

Government investment spending

One of the main reasons for government investments is the promotion of economic growth; this is achieved, among other ways, through the financing of public infrastructure projects (roads, housing, schools, hospitals and communication networks). Moreover, some projects with desired social returns (public goods) are not profitable for the private sector and thus are developed by the public sector. Public direct investment can be used by governments for countercyclical policy objectives. For instance, as a result of the recent economic downturn, many OECD governments introduced stimulus plans through an increase in investments in soft and hard infrastructures.

In 2011, government expenditures on direct investment represented, on average, 15.5% of total investment in OECD member countries. For 23 OECD member countries, this figure is lower than in 2009 due to the implementation of austerity programmes. Between 2009 and 2011, the share of government direct investment in total investment continued to increase in Poland (3.6 percentage points), Ireland (1.9 p.p.), Denmark (1.8 p.p.), Hungary (1.8 p.p.), Canada (1.3 p.p.), Australia (0.4 p.p.), Belgium and Switzerland (both 0.1 p.p.).

The share of direct investment in general government expenditure varies greatly across countries. The differences are linked to the existing infrastructure stock. On average in 2011, OECD member countries direct investment represented 6.7% of general government expenditure. Four OECD member countries have experienced a continuous increase of the share of direct investment in general government expenditure for both periods 2001-09 and 2009-11, namely Poland (5.4 percentage points), Canada (3.5 p.p.), Sweden (1.3 p.p.) and Denmark (0.3 p.p.). In turn, the share of direct investment for 11 OECD member countries has continuously declined for both periods, the most in Ireland (7.5 percentage points), Korea (7.2 p.p.) and Iceland (6.6 p.p.). In countries where the crisis was the most acute, government direct investment suffered the most significant reductions during the subsequent consolidation phases. This result illustrates a mix of higher expenditure for other items (unemployment insurance and other automatic welfare expenditure) and consolidation policies affecting investment.

The distribution of direct investment spending across levels of government is closely linked to the countries' political structure. Investments at the state level are only relevant for federal countries, where they represent, on average, over a quarter of public direct investment, but reaching levels of 84% in the United States and 66% in Australia. On average for OECD member countries, about 62% of government direct investment is carried out by sub-national governments compared to 37.3% undertaken by the central government. For the period between 2001 and 2011, no common trend exists toward investment decentralisation. While some countries, such as the Slovak Republic and Hungary, have experienced significant reallocations from the central to local governments, others, such as Ireland and Poland, have seen the opposite trend.

Methodology and definitions

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. General government investment includes direct investment (measured by gross fixed capital formation) and indirect investment (measured by capital transfers). In this analysis, only direct investment has been taken into account. Gross fixed capital formation consists mainly of road infrastructure but also includes infrastructure such as office buildings, housing, schools and hospitals.

Total investment refers to the investment spending of the entire economy, including expenditures by general government, non-financial corporations, financial corporations, households and non-profit institutions.

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. Figure 3.44, *Change in the distribution of investment spending across levels of government (2001-11)*, is available on line at <http://dx.doi.org/10.1787/888932942051>.

Further reading

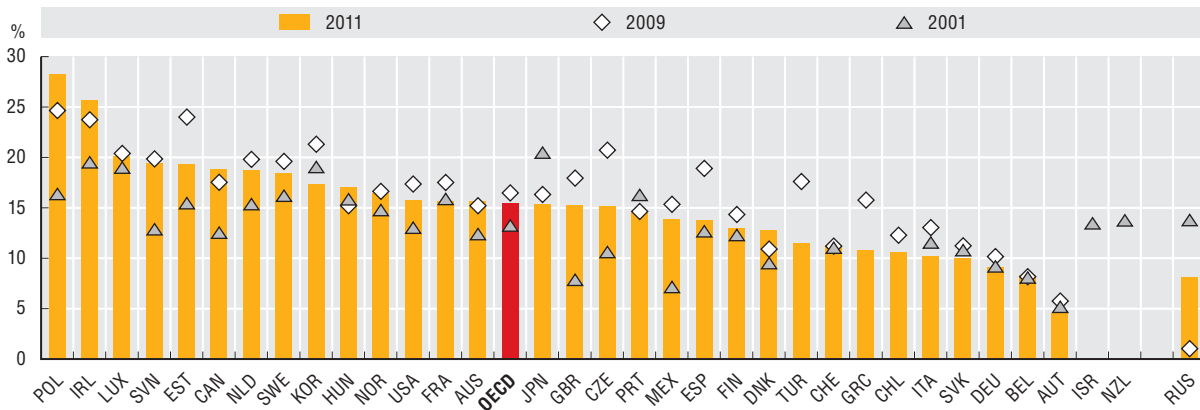
- OECD (2013, forthcoming), *Investing Together: Working Effectively across Levels of Government*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264197022-en>.
- OECD (2011), *Making the Most of Public Investment in a Tight Fiscal Environment: Multi-level Governance Lessons from the Crisis*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264114470-en>.
- OECD/Korea Institute of Public Finance (2012), *Institutional and Financial Relations across Levels of Government*, OECD Fiscal Federalism Studies, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264167001-en>.

Figure notes

- Data for Canada and the Russian Federation are for 2010 rather than 2011. Data for Mexico are for 2003 rather than 2001. Data for the Russian Federation are for 2002 rather than 2001. Differences in the data availability between Figures 3.41 and 3.42 are due to the use of different data tables within the OECD *National Accounts Statistics* (database).
- 3.41: Data for Iceland are not available. The following countries are not included in the OECD average due to missing time-series: Chile (2001), Greece (2001), Turkey (2001), Israel (2009-11) and New Zealand (2009-11). Data for Australia and Chile are for 2010 rather than 2011. Data for Ireland are for 2002 rather than 2001.
- 3.42: Data for Chile are not available. Data for Japan and Turkey for 2001 are not available and these countries are not included in the OECD average. Data for New Zealand are for 2010 rather than 2011.
- 3.43: Data for Chile are not available. Data for New Zealand are for 2010 rather than 2011. 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>.

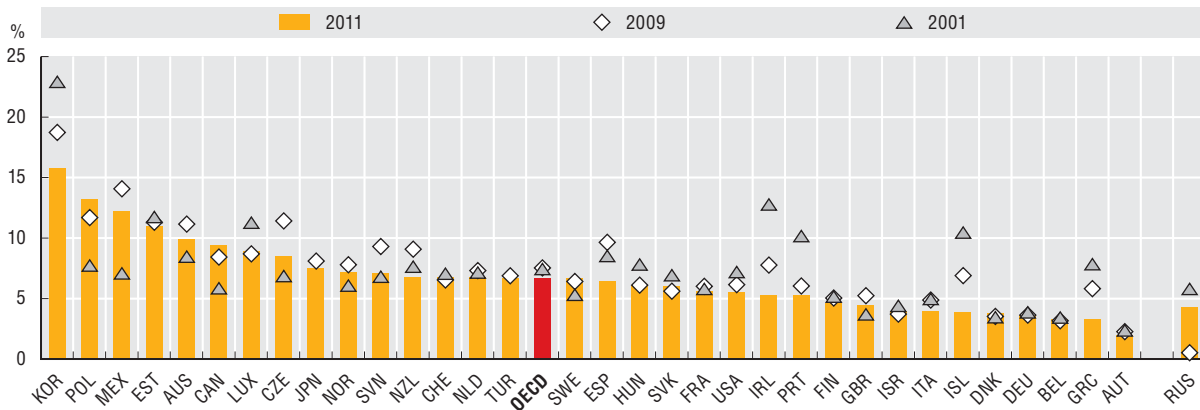
3.41. Government investment as a share of total investment (2001, 2009 and 2011)



Source: OECD National Accounts Statistics (database).

StatLink <http://dx.doi.org/10.1787/888932941994>

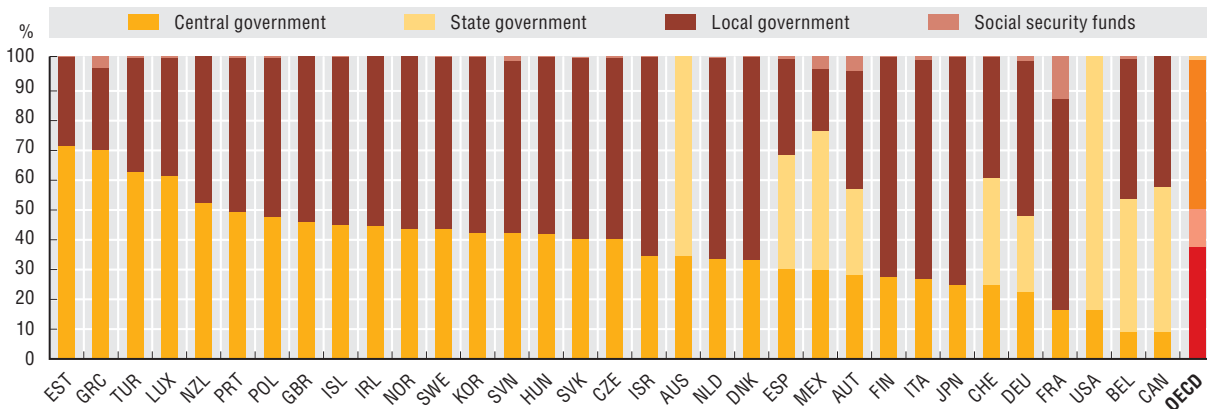
3.42. Government investment as a share of total government expenditures (2001, 2009 and 2011)



Source: OECD National Accounts Statistics (database).

StatLink <http://dx.doi.org/10.1787/888932942013>

3.43. Distribution of investment spending across levels of government (2011)



Source: OECD National Accounts Statistics (database).

StatLink <http://dx.doi.org/10.1787/888932942032>



From:
Government at a Glance 2013

Access the complete publication at:
https://doi.org/10.1787/gov_glance-2013-en

Please cite this chapter as:

OECD (2013), "Government investment spending", in *Government at a Glance 2013*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/gov_glance-2013-23-en

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