Identifying the skeleton of the social investment state:
defining and measuring patterns of social policy change
on the basis of expenditure data

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“The budget is the skeleton of the state, stripped of all misleading ideologies…”

(Joseph Schumpeter, 1918)

This paper is the draft of a chapter of a book edited by Bea Cantillon and Frank Vandenbergroucke with the provisional title For better, for worse. For richer, for poorer. Labour Market Participation, Social Redistribution and Poverty in the EU that is to be published by Oxford University Press in 2013. I would like to thank Frank Vandenbergroucke for his comments on an earlier version of this paper, as well as Annemie Nys en Leen Meusen for compiling the statistical appendix that was used for some of the calculations in this paper.
The concept of the 'social investment state' appeared in the debates on welfare state reform towards the end of the 1990s (see for example, Esping-Andersen et al. 2002, Jenson and Saint Martin, 2003, Morel et al. 2011). It can be seen as part of various attempts to justify social policy as a 'productive factor' rather than a mere 'drain on the economy', an idea also found in the Varieties of Capitalism approach (Hall & Soskice, 2001). Advocates of these kinds of reforms want to re-orient social policies from merely compensating misfortunes through income insurance towards policies that seek to prevent those misfortunes to occur in the first place by investing in people’s capacities. A centre of such preventive strategies are activation policies (Bonoli, 2011). The return on investment that is hoped for is an increased labour market participation of the population as well as a higher productivity of those participating. This chapter offers a critical review of the concept of social investment and explores the possibilities and limits of operationalising it on the basis of social expenditure data.

Ever since the OECD and Eurostat started to make available social expenditure data broken down according to branch and programme it has become possible to carry out a disaggregated analysis of the structure of social expenditure. Such an analysis can offer insights in cross-national differences in the policy priorities of different welfare states, as well as in longitudinal changes within the same country. The metaphor of investment makes the analysis of expenditure data an obvious choice for both attempts to identify to what extent governments have adopted the agenda of an 'activating' and 'enabling' welfare state (i.e. to use it as a dependent variable in comparative welfare state research), as well as to operationalise policies that can potentially account for cross-national differences in poverty trends (i.e. to use it as an independent variable in research on inequality). In this chapter we will discuss the possibilities and limitations of using expenditure data to measure the social investment state. As such we want to qualify the spending trends that are presented in the statistical appendix of this book. In this chapter we will begin by critically reviewing the notion of social investment, elaborate its multiple facets and link it to
identifiable social policy areas. We will develop a typology of social investment that seeks to go beyond a conceptualisation based on a mere dichotomy between 'compensation' and 'investment' by differentiating the concept of investment. We will make a distinction between different forms of investment: (1) maintenance: maintaining or restoring the capacities of the existing stock of labour market participants; (2) expansion: facilitating the entrance of new labour market participants; (3) enhancement: improving the human capital of new labour market participants. These three types of investment are juxtaposed to policies that offer a compensation to those exiting the labour market. Next we will seek to operationalise this typology by placing the different policy branches that the OECD distinguishes in its social expenditure database within the proposed typology. The chapter concludes by discussing a series of methodological problems of interpreting cross-national and longitudinal variation in spending patterns to qualify the observed changes.

**The social investment paradigm**

One could argue that the reproduction of society and the labour force has always been a central goal of welfare state intervention, but the social investment state perspective seems to narrow down the expected return to the reproduction, extension and enhancement of the labour force. This more narrow conception seems to be related to concerns about the economic sustainability, in particular to the necessity to limit the deterioration of the ratio between the productive capacity of the active population and the needs of the inactive population. As such the discourse on the social investment state is intimately intertwined with the activation turn in welfare state policies, and calls for building a 'knowledge economy' that promotes development of human capital. The main aim of such policies is to produce an adaptable, skilled and educated workforce that can respond to demands of a so-called 'knowledge based' labour market. A second related aspect of the social
investment state paradigm is that policies must transform needy citizens from passive recipients of benefits into citizens capable of organising their integration into society, an integration that primarily is to take place via labour market participation. Such policies are expected to endow the population with the capacity to come to terms with new risks like the instability of family structures and the de-standardisation of the employment relationship (Bonoli, 2007).

The development of a social investment state entails policy changes along three interrelated dimensions: (1) from 'old' to 'new' social risks; (2) from 'cash benefits' to 'social services'; (3) from 'ex-post' remedies towards 'ex-ante' prevention. Before we will examine to what extent one can use expenditure data for that purpose, we first would like to briefly critically review these three dimensions

'Old' and 'new' social risks

It is not always clear what is 'new' about the social risks that are targeted by the social investment state. According to Taylor Gooby (2004), the novelty lies in the fact that those risks are all related to social changes associated with the transition towards a 'post-industrial' society. These changes include the increased entrance of women into the labour market and the difficulties that, in particular low skilled women, experience to balance this paid work and family life; the increase of the absolute and relative number of old people and the implications these have for social and health care; the technological developments that have reduced the proportion of low skilled manual jobs in industry which, combined with an intensification of international competition from low wage countries, have tightened the link between education and employment. According to Taylor-Gooby these changes have resulted in new kinds of needs that existing welfare state programmes are incapable to adequately address: the need to balance paid work and family responsibilities (in particular for women to take care of their children and for their frail elderly relatives); and the need to upgrade the skills and the kind of training that are required for an adequately paid and secure job, or the need to upgrade skills and forms of training that have become
obsolete. Other proponents of the social investment state also include labour market polarisation, the incidence of structural unemployment and the emergence of work-poor households, to the list of ‘new’ risks, and relate these to the erosion of the effectiveness of the social insurance principles of the ‘old’ welfare state (Esping-Andersen, et al. 2002). What are often referred to as ‘Bismarckian’ welfare states, are criticised for their ‘welfare without work traps’, ‘insider-outsider segmentation’ and ‘perverse familialism’ (Palier and Martin, 2007: 542). In order to mitigate the spread of these ‘new forms of labour market segmentation’ those critics call for ‘employment friendly reforms’ that are to reinforce ‘preventive employability’ through policies that weaken dismissal protection, but also ought to generate better security for employees in flexible jobs (Hemerijck and Eichhorst, 2009: 28).

One can question though to what extent the rise of structural unemployment can be seen as something really new. Moreover, the polarisation of the labour market and the growing army of outsiders are as much a consequence of a retrenchment of the social insurance based welfare state and reforms that have reinforced the conditionality of social insurance benefits (Clasen and Clegg, 2007), as being caused by this very organisational principle. Even though many advocates of an ‘active welfare state’ in principle call for both social investment and stronger incentives to get people to work, in reality governments endorsing the ‘new welfare settlement’ appear to have been more focussing on deregulating the labour market, reducing employment protection, restricting access to social insurance and relying more on means-testing benefits, than they have been pursuing policies that seek to enhance human capital and facilitate labour mobility (Taylor Gooby, 2008).

Furthermore, the disapproval of the insurance principle by the advocates of the social investment paradigm sits uneasy with the benefits that the Varieties of

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1 Taylor Gooby also adds a third change to his list of trends that resulted in new risks. The expansion of private services, that occurred in the wake of attempts to limit public spending, resulted a new need whereby people increasingly have to be able to offset the consequences of having made the wrong decision when in choosing privatised welfare services and utilities.
Capitalism approach attributes to unemployment insurance (as compared to flat rate or means-tested forms of assistance to the unemployed). Insurance kind of arrangements are said to encourage the acquisition and preservation of skills (Estevez Abe et al., 2001). One could argue that in some cases unemployment insurance might be rewarding skills that are no longer needed, but this appears to be more a temporary problem, typical for the period of the kind of labour shedding that was adjunct to the transition from a predominant industrial economy to an economy more based on service sector employment -- a conversion that in most European countries was already largely completed by the time the social investment paradigm became en vogue.

The new labour market risks might be less related to the ever changing skill requirements as the advocates of a skill offensive may want us to believe, but more a consequence of the erosion of the standard employment relationship and changing career patterns. On the one hand, this does entail the kind of problems Taylor Gooby associated with attempts to combine full-time paid work and caring responsibilities. On the other hand, the new risks are adjunct to the precarious labour market position the low-skilled workforce. This precariousness is faced by both existing labour market participants, whose industrial skills have become obsolete because this kind of employment was outsourced to low wage countries, as well as by new (primarily female) labour market entrants who seek jobs in the expanding low skill service economy that predominantly offers non-standard employment contracts.

Moreover, the 'new' risk of 'insufficient social security coverage' (Bonoli, 2005) are not only a consequence of new career profiles that are typical of post-industrial labour markets, but are also brought about by some of the activation reforms. By making eligibility and entitlement subject to stricter conditions (such as the reduction or abolishment of the periods equivalent to contributory periods), by changes in conditions of conduct that force those out of work into precarious forms of employment (such as activating behavioural requirements that require benefit recipients to accept non-standard employment contracts) (Clasen and Clegg, 2011). If
unemployment benefit systems do not require beneficiaries to take on any type of employment, a-typical employment is likely to proliferate (De Deken, 2011).

*Social services facilitating labour market participation and stimulating the long-term development of human capital.*

The social investment state seeks to expand public services to increase the rate of (female) labour force participation, and to foster child development through quality care. Quality care services can 'make work pay' in particular for low income parents, while also providing developmentally enriching services to young children. On first sight the distinction between cash benefits and social services appears relatively straightforward, though in practice it might be more difficult to uphold: some schemes, such as the service voucher scheme in Belgium, might work with cash transfers to promote the provision of private social services. Even though technically such a scheme can be considered a form of cash benefits (and is classified as such by the OECD), its effects on female labour force participation are pretty similar to those of directly providing public services. It can be seen as a hybrid form of 'defamilialisation' (Esping-Andersen, 1999) that through public subsidies and regulations tempers the inequality effects of market-based service provision. But because such schemes facilitate (full-time) female employment they should be seen as a form of social investment and not as a compensatory payment. In addition they contribute to the creation of low skilled service jobs, in particular for women, without expanding precarious employment conditions.

The effects of some cash benefits, in particular of parental leave schemes, on female labour force participation remains contested.

"Extensive periods of parental caring time can be justified by aspects of the social investment logic and have often been politically popular with the female constituency politicians are trying to reach. Yet, long leaves ... also undermine employment equality, creating a policy conundrum that no country ... has yet resolved." (Morgan, 2011: 152)
A similar argument could be made to qualify the beneficial effects of unemployment insurance benefits as suggested by the Varieties of Capitalism approach. Typical insurance kind of features of unemployment benefit systems, such as earnings related benefits or the possibility to reject job offers below one’s level of qualification, may protect skill investments in the short or medium term. But in the long term they might encourage the unemployed to hold onto skills that have become obsolete.

'*Ex-post’ remedies and ‘ex-ante’ prevention*

The social investment state seeks to go beyond merely reproducing the existing labour force, in order to come to terms with the problem of worsening dependency ratios that come with an ageing population. Hence, in the social investment paradigm there is a strong emphasis on getting people (back) to work who previously did not work or who were a victim of the labour shedding that came in the wake of deindustrialisation.

Preventive action to avoid precariousness and vulnerability can also include various ‘productive constraints’ (Streeck, 1992) such as employment protection and health safety regulations at work, or encompassing accessible health care. The social investment paradigm, however, emphasises individual human capital investments that are expected to enable people to care for themselves in a deregulated labour market, and under the conditions of a trimmed social policy regime in which citizens have far more individual responsibilities for their welfare. Nevertheless, many proponents of the paradigm seek to distinguish themselves from the Third Way, that sought to make the enjoyment of social right conditional on "satisfying a corresponding productive obligation” (White, 1999: 168). They insist that social investment should not be seen as a substitute for social protection (Esping-Andersen, 2002). Nevertheless, there remains a tension between, on the one hand, calls to reorient policies away from merely passively repairing the damage, towards actively preparing individuals to adapt to various transformations, and, on the other hand, the intention to maintain adequate passive social protection, especially in an era of
'permanent austerity' (Pierson, 2001). The only exception to this emphasis on individual agency of the social investment approach appears to consist of measures in the area of family policies. Here preventive action also includes measures to reduce child poverty and to promote the development of cognitive skills of children in early life by providing high quality public child care services.

**Linking the social investment continuum to identifiable policy categories**

On the basis of these three dimensions, social policies can be placed along a continuum of the extent to which they can be expected to generate the kinds of returns that the social investment paradigm seeks to generate: raising labour force participation and productivity. At one end of this continuum one can situate those policies that offer compensation to those exiting the labour market. Though this can boost the productivity of the economy by taking out the less productive elements of the labour force, these policies do reduce the overall productive capacity of the economy because they result in low labour force participation rates. These policies include (early) retirement pensions, disability pensions, survivor pensions, social and unemployment assistance benefit schemes. Next along the continuum one can find policies that allow members of the labour force to maintain or regain their capacity to participate in the labour market. These policies include unemployment insurance (in the sense of an earnings related scheme that protects investment in specific skills) (see Estevez-Abe et al., 2001), part of the active labour market programmes, reintegration programmes, and to some extent also short-term sickness benefits, health care and housing (in so far as they all can contribute to the health of the workforce). Further down the line one can find policies that facilitate the entrance of

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2 One could argue that when unemployment assistance or social assistance kind of benefits are made conditional upon participating in activation measures or are topping up employment that is remunerated under the poverty threshold (like often is the case with the German ALG II benefits), these transfers ought to be considered to have an aspect of social investment as well. However, the costs of the investment part are likely to show up in the ALMP budget, while the coercive aspect of this conditionality (or the employment forcing nature of schemes such as ALG II) cannot really be
new participants that were not part of the labour force (in particular women of working age who might have been occupied with caring for their own children or for frail relatives). Policies in this area include public care services for children, for elderly or for the sick or disabled. Finally there are policies that seek to invest in the capacities of new or of future labour markets participants. Here again we find child care, though this time not in its function of unburdening women so that they can pursue paid work, but rather as an institution that allows to upgrade the cognitive skills of children, in particular those with a disadvantaged background. Some of the active labour market policies might also be considered as part of this category in particular when they try to repair failures in the training of adolescents during the regular schooling period. An important function can also be attributed here to primary, secondary and even tertiary education. Finally, one could even consider family cash benefits as supporting the potential for children to prepare for participation in the labour market.

In table 1 an attempt is made to place concrete policy areas in this conceptual map of the social investment state. A major problem is that some policies can fulfil different functions (like child care) or cannot be exclusively categorised in one of the four categories (like unemployment insurance, and to a lesser extent various leave schemes) in part because their effect on social investment in part depends on whether they allow for temporary or relative long term exit from the labour force. Finally, some policies, in particular social housing and health care can in part contribute to maintaining or restoring the capacities of the labour force, but can as much simply support the population that exited the labour force.

considered as positively enhancing human capabilities, something that is supposed to be at the centre of social investment.
Table 1. Linking social investment to identifiable social policy categories.

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<tr>
<th>Compensatory Policies</th>
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<td>- Incapacity Benefits (LT)</td>
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<td>Insurance (LT)</td>
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<td>- Housing benefits</td>
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<td>- Sickness Pay</td>
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Social expenditure data and the measurement of the social investment turn

During the 1990s the OECD developed the Social Expenditure Database (SOCX) to monitor trends in social expenditure and analyse changes in its composition. Over the years, the number of countries included in the database was extended. At the time of writing SOCX covers some 34 countries for which data disaggregated at the level of branches and programmes are available from 1980 up to 2007, with shorter time-series for countries that were only added to the database during the mid 1990s. Social expenditure is defined by the OECD as "the provision by public and private institutions of benefits, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare". It includes both cash transfers and the direct provision of goods and services "provided that the provision of benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer" (Adema, et al., 2011:90). Depending on whoever controls the relevant financial flows, the OECD makes a distinction between public, mandated private and voluntary private forms of expenditure. Even though the SOCX data for
the countries of the European Union are based on European System of Integrated Social Protection Statistics (ESSPROS), the OECD uses a more restricted conception of ‘public’ than Eurostat (De Deken and Kittel, 2007). In its expenditure database, the OECD does not always include statutory sickness pay and mandated occupational pensions in its ‘public’ or ‘mandatory private’ category. It even lists expenditure for civil servants pensions as a ‘voluntary private’ item in countries (including the Netherlands, Denmark, Sweden and the UK) where these pensions are paid through autonomous funds for which the government does not on a regular basis make up possible deficits.

The SOCX database has a number of distinct advantages over ESSPROS for researchers interested in identifying a shift towards a social investment state. On the one hand, it includes an increasing number of countries outside the European Union and covers a longer times series. On the other hand, the OECD has been regrouping some ESSPROS items and combine them with data of its database on labour market programmes in order to create the expenditure category 'Active Labour Market Policies', an item that is central to social investment strategies. The OECD was also able to complement family benefits with spending items from its Education database to get a more comprehensive picture of early childhood education and care.

The SOCX and the related labour market and educational databases of the OECD have, in principle, made it possible to disaggregate social expenditure at the level of individual programmes and recombine them into new categories. But some theoretically necessary distinctions (such as between expenditure on short term versus long term unemployment insurance and maternity leave, or dividing health care spending on the labour force and health care spending on the inactive population) cannot be made. That is why rather than matching OECD spending categories to our conceptual map of the social investment state we will rather use it to qualify the distinction between 'old' and 'new' programmes that has inspired the present volume.
A number of attempts have been made to measure the extent to which the social policies of a country show signs of the characteristics of a 'social investment state' by analysing changes in the spending patterns of welfare states. Such an approach builds upon the idea of resource competition that is inherent in the fiscal sociology of Schumpeter, and has become possible ever since the OECD started to make disaggregated social expenditure data available. In principle, an examination of the structure of the social budget can provide valuable estimates of shifts in the magnitude and political salience of different welfare state programmes (Siegel, 2007), and ought to allow us to identify cross-national differences, as well as changes over time of the extent to which countries embarked on the path of a social investment state. Earlier attempts to identify the social investment state on the basis of expenditure data opted for a rather basic dichotomous distinction between 'compensatory' and 'investment' (Nikolai, 2009) or 'old' and 'new' social spending (Vandenbroucke and Vleminckx, 2011). Both studies tried to make the best out of amalgamating the spending categories of the OECD to tap cross national differences, and to analyse policy changes over time.

The study of Nikolai juxtaposed two groups of exemplary expenditure items: the 'compensatory' category in this analysis only included spending on old age and survivor pensions and spending on 'passive' labour market policies (a category only consisting of unemployment compensation and early retirement, that leaves out functional equivalent programmes such as work incapacity schemes). The 'investment' category, on the other hand, includes spending on families (that appears to include both child care services as well as various family cash benefits and maternity or parental leave schemes); spending on active labour market policies; and spending on primary, secondary and tertiary education. Again some spending categories that are potentially important from a social investment perspective, such as elderly care, were left out of the analysis.

The study of Vandenbroucke and Vleminckx seeks to adopt a more encompassing approach, that tries to integrate most of the original spending categories of the OECD
into one analytical framework. Their 'old' spending category is intended to be related to 'old social risks', and includes three subcategories: (1) health care; (2) old age and survivors pensions; (3) cash benefits for the working age population (ranging from work incapacity benefits, over unemployment compensation and income maintenance, to family benefits). Their 'new' spending category includes programmes that seek to alleviate 'new social risks' and that can be linked to the social investment paradigm. Again they distinguish a number of subcategories (1) parental leave; (2) elderly care; (3) childcare and pre-primary education; (4) active labour market policies; (5) primary and secondary education. By distinguishing subcategories it becomes possible to control for demographic effects and the effect of cross-national and longitudinal differences in unemployment levels.

After all, differences in the skeleton of a welfare state do not need to be a consequence of deliberate choices by governments, but can as much be caused by divergent population structures or by variations in the incidence of unemployment. Spending on retirement and survivor pensions or on care for the elderly are bound to be higher in countries with a relatively older population, or can be expected to go up in countries with an ageing population. Health care spending might also be affected by the process of ageing, even if a series of studies have come to the conclusion that the proportion of the elderly population "may not be decisive in determining how health care expenditures change" (see for example, Payne, et al. 2007). There is general agreement that most health care expenditure takes place at the very extremes of the life course and that the costs for the elderly are concentrated in the final year. An increase in life expectancy might simply delay "the high cost of dying" (Seshamani and Gray, 2004). Hence, to the extent it is related to an increase in the life expectancy of people, the share of the population over 65 does not need to drive up the costs of health care. However, the increase in the number of persons in their final

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3 They only excluded the OECD categories 'housing', 'family in kind', 'capacity in kind' and 'other benefits in kind' from their analysis.
'high cost' year might still drive up the cost of health care: to the extent that ageing is not only a consequence of an increased life expectancy, but also due to years of declining fertility health costs may well be rising. Yet, in that case a correction of expenditure for the share of the population over 65 would be a far too crude factor to take into account the share of elderly in their final years.

Spending on child care and pre-primary education, on the other hand, can be expected to be higher in countries with relatively more children, just as spending on primary and secondary education is in part driven by the size of the population between 5 and 19 years. Finally, the level of spending on active labour market policies can to some extent be seen as a function of the incidence of unemployment.4

One of the main advantages of the categorisation of Vandenbroucke and Vleminckx is that it was inductively constructed out of the original OECD spending branches and programmes, but this also raises a number of questions if one attempts to link back their (sub)categories to the three dimensions of social investment and the different theoretically relevant aspects of social investment.

Only one of the three 'old' categories can be considered without reservations as solely compensating for an exit from the labour market: the category that amalgamates old age pensions, early retirement pensions and survivor pensions. The category that includes health care can have both ex-post compensatory function, but also contribute to an ex-ante prevention.5

4 Though such an argument could also be made for unemployment compensation (and functionally equivalent schemes, such as early retirement and work incapacity benefits), Vandenbroucke and Vleminckx decided to only estimate the impact on ALMP.

5 The establishing of public health insurance systems has often been motivated by a concern with the productive capabilities of the labour force. A similar case can be made about social housing: good housing conditions can be essential for a healthy labour force as already paternalistic employers in the 19th century discovered when they were building decent housing for their employees.
unemployment benefits are not merely compensating exit, but if constituted on an insurance basis they can, as we argued, also contribute to the maintenance of the capacities of labour market participants by giving the unemployed the possibility to look for a job in accordance with their formal qualification, and by rewarding their past investment in human capital. Other forms of unemployment compensation and in particular benefits for long-term unemployed such as unemployment or social assistance, by contrast have a compensatory character. Family allowances, another important spending item in the third category, can be considered either as an investment in the capacities of children as future labour market participants (by preventing child poverty), but can also weaken incentives for lower skilled mothers to participate in the labour market (which could justify allocation to a form of compensatory spending). Residential care for the incapacitated is no different from elderly care in relieving families from caring responsibilities and allowing women to make optimal use of their human capital in the labour market. Finally rehabilitation services for incapacitated workers are not a compensatory item, but should rather be seen as an investment in restoring the capacities of former labour market participants.

Methodological problems with the use of the original SOCX categories

The problem of dual purpose of certain policies and spending categories

In the above discussion it became evident that it is hard to allocate spending categories exclusively to one of these four categories of our continuum. Public child care (‘New 3’) can be seen as a policy instrument that enables women to pursue a labour market career (which, from a social investment strategy, is the more important the more those women are skilled, as the opportunity costs of their educational investment and training becomes higher). However, the same spending item can also be considered as an instrument to invest in the capacities of children (in
particular those born in families with lower cultural and social capital). In other words, it can serve the investment function of facilitating new entrants to enter the labour market, or as an investment in the human capital of future labour market participants. Moreover, both investment functions can serve less 'productivist' goals: gender equality in the case of enabling female labour market participation, and equal opportunity in the case of enhancing the capacities of children.

Active labour market policies can be oriented towards investing in the capacity of new participants that so far failed to enter the labour market, as well as an investment to revitalise the capacities of labour market participants whose skills have become obsolete. They can also be used to mask the extent of expenditure on unemployment benefits, as some argue is the case with direct job creation programmes.

And as we already pointed out, unemployment benefits can serve both the purpose of compensating exit from the labour market, they can also form an incentive for skill investment.

The problem of the differential composition of benefit packages

The social spending data as reported by the OECD are in essence an aggregation of spending on cash benefits, benefits in kind and social services. A major problem one faces when trying to use such data to deduce cross national variation in the architecture of welfare states, is related to the different composition of the benefit packages directed at the same target population. Take for instance the case of unemployment compensation: in some countries the unemployed are only entitled to an unemployment insurance benefit and hence most compensatory payments to those out of work result under the expenditure category 'unemployment'. In other countries the unemployed are entitled to various additional benefits from the family allowance system, social housing funds or the social assistance budget. In Figure 1 we give a few illustrative examples based on the gross benefits for two types of unemployed (singles with no children, and single earning couples with two children)
in five countries. These benefit packages were simulated using the OECD tax benefit calculator, for someone who before becoming unemployed was earning the average wage (in the case of couples, the partner has no labour market income). Whereas in Belgium, compensatory payments are for more than 90 per cent taken from the unemployment expenditure budget, in the UK this only the case for about a third of those payments. In the UK, a very sizable part of unemployment compensation originates from the social housing budget, which in earlier studies on measuring the social investment state were ignored (Nikolai, 2009) or deliberately left out (Vandenbroucke and Vlemingcx, 2011). For a country like the UK, this may severely distort the relative importance of the kind of expenditures that are associated with social investment, as it underestimates compensatory spending items.

Figure 1 Benefit packages for the unemployed in 5 countries in 2009.

![Figure 1](image)

Sources: own calculations based on simulations by the OECD tax benefit calculator, accessed 28.11.2011

Although the UK forms the most extreme case of the five countries we looked at, in three other cases housing benefits do play a role in the compensatory payments to
the unemployed. In all countries some unemployed are also entitled to family benefits, but whereas for instance in Denmark this only makes up a minor part of the benefit package, in the UK it can form up to third of the total benefit and in Belgium and Germany still about one sixth.

The problem of allocating policies to expenditure categories

The SOCX database distinguishes nine main social expenditure groups, but because of differences in the structure and organisation of national welfare states, it is not always evident to which category certain expenditures are allocated. This problem poses itself in particular for services that facilitate labour market participation of women by freeing them from caring for their children, and their older or frail relatives. In some countries long-term care for elderly and frail relatives is largely financed via general health insurance (e.g. Belgium) or is part of the national health service (e.g. the United Kingdom) (and hence would result under the 'old' spending item of health care); whereas other countries have set up dedicated long-term care insurances (e.g. the Netherlands and Germany) and the costs of care for frail and elderly might end up in the 'new' investment category of 'elderly care'. What makes matters worse is that cross-national differences in spending on long-term care vary dramatically depending upon which OECD source one consults. From the SOCX database one can retrieve data for residential care and home help services in the branches 'old age' and 'incapacity'. The problem is that for some countries, this appears to severely underestimate total expenditure on long-term care. This problem becomes evident when one compares these sums of SOXC categories with figures reported in the OECD’s Health Statistics and with data published in a recent report on long-term care Help Wanted, Providing and Paying for Long-Term Care (OECD, 2011). Table 2 reports some illustrative discrepancies between the three data sources.
Table 2. Expenditure on care for elderly and frail relatives in six countries 2007-2009.

<table>
<thead>
<tr>
<th>Social Expenditure (SOCX)</th>
<th>Health Expenditure</th>
<th>Help Wanted? Providing and Paying for Long-Term Care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elderly care old age - residential care</td>
<td>Services for long-term nursing care</td>
<td></td>
</tr>
<tr>
<td>home-help services and other benefits in kind</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incapacity related residential care</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ad home help services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>0.1</td>
<td>0.4</td>
<td>0.5</td>
<td>1.9</td>
<td>2.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.8</td>
<td>na</td>
<td>na</td>
<td>1.2</td>
<td>2.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Germany</td>
<td>0.0</td>
<td>0.3</td>
<td>0.3</td>
<td>1.3</td>
<td>1.3</td>
<td>0.9</td>
</tr>
<tr>
<td>France</td>
<td>0.3</td>
<td>0.2</td>
<td>0.5</td>
<td>1.2</td>
<td>1.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.7</td>
<td>0.9</td>
<td>2.6</td>
<td>2.3</td>
<td>2.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.3</td>
<td>1.4</td>
<td>3.7</td>
<td>0.7</td>
<td>0.7</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: SOCX and Health Statistics databases (last consulted 30.11.2011), and OECD, 2011.

In countries such as Belgium and France where long-term care is still largely financed out of the general health care budget, the expenditure reported for long-term care in the Health Statistics portal and in the 2011 report are significantly higher than the sum of residential care and home help services for old age or incapacity. In other countries such as Sweden and Denmark, the opposite is the case. Germany scores on all indicators very low, which is surprising given that this country was one of the pioneers of setting up a branch in its social insurance system solely dedicated to long-term care (even in the health expenditure series on long-term care this country appears to spend very little). Finally, the Dutch case shows a very inconsistent pattern: with very low expenditure levels in SOCX, medium spending levels in the health statistics series and very high spending in the 2011 report on long-term care (which in view of the very large long-term care insurance (AWBZ) budget seems to be the more credible figure). In brief, it seems to be very hard to use those data on elderly care and care for frail relatives to make sensible cross-national comparisons.
This is unfortunate because they play a pivotal role in our theoretical category of investments that facilitate entrance of new labour market participants and in the 'New 2' spending item.

A similar problem exists if one tries to relate early childhood education and care services for children aged 0-6 to the spending categories of the OECD. Except for the Nordic countries, childcare services for toddlers (those aged 0-2) are normally organised by the Welfare Department, while provisions for pre-school children (those aged 3-5) are the responsibility of the Department of Education. The fundamental problem is how to avoid double counting in countries where the distinction between these two kinds of child care services are less clear. Eurostat’s ESSPROS database only includes spending on childcare and leaves out spending on pre-primary education. The OECD has sought to improve this by complementing these data with expenditure on pre-primary education, which they retrieved from their database on educational expenditure. To ensure the comparability of the data, the OECD adjusted these data for cross-national differences in the compulsory age of entry into primary school. But unfortunately, here too, the SOCX data suffer to some extent from a category mismatch: spending on childcare and pre-primary is lumped together with spending on 'home-help services' and 'accommodation', and both these categories cannot simply to equated with early childhood education and care services. Moreover, when one examines in detail the items grouped under child care spending, one is faced with a number of discrepancies between the ESSPROS and SOCX data that are hard to account for.6 Despite these problems, however, SOCX

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6 In the case of Germany for instance, the total amount of childcare in SOCX includes both childcare and pre-primary, as shown in the OECD’s Family Database (FDB). But when looking at spending for pre-primary education only, the FDB, the OECD Education Database and ESSPROS report different numbers. In France and Belgium SOXC and ESSPROS report far lower spending for childcare than in FDB. In Sweden, by contrast SOXC and ESPROSS report higher expenditures on childcare than the FDB. For the UK SOCX reports significantly higher spending on both childcare and pre-pre-primary education. Moreover in some of the countries that Van Lancker and Ghysels (in this volume) scrutinised more in detail, a series of classification errors appeared. In Belgium, for instance, only childcare expenditures in the Flemish Community are classified under the heading 'day-care', while childcare expenditures in the French community are classified in the category 'other benefits in kind'.
offers the most sophisticated account of countries’ spending on child care services. One should however bear in mind for some countries the SOCX data might underestimate genuine government efforts for child care.

*The problem of public and private expenditure*

Countries vary significantly in the degree in which their social protection systems rely on private forms of provision. Private social spending is less private than it often appears to be. On the one hand, such initiatives are made possible and encouraged by very sizeable tax expenditures. On the other hand, the state regulates and sometimes even mandates private forms of welfare. Such regulation is one of the reasons that those programmes are still considered to have a social dimension of some sort. Even though the SOCX database seeks to document both public and private expenditure, the reporting of the latter appears to be far less systematic than the former. As a consequence, social expenditure in countries that strongly rely on private social protection may be underestimated in the database. The (quasi) private nature of some programmes inherently leads to such underreporting. Hence it is hard to estimate the full magnitude of some of the items that make up the third category of compensatory expenditures, such as statutory sickness pay or of forms of early retirement based on collective agreements.

The OECD makes a distinction between ‘mandated’ and ‘voluntary’ forms of the private provision social benefits, yet in practice that distinction is marred by problems. Mandated schemes are "stipulated by legislation but operated by the private sector" (Adema, et al., 2011: 93). Other privately operated programmes are considered 'voluntary' forms of private expenditure, but are categorised as 'social' if they involve a redistribution of resources across households and include benefits provided by NGOs, or if the benefits accrue from tax advantaged individual plans. In practice benefits that are granted because employers have signed up to a collective labour agreement are categorised as a form of ‘voluntary’ private social spending; whereas in case they are granted because employers are required by law to pay the
same benefit they are categorised as 'mandated' private social spending. This leads the OECD to categorise the Swiss occupational pensions as a form of 'mandated private social expenditure'; while Dutch occupational pensions are considered to be 'voluntary' because they are formally organised by employers who signed up to a collective agreement. But as in the Dutch context the central government almost always uses its legislative power to subject such agreements to administrative extension, the effect is pretty much the same as the Swiss direct mandate.

Moreover there is reason to suspect that not all schemes that are required by law are registered in the SOCX as mandatory. This for instance appears to be the case with statutory sickness pay in the Netherlands. When the government decided in 1996 to phase out the public insurance for sickness benefits and replace it by a system in which employers are required to continue to pay wages to sick employees (initially only for one year, but since 2004, for a period of up to two years), one would have expected the private expenditure for paid sick leave to go up somehow. But in the SOCX database, mandated expenditure remains stable, and one can at best observe a decline of public expenditure in 2005 (without any concomitant shift towards the mandated expenditure category). This is the more surprising as since 1994 the absenteeism rate has been constantly hovering around 5 per cent (Hartman et al., 2010: 174) even though the labour force has expanded significantly during that period (hence the number of beneficiaries of statutory sickness payments went up).

From a social investment perspective, it does not really matter whether the state requires employers to continue to pay wages to its sick or child bearing employees, or whether it has legislated a public insurance fund that pays a sickness benefit or maternity or parental leave benefit. This problem can in principle be addressed by including all three types of social expenditure (public, mandated private and voluntary private), but this still leaves us with the problem that payments by private programmes are often inadequately recorded. For example, even though the
Netherlands know a system of mandatory paid maternity leave\textsuperscript{7}, since the 1990s, SOCX no longer reports any expenditure: not public, nor mandated or voluntary private.\textsuperscript{8} In other words, to the extent that countries rely for their ‘compensatory’ expenditures on private programmes, the relative importance of social investment items may end up being severely overestimated.

\textit{Problem of gross versus net expenditure}

There are basically three ways in which the tax system can affect social expenditure: (1) direct taxation of benefit income; (2) indirect taxation of the consumption by benefit recipients; (3) tax breaks for social purposes (Adema, et al., 2011). Governments levy income tax and social security contributions on cash transfers. As cash transfers form the bulk of non-investing compensatory policies, cross-national differences in this direct taxation may lead to an over- or underestimation of the relative importance of social investing.

Countries also differ significantly in the extent to which they rely upon indirect taxes on consumption, and as most of the transfer income is used by beneficiaries to finance their consumption, a substantial part of social transfers ends up being clawed back by the state. As many of the services that are provided in the context of social investment policies are not taxed or taxed at reduced rates, in countries with high indirect levies the importance of social investing might be underplayed if measured on the basis of gross expenditure data.

In Figure 2 we illustrate the potential impact of taxation on reducing the importance of cash benefits. The diagram shows how much from total gross public expenditure is clawed back by direct taxes and social contributions and by indirect taxes. Because of the lack of detailed information by benefit recipients and income surveys tend to

\textsuperscript{7} With a total of 16 weeks (4-6 weeks are intended to be taken as pregnancy leave (\textit{zwangerschapsverlof}) prior to the confinement and the remainder as childbirth leave (\textit{bevallingsverlof}) after the confinement it is comparatively short.

\textsuperscript{8} It might be that this expenditure is recorded under sickness benefit expenditure which would bring us back to the problem of allocating policies to expenditure categories, which in this case would really be problematic as a ‘social investment’ item and would be counted as a ‘compensatory’ item.
underreport indirect tax payments, the OECD estimates the impact of indirect taxes by calculating an average implicit tax rate based on the OECD *Revenue Statistics* and the OECD *National Accounts*.9 There are not only important differences between countries, but also within the same country over time. It would be preferable to know the tax rate for each separate cash benefit programme, but unfortunately so far the pioneering work of Willem Adema offers only overall estimates. But many countries apply different tax rules to different kinds of benefits. Thus, whereas in Germany unemployment benefits are not subject to direct taxes, while sickness benefits, disability pensions and old age pensions are subject to reduced taxes; in Denmark the same tax rules apply to all these benefits (MISSOC, 2011). In Belgium almost two thirds of the revenue of direct taxes on cash benefits comes from taxing public old age pensions, whereas taxation on unemployment benefits and sickness benefits only make up a few percentages of that revenue. In the Netherlands public pensions are taxed at a far reduced rate, while disability pensions, early retirement and unemployment insurance benefits are subject to normal tax rates (Adema, et al., 2011).

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9 This average implicit tax rate is the ratio of the revenue from general consumption taxes plus excise duties to a broad consumption tax base, i.e. private consumption and government consumption minus government wages (Adema, et al., 2011: 108).
If one takes the impact of the tax system into account, the expenditure items linked to social investment are likely to become more important, in particular in countries where taxes on cash benefits are high. If one deduces policy priorities only from gross spending patterns, one is likely to overestimate the magnitude of social transfers that form the bulk of ‘compensatory’ policies.

A third way in which the tax system can affect the level of social expenditure are the fiscal measures that the government uses to pursue social policy goals. Some countries offer tax breaks with a social purpose that are similar to cash benefits. For example child tax allowances can function as a replacement (in for instance the United States) or co-exist next to family benefits (like, for instance, in Germany or Belgium). Fiscal measures can also stimulate the provision of private benefits (e.g. tax relief towards the provision of private health plans in countries such as the United States and Germany); or can reduce the costs of private social services (such as child

Figure 2. Breakdown of gross public social expenditure into net expenditure, direct and indirect taxes 1995-2007.

care in the Netherlands) and favourably treat contributions to or income from charities.

Figure 3. Tax breaks with a social purpose as a percentage of GDP 1995-2007.

Sources: own calculations based on data reported by Adema, 1999, Adema and Ladaique, 2005 and Adema, et al., 2011.

The OECD makes a distinction between tax breaks towards current private social benefits, and fiscal welfare aimed at future benefits, in particular old age pensions. These arguably form the most important form of tax exemptions, but calculations are complex and "there is no comparable data set available on the value of tax breaks for pensions" (Adema, et al., 2011: 29). One of the main problems here is related to the inter-temporal nature of pension schemes: tax relief can be granted at various stages of building up the entitlements and paying out the benefits, and some of this foregone revenue will be clawed back when pension benefits are finally being paid.
out. Because of these difficulties the OECD does not include these measures in its calculations of net social expenditure, but merely lists them as a ‘memorandum item’. In the year 2007 the value of this item ranged close to 0 per cent of GDP in countries such as France or Austria, to as much as 2.1 per cent in the Netherlands or 3.0 per cent in Australia. As pensions are forming the most important branch of compensatory social policies, not taking into account these tax effects can make social investment policies to be more important in countries that have sizeable tax breaks for pensions.

Finally there are a series of in-work benefits such as the Earned Income Credit in the United States, the Working Tax Credit in the United Kingdom or the Employment Tax Credit (Arbeidskorting) in the Netherlands. These are not included in the OECD database, but could be considered as part of a social investment to facilitate labour market entry of people previously living on benefits. Such measures also include preferential tax treatment of certain problematic groups of workers to make them more attractive for employers.

**Conclusion**

The use of expenditure data to map the skeleton of the social investment state is fraud with conceptual and methodological problems. Social investment is a multifaceted concept and it is hard to relate the different dimensions it entails to mutually exclusive policy areas. Moreover, some policies can have both a compensatory as well as an investment function. This does not need to imply that

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10 Tax breaks for pensions include exemptions from income tax and social security levies for contributions to private pension plans, tax relief for the investment income of pension funds, or lower rates for benefits paid by pension funds.

11 For example in the Netherlands the Employment Tax Credit rates are higher for workers close the retirement age. None of these in-work tax benefits are included in what the OECD registers as “employment incentives in its ALMP module”, as that only concerns payments to individuals that are conditional upon the take-up of a new job and have to be targeted at specific groups (e.g. restricted to the long-term unemployed).
one cannot use spending data to depict cross-national differences or basic trends in kind of welfare settlement prevailing in countries. The purpose of this chapter was to qualify the interpretation of such regional and inter-temporal differences. The appendix of this book presents an attempt to map both kinds of variations that builds upon the approach of Vandenbroucke and Vleminckx. It uses a refined and extended version of their distinction between 'old' 'compensatory' expenditures and 'new' 'investing' type of expenditures. Apart from adding certain programmes or shifting some programmes between expenditure categories, the main difference is that family benefits are no longer automatically considered to be a form of compensation (but in line with the argument in this chapter can to some extent also be considered to be a form of social investment); and that voluntary private expenditure has been taken into account. On the compensatory side the appendix makes a distinction between 'Old 1' (healthcare); 'Old 2' (retirement and survivor pensions) and 'Old 3' (working age benefits with or without family benefits). On the investment side, a distinction is made between 'New 1' (parental and maternal leave schemes), 'New 2' (elderly care), 'New 3' (child care with or without family benefits), 'New 4' (active labour market policies), 'New 5' (primary and secondary education), 'New 6' (tertiary education).

Table 3 gives an overview of how the different measurement problems discussed in this chapter, in principle, affect the accuracy of the measurement of the different spending categories in countries where these problems manifest themselves: a zero means that for the particular spending categories there is no significant impact to be

12 As we demonstrated in Figure 1, housing allowances can, in the UK in particular and to a lesser extent in Denmark and Germany, be considered to form an important part of compensatory benefits for those out of work. They have been included in the 'Old 3' category. In SOCX this item does not include spending related to directly provided social housing (which, as we argued, can have both a compensatory as well as an investment function). Expenditure for this direct provision and hence is not included in the data used in this volume.

13 Primary and secondary education on the one hand, and tertiary education on the other hand are in separate categories because the time series of the latter is much shorter (there is no substantial consideration behind this differentiation).

14 In this table family benefits are part of the 'New 3' (childcare).
expected; a minus means that in some countries the measurement problem is likely to lead to an overestimation of the real magnitude of the spending category (as compared to what is reported in the appendix of this volume), i.e. that 'real' spending can be expected to be lower than what is reported in the appendix; whereas a plus means the opposite: that if one would be able to adequately take into account the problem, real spending can be expected to be higher than is reported in the appendix.

Table 3. Overview of how the five methodological problems can impact the accuracy of the measurement of the different expenditure items.

<table>
<thead>
<tr>
<th></th>
<th>OLD 'compensatory'</th>
<th>NEW 'investing'</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Old 1 healthcare</td>
<td>Old 2 retirement</td>
</tr>
<tr>
<td>Dual purpose of the same policy</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Composition of benefit package</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Allocation policies to spending</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Private expenditure: mandated</td>
<td>+</td>
<td>++</td>
</tr>
<tr>
<td>voluntary</td>
<td>++</td>
<td>++</td>
</tr>
<tr>
<td>Net expenditure: direct taxes</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>indirect taxes</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>tax breaks</td>
<td>++</td>
<td>++</td>
</tr>
</tbody>
</table>

Of course the actual impact differs according to the institutional structure of the welfare state of a country.

In table 4 we examine a few exemplary countries to illustrate how moving from gross to net expenditure significantly changes the ratio between 'old' 'compensatory' policies and 'new' 'investment' policies. In this table we distributed the effects of direct taxes between the three 'Old' items and 'New 1', relative to the share these items have in total expenditure. In a similar procedure, the effects of the implicit indirect tax rate were distributed between the three 'Old' items, 'New 1' and 'New 3' (whereas family benefits are not subject to direct taxes, they are affected by the
implicit indirect tax rate). Hence the tax system is assumed to change only the magnitude of cash benefits, not of the social services that make out the bulk of the 'new' social investment expenditures.

Even though we also report tax benefits with a social purpose (TBSP), we did not allocate these to 'old' or to 'new' expenditures, as in countries such as Belgium, and Germany, the bulk of these tax benefits consists of 'New' tax credits for children; whereas in the Netherlands they include primarily 'Old' deductions for those with medical disabilities or for the chronically ill, while in the case of the United Kingdom they consist of working tax credits and child tax credits. Hence it is hard to uniformly allocate the TBSP to our 'old' or 'new' categories.

Table 4. Impact of Taxation on Measuring Social Investment in Five Countries

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Old 2&quot; Pensions</td>
<td>10.09</td>
<td>9.85</td>
<td>8.53</td>
<td>8.26</td>
<td>11.33</td>
<td>11.45</td>
<td>10.65</td>
<td>11.66</td>
<td>8.07</td>
<td>7.74</td>
</tr>
<tr>
<td>Gross Total 'Old' as % GDP</td>
<td>23.04</td>
<td>22.67</td>
<td>24.52</td>
<td>21.67</td>
<td>24.65</td>
<td>23.59</td>
<td>21.29</td>
<td>23.66</td>
<td>18.34</td>
<td>19.40</td>
</tr>
<tr>
<td>&quot;New 1&quot; Maternity and Parental Leave</td>
<td>0.07</td>
<td>0.36</td>
<td>0.00</td>
<td>0.00</td>
<td>0.30</td>
<td>0.27</td>
<td>0.16</td>
<td>0.18</td>
<td>0.85</td>
<td>0.55</td>
</tr>
<tr>
<td>&quot;New 2&quot; Care for Elderly and Frail</td>
<td>0.47</td>
<td>0.73</td>
<td>0.50</td>
<td>0.79</td>
<td>0.48</td>
<td>0.32</td>
<td>0.37</td>
<td>0.51</td>
<td>2.68</td>
<td>2.63</td>
</tr>
<tr>
<td>&quot;New 3b&quot; Child Care and Family Benefits</td>
<td>1.36</td>
<td>1.87</td>
<td>1.24</td>
<td>1.97</td>
<td>1.70</td>
<td>1.54</td>
<td>2.11</td>
<td>2.37</td>
<td>2.99</td>
<td>2.74</td>
</tr>
<tr>
<td>&quot;New 4&quot; ALMP and Rehabilitation</td>
<td>0.41</td>
<td>0.32</td>
<td>1.54</td>
<td>1.42</td>
<td>1.39</td>
<td>0.93</td>
<td>1.22</td>
<td>1.24</td>
<td>2.06</td>
<td>1.45</td>
</tr>
<tr>
<td>&quot;New 5&quot; Primary and Secondary Education</td>
<td>3.34</td>
<td>4.01</td>
<td>3.39</td>
<td>3.71</td>
<td>3.27</td>
<td>2.84</td>
<td>3.57</td>
<td>4.10</td>
<td>4.23</td>
<td>4.26</td>
</tr>
<tr>
<td>Total Gross 'New' as % GDP</td>
<td>5.64</td>
<td>7.29</td>
<td>6.67</td>
<td>7.89</td>
<td>7.14</td>
<td>5.90</td>
<td>7.42</td>
<td>8.39</td>
<td>12.80</td>
<td>11.62</td>
</tr>
<tr>
<td>Ratio of Gross 'New' versus Gross 'Old'</td>
<td>0.24</td>
<td>0.32</td>
<td>0.27</td>
<td>0.36</td>
<td>0.29</td>
<td>0.25</td>
<td>0.35</td>
<td>0.35</td>
<td>0.70</td>
<td>0.60</td>
</tr>
<tr>
<td>Direct Taxes as % GDP</td>
<td>0.40</td>
<td>0.30</td>
<td>5.10</td>
<td>1.90</td>
<td>1.20</td>
<td>1.50</td>
<td>1.90</td>
<td>1.40</td>
<td>4.60</td>
<td>4.10</td>
</tr>
<tr>
<td>Effect of Implicit Indirect Tax Rate as % GDP</td>
<td>1.70</td>
<td>1.40</td>
<td>2.00</td>
<td>1.70</td>
<td>2.20</td>
<td>2.20</td>
<td>2.60</td>
<td>2.60</td>
<td>3.60</td>
<td>3.00</td>
</tr>
<tr>
<td>TBSP Similar to Benefits</td>
<td>0.40</td>
<td>0.60</td>
<td>0.10</td>
<td>0.90</td>
<td>0.90</td>
<td>1.30</td>
<td>0.90</td>
<td>0.60</td>
<td>0.10</td>
<td>0.00</td>
</tr>
<tr>
<td>Tax Breaks towards Current Benefits</td>
<td>0.20</td>
<td>1.40</td>
<td>0.00</td>
<td>0.10</td>
<td>0.00</td>
<td>0.50</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Net Total 'Old' as % GDP</td>
<td>21.45</td>
<td>21.71</td>
<td>17.62</td>
<td>19.11</td>
<td>22.33</td>
<td>21.37</td>
<td>17.96</td>
<td>20.52</td>
<td>11.10</td>
<td>12.86</td>
</tr>
<tr>
<td>Net Total 'New' as % GDP</td>
<td>5.53</td>
<td>7.15</td>
<td>6.57</td>
<td>7.74</td>
<td>6.96</td>
<td>5.72</td>
<td>7.16</td>
<td>8.13</td>
<td>11.95</td>
<td>11.06</td>
</tr>
<tr>
<td>Ratio of Net 'New' versus Net 'Old'</td>
<td>0.26</td>
<td>0.33</td>
<td>0.37</td>
<td>0.41</td>
<td>0.31</td>
<td>0.27</td>
<td>0.40</td>
<td>0.40</td>
<td>1.06</td>
<td>0.86</td>
</tr>
</tbody>
</table>

Sources: own calculations based on SOCX (last consulted 30.11.2011) and data reported by Adema, 1999; Adema and Ladaique, 2005; Adema, et al., 2011; and revised figures on recalculations of the effects of the implicit direct tax rate directly provided by Willem Adema of the OECD.
Because of the magnitude of taxation of cash benefits is far more important than tax benefits similar to social benefits or tax breaks on current benefits, using net expenditure data increases the relative importance of social investment in all countries. But this effect varies significantly between countries and within the same country over time. In the UK, where the relative share of social investment expenditure is the lowest, the tax effect is even slightly negative in 2007. In Denmark social investment is by far the most important amongst the five countries, and in addition significantly increases, if we take into account the effects of the tax system. But in this country this kind of expenditure has become less important in 2007 as compared to 1995. In Belgium the importance of social investment has not changed at all during the 12 years under study, and is somewhere in between Denmark and the United Kingdom. In the Netherlands, social investment has become more important since 1995, but more so in gross than in net terms. Still, by 2007 it became as important as in Belgium. Finally, Germany continues to give a comparatively low priority to social investment policies, and compensatory expenditures even became more important in 2007. For this country the picture hardly changes if one moves from gross to net expenditure.

If one would be able to quantify the other methodological problems we have been discussing, the ratio’s would be likely to change further. For countries such as Belgium, social investment might become more important, as for this country a significant part of care for elderly or frail relatives is included in the ‘old’ health expenditure category. In countries such as the Netherlands, that know an important underreported private component to social spending, social investment might turn out to be less important than our ratio’s suggest.

All this means that the data that are reported in the appendix of this book have to be interpreted with much caution. Even though they allow a cursory overview of cross national and longitudinal variation of the importance of social investment policies, detailed case studies are necessary to get a full picture of the state of affairs.
Bibliography


