

## Expenditures structure by level of government

Different levels of government share the responsibility for financing public goods and services and redistributing income. The degree to which each level is responsible for expenditures is affected by the institutional structure in each country and the distribution of spending power across levels of governments. When sub-central levels have a higher level of autonomy they might be better suited for shaping policies and programmes.

In 2011 and on average across OECD member countries 46% of general government expenditures were undertaken by central government. Sub-central governments (state and local) covered 32% and social security funds accounted for the remaining share. However, the level of fiscal decentralisation varies considerably across countries. In Ireland, for example, 76.4% of total expenditure is carried out by central government, representing an increase of 27.1 percentage points as compared to 2001. In contrast, central government accounts for less than 20% of total expenditures in Germany and Switzerland, both federal states.

In general, central governments spend a relatively large proportion of their budgets on social protection (e.g. pensions and unemployment benefits), general public services (e.g. executive and legislative organs, public debt transactions) and defence. In over half of OECD member countries, expenditures on social protection represent the largest share of central government budgets. In Belgium and Spain, central governments allocate over 60% of their budgets to general public services.

With the exception of Austria, education represents the largest share of expenditure, at both the state and local levels. In addition, environmental protection, housing and community amenities and recreation, culture and religion are mostly financed by sub-levels of government, displaying a more immediate and tangible link of these levels with citizens.

There is a positive relation between sub-central expenditures and revenues across OECD member countries. However, a wide variation of sub-central tax autonomy exists. Limits on sub-central governments' ability to set their own local tax bases, rates and reliefs reduce the power to generate their own revenue sources, adapt to economic shocks by increasing tax rates, and potentially their ability to provide more tailored public services. As a consequence, local governments tend to rely heavily on transfers from central government. No clear trend exists in OECD member countries towards fiscal decentralisation.

### Methodology and definitions

Expenditures data are derived from the OECD *National Accounts Statistics* (database), which are based on the *System of National Accounts* (SNA), a set of internationally agreed concepts, definitions, classifications and rules for national accounting. Data on expenditures are disaggregated according to the Classification of the Functions of Government (COFOG), which divides government spending into ten functions: general public services; defence; public order and safety; economic affairs; environmental protection; housing and community amenities; health; recreation, culture and religion; education; and social protection. Further information about the types of expenditures included in each category is available in Annex B. General government consists of central, state and local governments and social security funds. State government is only applicable to the nine OECD member countries that are federal states: Australia, Austria, Belgium, Canada, Germany, Mexico, Spain (considered a quasi-federal country), Switzerland and the United States.

Data in Figures 3.35 and 3.37 (Change in the distribution of general government expenditures across levels of government in 2009-11) exclude transfers between levels of government and thus provide a rough proxy of the overall responsibility for providing goods and services borne by each level of government. However, data on expenditures at the central, state and local levels (Tables 3.38, 3.39 and 3.40) include transfers between the different levels of government and therefore illustrate how much is spent on each function at each level of government. Figure 3.37 (<http://dx.doi.org/10.1787/888932941918>), and Tables 3.38 (<http://dx.doi.org/10.1787/888932941937>), 3.39 (<http://dx.doi.org/10.1787/888932941956>) and 3.40 (<http://dx.doi.org/10.1787/888932941975>) are available on line.

### Further reading

Blöchliger, H. and C. Vammalle (2012), *Reforming Fiscal Federalism and Local Government: Beyond the Zero-Sum Game*, OECD Fiscal Federalism Studies, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264119970-en>.

OECD (2013), *National Accounts at a Glance 2013*, OECD Publishing, Paris, [http://dx.doi.org/10.1787/na\\_glance-2013-en](http://dx.doi.org/10.1787/na_glance-2013-en).

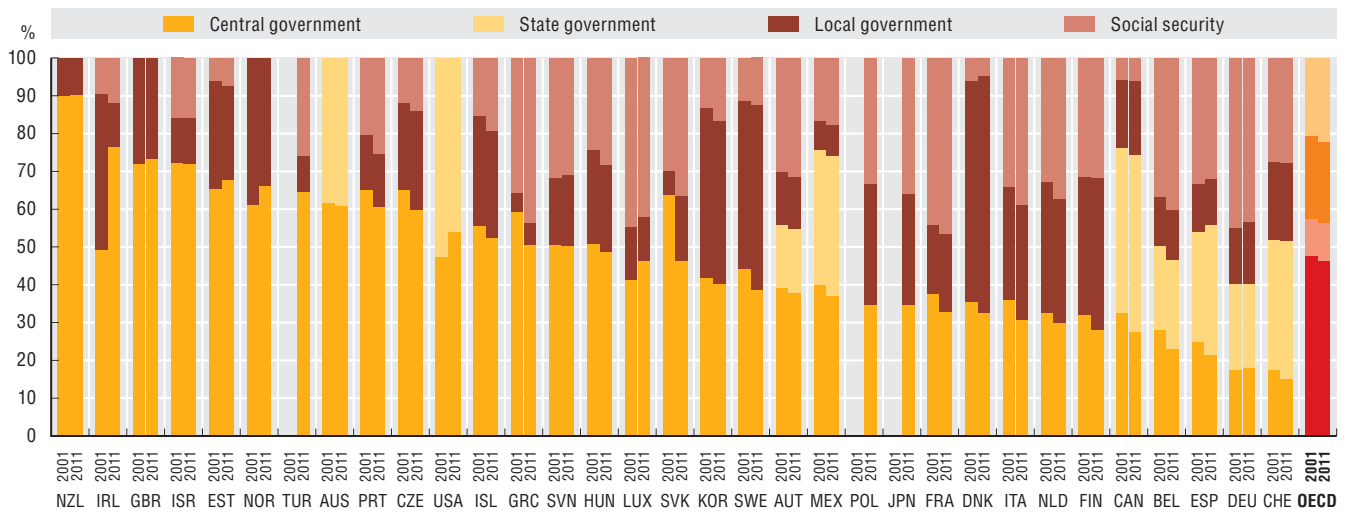
### Figure notes

Data for Chile are not available. Transfers between levels of government are excluded (apart from Australia, Japan and Turkey). Data for Canada and New Zealand are for 2010 rather than 2011.

3.35: Data for Japan, Poland and Turkey for 2001 are not available and these countries are not included in the OECD average. Data for Mexico are for 2003 rather than 2001. Local government is included in state government for Australia and the United States. Australia does not operate government social insurance schemes. Social security funds are included in central government in New Zealand, Norway, the United Kingdom and the United States.

Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

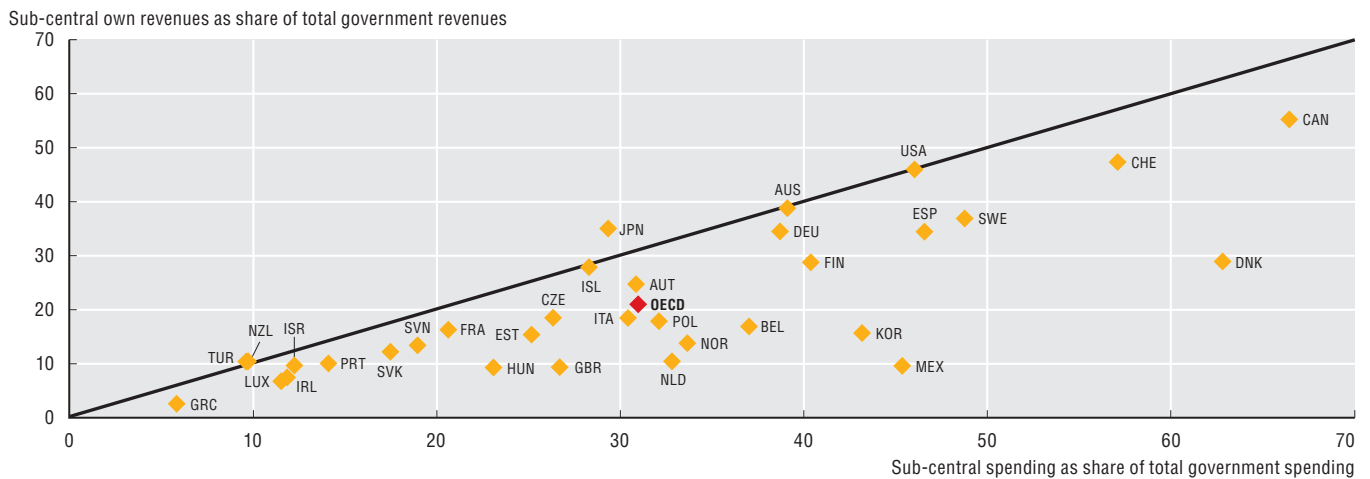
#### 3.35. Distribution of general government expenditures across levels of government (2001 and 2011)



Source: OECD National Accounts Statistics (database).

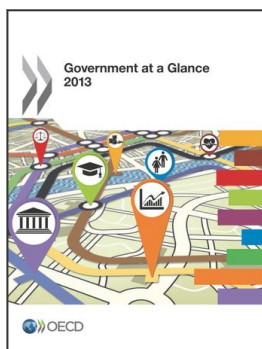
StatLink <http://dx.doi.org/10.1787/888932941880>

#### 3.36. Fiscal decentralisation: Sub-central government's share in general government revenues and expenditures (2011)



Source: OECD National Accounts Statistics (database).

StatLink <http://dx.doi.org/10.1787/888932941899>



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