National Expenditures on Social Security and Health in Selected Countries

by Joseph G. Simanis*

Drawing on data from various sources, this article compares the 1980 and 1983 levels of spending on social security and health in the United States with the levels in seven other countries: Canada, the Netherlands, the United Kingdom, Germany, France, Sweden, and Japan. Currently, in the United States, social security is customarily understood to include only old-age, survivors, and disability insurance (OASDI). Based on this narrow definition of social security, the United States ranks in the lower half among these countries in terms of social security spending as a share of gross national product (GNP), considerably below several of the countries, especially the Netherlands, which has the highest level of spending in this regard. When a broader definition of social security, such as that usually used by international organizations, is employed, the gap between spending in the United States and that in the top-ranked countries is even greater. However, if the latter figures are adjusted to include total national spending on health care, creating a third category of rankings according to combined spending on health and social security, the gap between the countries with the highest spending and the United States narrows considerably. In all three categories, Japan registers the lowest level of spending as a share of GNP; the United States is consistently in the lower half; and Germany, France, Sweden, and the Netherlands are in the upper half of the rankings.

*Office of International Policy, Social Security Administration.

The degree to which various industrially advanced nations of the world expend their resources for social security and health care is of ongoing interest. In this article, expenditures for these programs in the United States are compared with expenditure data from seven other industrially advanced countries to provide a picture of current levels of spending and trends over the 4-year period 1980-83. The seven countries whose expenditures are compared with those of the United States are Canada, France, the Federal Republic of Germany, Japan, the Netherlands, Sweden, and the United Kingdom.

The use of international statistics for comparisons is complicated by the fact that often the data are not comparable. Both the definition of social security and the programs themselves may differ from country to country. To provide the greatest possible degree of comparability, expenditure data in this article are drawn from the statistics published by the International Labor Office (ILO) in its series **The Cost of Social Security**. This ILO series strives for a high degree of uniformity in the manner in which the countries report their spending patterns. The latest ILO edition in this series was published in 1988 and presents data through 1983.[1]

The International Labor Office's definition of social security is a broad one. It includes not only old-age, survivors, and disability insurance (OASDI), but also most governmental health programs (medical and hospital insurance, cash sickness payments during temporary disability due to illness, and cash maternity payments); unemployment insurance; family allowances (cash payments for families with children); pension and health insurance for public employees; public assistance; and benefits for war victims. This "international" definition of "social security" is similar to the definition used in the original U.S. Social Security Act of 1935, even though current usage in the United States tends to limit the conventional concept of social security to OASDI.

[1] Data for 1980 total health care spending as a share of gross national product are from estimates in Joseph G. Simanis, "Health Care Expenditures: International Comparisons, 1970-80," **Social Security Bulletin**, October 1987, pages 19-24. Provisional figures for 1983 are generally derived by extrapolation of trends for earlier years. For the United States and Canada, the 1983 data are actual figures from government publications. For other countries, the estimates have been derived by extracting from the trendline and making slight adjustments for estimated divergences based on appraisals of the relative effectiveness of cost curbs in various countries. Results have been checked for consistency with trends established by other series such as those developed by the Organization for Economic Cooperation and Development (OECD). See, for example, **Measuring Health Care**, OECD, Paris, 1985.

Comparative Spending on Social Security

The data in table 1 (columns 1 and 2) show total social security expenditures as a share of gross national product (GNP) in 1980 and 1983 for each of the eight countries in this study. To facilitate comparisons, the national currency figures have been converted into percentages of GNP. On this basis, the figures show that the highest expenditures in 1983 were in Sweden and the Netherlands. The figures for Japan represent the lowest level of social security spending among the eight countries, and the next lowest level is found in the United States. The Netherlands, France, and Sweden all have expenditures exceeding 30 percent of GNP, approximately 2.5 times the level of U.S. spending, which is 13.6 percent of GNP.

Among the reasons for the relatively low ranking of the United States are the absence, at a national level, of such programs as partial disability and cash sickness programs for short-term illness for wage and salary workers and,

Table 1.—Expenditures for social security and health care,[1] by country, 1980 and 1983

Country	Share of GNP spent on social security		Percentage change	Social security health component as share of GNP		Share of GNP spent on total health care		Share of GNP spent on social security plus total health care		Percentage change
	(1) 1980	(2) 1983	(3)	(4)[2] 1980	(5)[2] 1983	(6) 1980	(7) 1983 [3]	(8) 1980	(9) 1983	(10)
Canada	14.8	16.6	12.2	5.3	4.8	7.4	8.7	16.9	20.5	21.3
United States	12.4	13.6	9.7	4.1	3.0	9.1	10.8	17.4	21.4	23.0
Netherlands	29.4	33.3	13.3	5.7	6.0	9.1	9.3	32.8	36.5	11.3
United Kingdom	16.5	19.9	20.6	4.2	4.7	5.8	5.9	18.1	21.1	16.6
Federal Republic of Germany	24.1	27.4	13.7	5.9	5.9	9.6	9.5	27.8	31.0	11.5
France	27.5	30.4	10.5	5.5	6.4	8.8	9.2	30.8	33.2	7.8
Sweden	32.1	34.1	6.2	7.5	8.4	9.4	9.8	34.0	35.5	4.4
Japan	10.8	12.0	11.1	4.4	4.7	6.0	6.7	12.4	14.0	12.9

[1]To obtain 1983 figures that include all health care spending, rather than data limited to spending channeled through social security, the following adjustments were made: The social security health care component as a percentage of GNP (column 5) has been subtracted from total social security expenditures as a percentage of GNP (column 2) and the percentage of GNP spent on total health care (column 7) has been added to the remainder, yielding a new composite figure (column 9).

[2]Columns (4) and (5) not strictly comparable because of changes in treatment of public health expenditures. See footnote 3 below in text.

[3]Provisional figures based primarily on extrapolations. See footnote 1, page 13. (Actual figures for United States and Canada.)

Sources: International Labor Office, **Cost of Social Security**, Geneva, 1985, 1988. Office of International Policy Estimates on Health Expenditures (unpublished series).

perhaps more importantly, the different health care financing approaches that the various countries employ.

In most industrialized countries, health care expenditures are channeled primarily through national programs that are considered to be part of social security. However, particularly in the United States, only a small portion of health care payments are in this category. The largest share of health care payments in the United States is from private sources—through nongovernmental health insurance and, to a lesser extent, by direct out-of-pocket payments to providers by the patients themselves. Furthermore, some public expenditures in the health care area are also channeled through sources not considered to be social security (even under broader definitions). Examples of such funding in the United States include payments for research and hospital construction.

The Health Component

If appropriate adjustments are made in the figures in the first two columns in table 1, in order to include all health care spending (private, social security, and other public), a more comprehensive picture of the amount that these countries generally spend on social services emerges.[2] The adjusted figures are shown in columns 8 and 9 as shares of GNP spent on social security and total health. These percentages result in a somewhat different order of ranking for the countries examined in both 1980 and 1983.[3]

For 1983, Japan again is the country with the lowest expenditures. The United States remains in the bottom half of the rankings, but in contrast to the pattern established for spending on social security alone, moves ahead of Canada and the United Kingdom. Germany, France, Sweden, and the Netherlands all have expenditures exceeding 30 percent of GNP—approximately 1.5 times the U.S. level (21 percent). However, it is

[2] See table 1, footnote 1.

[3] Before 1983, the International Labor Office estimates for social security expenditures, as presented in **The Cost Of Social Security**, included the cost of public health activities. As of 1983, this element is eliminated from the figures.

noteworthy that the spread between these countries, at the high end of the rankings, and the United States is much narrower than the spread that resulted from the data when only social security expenditures were analyzed.

Trends in Spending

All the countries under review increased the share of GNP spent on social security programs in 1980-83. The average increase in the unadjusted figures for social security expenditures was 12.2 percent. The increased share of GNP expended by the United States was 9.7 percent, somewhat lower than the overall average increase. In this 4-year period, three of the countries with large social security expenditures—the Netherlands, Germany, and France—increased their spending by more than 10 percent of GNP. True enough, these increases took place during a period when most countries had recognized the increasing costliness of their programs. To counteract the increasing financial burden, they had, in fact, generally instituted limited retrenchments in benefits.[4] However, the cutbacks they had introduced by this time were not sufficient to compensate for the increases that had been built into their systems previously.

The OASDI Component

As noted above, the aggregate figures compiled for social security expenditures by the ILO include programs that are not usually considered to be part of social security in the United States. The term is generally restricted to OASDI.

To make comparisons feasible, expenditures for the OASDI-type programs have been extracted and are presented in table 2 as shares of GNP for each of the eight countries. Again, Japan ranks the lowest, and Canada next to the lowest. For 1983, the United States is third from the bottom and the United Kingdom, as the fourth country, rounds out the lower half of the rankings.

If spending changes are examined from 1980 to 1983, these four countries were generally increasing their outlays faster than the average rate for the eight countries overall. The United States, with a 12.9-percent increase, is the only one of the four to hold its increase below the 16.6-percent overall average for all eight countries.

The higher expenditure levels of the countries that ranked above the level of the United States are due to a number of factors. Two of the major determinants are discussed below.

Disability insurance programs.—Many industrialized countries provide pensions to both partially disabled workers and those who are totally disabled. Of the eight programs reviewed, however, Canada, the United Kingdom, and the United States provide benefits only to the totally disabled. The other five countries compensate the partially disabled as well as the totally disabled. These differences in policies also affect the level of spending in each country.

Differences in definitions of disability also contribute to variations in spending on disability pensions. For example, the Netherlands is unique because it makes no distinction between general disability and disability brought on by work-related illness or accidents. In order to achieve uniformity, the Netherlands has set

Table 2.—Expenditures on old-age, survivors, and disability insurance (OASDI), by country, as share of gross national product (GNP), 1980 and 1983

Country	Share of GNP spent on OASDI		Percent change
	1980	1983	
Canada	3.0	4.0	33.3
United States	6.2	7.0	12.9
Netherlands	13.8	14.5	5.1
United Kingdom	5.9	7.4	25.4
Federal Republic of Germany	11.4	12.5	9.6
France	7.5	8.2	9.3
Sweden	9.8	10.7	9.2
Japan	2.5	3.2	28.0

Source: International Labor Office, **Cost of Social Security**, Geneva, 1985, 1988.

[4] For more information, see Lillian Liu, "Social Security Problems in Western European Countries," **Social Security Bulletin**, February 1984, pages 29-37; Ilene R. Zeitzer, "Social Security Trends and Developments in Industrialized Countries," **Social Security Bulletin**, March 1983, pages 52-62; and Joseph G. Simanis, "Worldwide Trends in Social Security, 1979," **Social Security Bulletin**, August 1980, pages 6-9.

the same high benefit level for pensions paid in both cases.[5]

Old-age insurance programs.— Differences in demographics and in the old-age benefit structure in these countries account for much of the variation in spending patterns. For example, France, Germany, and Sweden have relatively large aged populations and, consequently, a high proportion of old-age pensioners. In 1980, in all eight countries, the number of active workers under age 65 averaged 3.7 for each person aged 65 or older. In France and Germany, however, the ratio was only 3.1 to 1.0, and in Sweden it was even lower, 2.7 to 1.0.[6]

Table 3 shows the percentage of the population aged 65 or older in each country. In 1980, the proportion of the population aged 65 or older, in all eight countries, averaged 12.8 percent. In three countries, the proportion was considerably higher than this overall figure. In France, 14.0 percent of the population was aged 65 or older; the proportion in Germany was 15.5 percent; and in Sweden, it was 16.3 percent.

Table 3.—Percent of population aged 65 or older, by country, 1970, 1980, and 1990

Country	1970	1980	1990
Canada	8.0	9.5	11.4
United States	9.8	11.3	12.2
Netherlands	10.2	11.5	12.7
United Kingdom	13.0	14.9	15.1
Federal Republic of Germany	13.2	15.5	17.1
France	12.9	14.0	13.8
Sweden	13.7	16.3	17.7
Japan	7.1	9.1	11.4

Source: Organization for Economic Cooperation and Development, **Ageing Populations**, Paris, 1988

In Sweden, pensions constitute a relatively high proportion of preretirement earnings, further increasing old-age pension benefit outlays.[7] For example, a worker retiring in 1980 (with a dependent spouse), whose earnings in each year of social security coverage were equal to the average wage in manufacturing, would have been entitled to a pension that, for the eight countries reviewed, averaged 61.6 percent of preretirement earnings. In Sweden, a worker with a similar background would have been entitled to a pension with a much higher replacement rate: 83 percent of preretirement earnings.

[5] From a certain point of view, this difference also impairs comparability with other countries. In table 2, the OASDI expenditure figures for the Netherlands are somewhat higher than they would be if, as in other countries, beneficiaries with work-related illnesses received their benefits under a separate program, apart from OASDI.

[6] See Ilene Zeitzer, **op. cit.**, page 56.

[7] See Jonathan Aldrich, "Earnings Replacement Rate of Old-Age Benefits in 12 Countries, 1969-80," **Social Security Bulletin**, November 1982, pages 3-12.