PF1.1: Public spending on family benefits

Definitions and methodology

Public spending on family benefits includes financial support that is exclusively for families and children. Spending recorded in other social policy areas such as health and housing also assist families, but not exclusively, and it is not included here.

Broadly speaking there are three types of public spending on family benefits (Chart PF1.1.A).

1. *Child-related cash transfers to families with children*: this includes child allowances, with payment levels that in some countries vary with the age of the child, and sometimes are income-tested (PF1.3); public income support payments during periods of parental leave (PF2.1) and income support for sole parents families (in some countries)..

2. *Public spending on services for families with children* includes, direct financing and subsidising of providers of childcare and early education facilities, public childcare support through earmarked payments to parents (PF3.4), public spending on assistance for young people and residential facilities, public spending on family services, including centre-based facilities and home help services for families in need.

3. *Financial support for families provided through the tax system*. Tax expenditures towards families include tax exemptions (e.g. income from child benefits that is not included in the tax base); child tax allowances (amounts for children that are deducted from gross income and are not included in taxable income), child tax credits, amounts that are deducted from the tax liability. If any excess of the child tax credit over the liability is returned to the tax-payer in cash, then the resulting cash payment is recorded under cash transfers above (the same applies to child tax credits that are paid out in cash to recipients as a general rule, for example, in Austria and Canada).

In many OECD countries, including Belgium, Germany, France, Ireland, Portugal, and Switzerland, support for families with children is embedded in the tax unit, so that at a given income level, the larger the family the lower taxable income. These measures may not be tax expenditures (they do not establish a deviation from the national standard tax system), but such policies clearly establish financial support for families with children, and indicators on such support are included in the data.

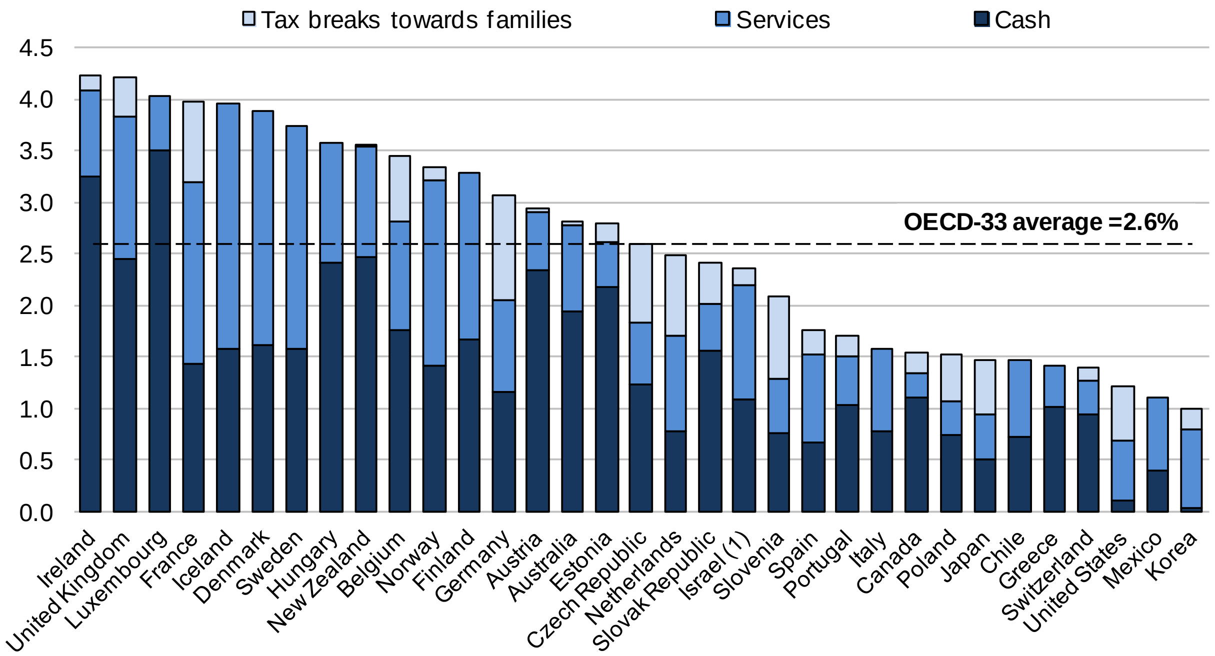
However, support for married couples is not considered as social in all OECD countries, and fiscal measures in this regard are not considered as a tax break with a social purpose (TBSP). The appropriate analogy is that the presence of dependent children leads to eligibility to cash benefits in social protection systems, whereas a marriage contract does not. Hence, tax advantages for married people as exists in, for example, Belgium, France, Germany and Japan are not considered to serve a 'social purpose', and are not included here (regardless of whether or not such measures are part of the basic tax structure). Only the value of support for children through such measures is included.

Other relevant indicators: LMF1.2: Maternal employment; PF1.2: Public spending on education, PF1.3: Typology of family benefits, PF2.1: Key characteristics of parental leave arrangements; PF3.1: Public spending on childcare and early education; PF3.4 Childcare support; and CO2.2: Child poverty.

Key findings

OECD countries spend on average 2.6% of their GDP on family benefits, with large variations across countries. Whilst public spending on family benefits is above 4% of GDP in Ireland, Luxmebourg and the United Kingdom (in Ireland and United Kingdom this is partly due to increase in spending in income tested benefits during the crisis), public spending in this area is around 1% of GDP in Korea and Mexico. The proportional total amount spent in cash, services and tax measures is variable. The majority of countries spend a higher proportion on cash benefits than on services or tax benefits. Exceptions include Chile, Denmark, France, Iceland, Israel, Italy, Korea, Mexico, Netherlands, Norway, Spain, Sweden and the United States, where spending on services is same or higher. Also, the proportion spent on tax breaks towards family is of considerable size in Belgium, the Czech Republic, France, Germany, Japan, the Netherlands, Slovenia and the United States (more than 0.5% of GDP).

Chart PF1.1.A: Public spending on family benefits in cash, services and tax measures, in per cent of GDP, 2009



Notes: Data missing for Turkey. Data on tax breaks towards families is not available for Greece and Hungary.
1 The data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Source: Social Expenditure Database, 2012.

Comparability and data issues

Information on cash transfers and in-kind benefits concern budgetary allocations that can largely be derived from administrative records on which national statistical offices base their statistics. By contrast, information on the value of fiscal support for families concerns estimates by tax authorities. Nevertheless as Chart PF1.1.A shows, not including estimates on the value of tax support for children would distort international comparison of public spending on family benefits.

Data on cash transfers for Ireland, New Zealand and the UK include spending on categorical income support benefits for sole parent families. Other countries also support sole parent families in need, but through general social assistance type payments (which do not allow for separate identification of public spending on sole parent families). As a result, the spending on cash transfers in Chart PF1.1.A is relatively high for the aforementioned three countries (the detailed country-specific spending files in the *OECD Social Expenditure database (SOCX)* allow for a different basis of comparisons than what is presented in Chart PF1.1.A).

Coverage of spending on family and community services in SOCX may be limited as such services are often provided, and/or co-financed, by local governments. The latter may receive general block grants to finance their activities, and reporting requirements may not be sufficiently detailed for central statistical agencies to have a detailed view of the nature of local spending. In Nordic countries (where local government is heavily involved in service delivery) this does not lead to large gaps in measurement of spending, but it does for some countries with a federal structure, for example, Canada and Switzerland.

Sources and further reading: Adema, W. Fron, P. and M. Ladaique (2011), "Is the European Welfare State really more expensive? Indicators on Social Spending, 1980-2012; and a Manual to the OECD Social Expenditure Database (SOCX)", *OECD Social, Employment and Migration Working Papers* No. 124, OECD, Paris (www.oecd.org/els/workingpapers); OECD (2002), *Taxing Wages 2001-2002*, Special feature taxing Families, OECD, Paris; OECD (2012), *Social Expenditure database*, (www.oecd.org/els/social/expenditure); and ESSPROS (2012).