

11. PUBLIC SPENDING

Expenditure structure by level of government

Depending on their administrative structure – to a large extent based on whether they are administratively organised as a federal or unitary countries – central, state and local governments are responsible for different functions and have different spending responsibilities. There are several government functions that require co-ordination across government levels and shared funding. The need to improve the quality and efficiency of government spending has confirmed sub-central governments as important players in the implementation of public policies. Indeed, sub-central governments could be considered better equipped than central governments to obtain information on local needs and better placed to tailor the provision of public services (OECD, 2022).

In 2021, on average, central government carried out 45.5% of total public expenditure, while state (21.5%) local governments (14.3%), and social security funds accounted for the remainder. However, there are notable differences among countries. The share of expenditure by central government ranged from 16.4% of the total in Switzerland to 89.3% in New Zealand in 2021. In 2022, 17 of the 26 OECD countries with available data registered increases in the share of central government expenditure compared to 2021, indicating a trend towards a centralisation of spending across the OECD. This might be due to healthcare being increasingly centralised (OECD, 2021b) or due to fall in subnational government revenue relative to the national government as a result of the COVID-19 pandemic (OECD, 2021a) (Figure 11.12).

Despite this general trend, there is variation across countries. In total, 29 out of 37 countries saw a relative increase in central government expenditure between 2019 and 2021. On average, national government expenditure increased by 4.3 p.p. of total spending in the OECD. The United States (7.6 p.p.) and Costa Rica (7.9 p.p.) had the largest relative increases in central government expenditure. Chile experienced the largest relative decrease in central government expenditure, by 10 p.p. (Figure 11.13).

Methodology and definitions

Data are from the OECD National Accounts Statistics (database) based on the System of National Accounts (SNA), a set of internationally agreed concepts,

definitions, classifications and rules for national accounting. The 2008 SNA framework has been implemented by all OECD countries (see Annex C). In SNA terminology, general government consists of central, state and local governments, and social security funds. State government only applies to the nine OECD countries that are federal states: Australia, Austria, Belgium, Canada, Germany, Mexico, Spain (deemed a quasi-federal country), Switzerland and the United States. Data exclude transfers between levels of government except in Australia, Chile, Costa Rica, Korea, Türkiye and Indonesia. This is in order to see the contribution of each sub-sector to general government total expenditures, which are consolidated at this level. Expenditures include intermediate consumption, compensation of employees, subsidies, property income (mainly interest spending), social benefits, other current expenditures (mainly current transfers) and capital expenditures (i.e. capital transfers and investments).

Further reading

OECD (2022), *OECD Regions and Cities at a Glance 2022*, OECD Publishing, Paris, <https://doi.org/10.1787/14108660-en>.

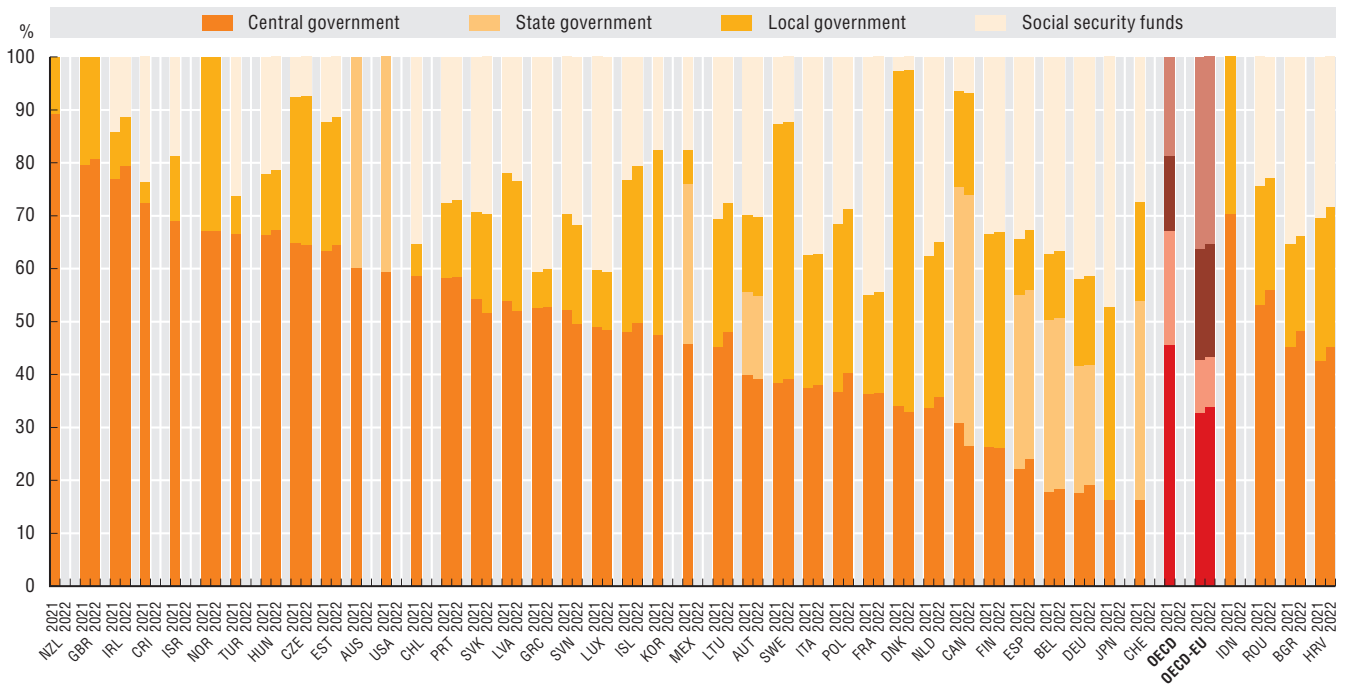
OECD (2021a), *Fiscal Federalism 2022: Making Decentralisation Work*, OECD Publishing, Paris, <https://doi.org/10.1787/201c75b6-en>.

OECD (2021b), “The territorial impact of COVID-19: Managing the crisis and recovery across levels of government”, *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris, <https://doi.org/10.1787/a2c6abaf-en>.

Figure notes

Data for Colombia are not available. Data for Chile and Türkiye not included in the OECD average. Flows between levels of government are excluded (apart from Australia, Chile, Costa Rica, Korea, Türkiye and Indonesia). For Japan data for sub-sectors of general government refer to fiscal years. 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 for New Zealand, Norway, the United Kingdom and the United States. Data for Türkiye and Indonesia refer to 2020 rather than 2021.

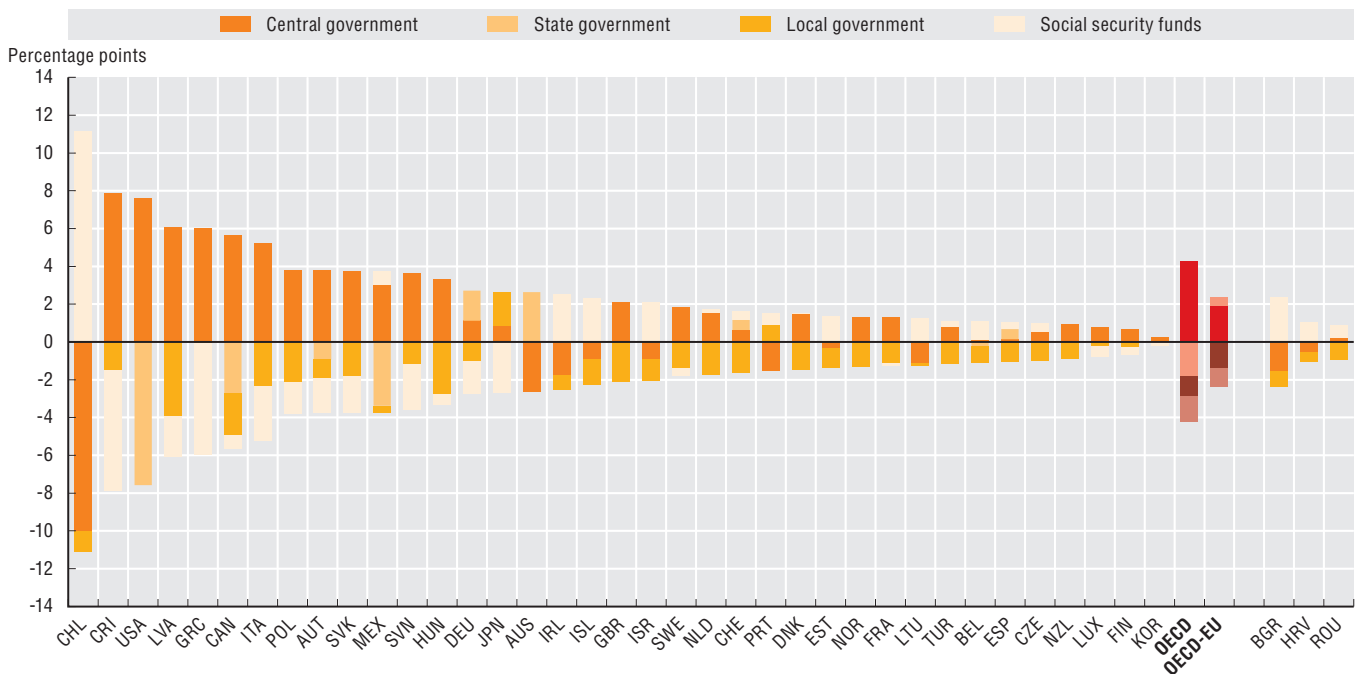
11.12. Distribution of general government expenditures across levels of government, 2021 and 2022



Source: OECD National Accounts Statistics (database).

StatLink <https://stat.link/tvxolc>

11.13. Change in the distribution of general government expenditures across levels of government, 2019 to 2021



Source: OECD National Accounts Statistics (database).

StatLink <https://stat.link/7duth6>



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