or cutting down its activities out of public resources as well as pensions to beneficiaries before they reach the 'standard' pensionable age if these payments are made because they are out of work or otherwise for reasons of labour market policy. Examples of programmes include:

– "36.10.7.1.1.2 Newstart allowance" for Australian unemployed entitled to an out-of-work unemployment benefit

– "380.10.7.1.2.1 Early retirement for labour market reasons" from National Social Security Institute in Italy.

- 8. Housing – spending items recorded under this heading include rent subsidies and other benefits to the individual to help with housing costs. This includes direct public subsidies to tenants (in some countries, *e.g.,* Norway, homeowners living in their house) 'earmarked' for support with the cost of housing. Because the benefits included here concern earmarked cash payments, by convention they are classified as in-kind benefits (SNA, 1993 – see D.6331). SOCX also reports direct in-kind housing provisions to the elderly and disabled and shelter for those in immediate need in other sections (1.2.1, 3.2.1, and 9.2.2, respectively).

  Other forms of housing support such as mortgage relief, capital subsidies towards construction and implicit subsidies towards accommodation costs housing can be of a social nature, particularly when such accommodation directly benefits low-income households. However, there is no cross-national agreement on a methodology on coverage and measurement of such support, so that at present, such housing support is not included in SOCX. Nevertheless, such support can be considerable.

For example, in the Netherlands, the budgetary costs of favourable tax treatment of interest payments and other mortgage costs amounted to almost EUR 12 billion in 2006. Accounting for reduced taxation of private equity in housing (EUR 7.5 billion), income and acquisition tax (EUR 5 billion) as well as municipal rates (EUR 2.25 billion), the net budgetary subsidy to private home ownership in the Netherlands was estimated to be around 2.3% of GDP in 2006 (Koning *et al.*, 2006). SOCX also does not include (capital-) subsidies towards the construction of housing support, for example in the United States, in 2003 credit for low-income investment was worth USD 6.2 billion or 0.06% of GDP (OMB, 2009). SOCX also does not include the value of implicit subsidies towards the cost of housing. For example, in France, almost 5 million households in public social housing pay a lower rent than households in accommodation with similar characteristics in the private rental sector (Ministère de l'Écologie, du Développement et de l'Aménagement durables de la France, 2007). The value of implicit subsidies per household (*i.e.,* the difference between the low rent effectively paid and the rent paid on the market for a dwelling with similar characteristics) is likely to be considerable. However, estimates on the total value of implicit housing subsidies are not available.

- 9. Other social policy areas – includes social expenditure (both in cash and in kind) for those people who for various reasons fall outside the scope of the relevant programme covering a particular contingency, or if this other benefit is insufficient to meet their needs. Social expenditure related to immigrants/refugees and indigenous people are separately recorded in this category. Finally, any social expenditure which is not attributable to other categories is included in the sub-category other.

– "276.10.9.1.1.1 Income support (Social assistance)" in Germany

– "840.10.9.1.1.1 Earned income tax credit: refundable part (EITC)" in the United States.

II.3.2. Accounting conventions and practices

Reference, fiscal and tax years

89. The recording period with respect to the social expenditure data is not the same for each country. Most countries report data by calendar year (1 January to 31 December), except for Australia, Canada, Japan, New Zealand, the United Kingdom and the United States, where the data reported pertain to a financial year which differs from the calendar year. Adopting the same convention as for national accounts, year "n" is taken to mean the year in which a financial year begins, whether it starts on 1 January, 1 April, 1 July or 1 October. In cases where the financial year for social expenditure does not coincide with the calendar year, the relevant periods have been taken on a *prorata temporis* basis when using GDP (available for calendar years) and the GDP deflator, see below. For all other countries, GDP data refer to the calendar year.

- In Canada, Japan and the United Kingdom, the financial year (n) runs from 1 April (n) to 31 March (n+1) for social expenditure, requiring an adjustment for GDP ("n")=0.75* GDP(n) + 0.25*GDP(n+1).

- In the United States, the financial year (n) runs from 1 October (n-1) to 30 September (n) for social expenditure, requiring an adjustment for GDP ("n")=0.25*GDP(n-1) + 0.75GDP(n).

- In Australia and New Zealand, the reference years for social expenditure, although defined as July to June and not by calendar year, correspond to the calculation period for GDP.

Consequently no special adjustments are required. All the data refer to fiscal years beginning on the 1st July of the year indicated.

SOCX does not include administrative costs

90. SOCX generally excludes administration costs, *i.e.,* the costs incurred with the provision of benefits, as these expenditures do not go directly to the beneficiary. Administration costs cover expenditure on the general overheads of a social expenditure programme: registration of beneficiaries, administration of benefits, collection of contributions, controls, inspection, evaluation and reinsurance.

91. However, regarding the provision of services such as under Active Labour Market Programmes (ALMP), childcare services and public expenditure on health, the administration costs are included in the totals. It should be noted that these data sources include the OECD Education database, the OECD Labour Market Policy database and OECD *Health Data*, which have their own concepts and definitions. The inclusion of the administrative costs as well as wages for medical staff, employment service staff and childcare workers in the expenditures is justified as they are an integral part of the service being provided to beneficiaries, such as job-seeker reception and counselling, care and education of children, and/or patient reception and hospital services.

SOCX includes capital transfers and records transactions on an accrual basis

92. In line with SNA93, capital investment (*i.e.,* construction costs) are included on an accruals basis, that is if construction costs for a long term-care institution (or hospital) cost USD 1 million (interests included), built over four years, annual reimbursements of USD 250 000 would be included each year as investment spending.

SOCX generally excludes loans

93. "The conventional definition of social protection stipulates that the intervention does not involve a simultaneous reciprocal arrangement. This should be conceived as excluding from the scope of social protection any intervention where the recipient is obliged to provide simultaneously something of equivalent value in exchange. For instance, interest-bearing loans granted to households are not social protection because the borrower commits himself to paying interest and to refund the capital sum. Still, if the loan is interest-free or granted at an interest rate well below the current market rate for social protection reasons, the amount of interest waived qualifies as a social benefit" (Eurostat, 2008).

II.3.3. Data sources

94. The nature of SOCX data-processing is not straightforward as data do not derive from one all-encompassing questionnaire, but are taken from different sources in different formats:

- For *all OECD* countries data on public expenditure on health and public expenditure on active labour market policies (ALMPs) are taken from the *OECD Health Data* and the *OECD database on Labour Market Programmes*, respectively (OECD, 2010*d*, and 2011*b*, Statistical Annex). Data on education of 3, 4 and 5 year olds (ISCED 0) as in the *OECD Education database* feeds into the series on social spending on early care and education services. Data on unemployment compensation (cash transfers) are taken from the LMP database for OECD countries that do not belong to the EU and from ESSPROS for EU countries.

- For 10 non-European OECD countries, data delivered through the services of the delegates to the Working party on Social Policy of the Employment, Labour and Social Affairs committee responding to the SOCX Questionnaire.

- For 24 European countries (EU-21, Iceland, Norway and Switzerland), data on social expenditure is provided by EUROSTAT as based on the information in their ESSPROS database (EUROSTAT, 2010).

95. This is not an ideal way to collect data, not least because it limits interaction with data producers in European OECD countries. However, there has been little choice in the matter. From the start, OECD member states that also belong to the EU have insisted on providing data to the OECD via EUROSTAT in order to avoid having to deal with multiple social spending questionnaires. This is understandable, but does mean that a) information is only received from EUROSTAT once it has 'validated' the data for individual countries and b) data received in ESSPROS format has to be made compatible with information for non-European OECD countries. Furthermore, as ESSPROS data do not include all public spending on health and/or spending on active labour market policies, all individual country files are inevitably built from different sources.[14]

96. To achieve comparability of spending data for all OECD countries involves going through the EUROSTAT data submission to identify and siphon-out voluntary private social expenditure items to ensure compatibility with the public (and mandatory private) spending data for all OECD countries, and more generally ensure consistency of the spending data that are taken from different sources. Annex II.1 includes more detail on data sources.

97. Other reference series used in SOCX are from OECD (2011*e*):

- Gross Domestic Product (GDP)
- Deflator for GDP
- Gross Domestic Product at 2000 prices (GDPV)
- Gross National Income (GNI)
- Net National Income (NNI)
- Total General Government expenditure (GOV)
- Purchase Power Parities (PPP)
- Exchange rate (EXC)
- Population (POP)

[14] The 'core system of ESSPROS' focuses on support that can be 'allocated' to individuals and, consequently, it does not include *all* spending on public health expenditures or active labour market programmes. For example, ESSPROS does not include spending on investment in medical facilities, preventive health initiatives as anti-smoking campaigns, and health education and training more generally.