

III. GOVERNMENT EXPENDITURES

7. General government expenditure by type

Comparisons across countries of the proportion of benefits provided in cash by governments to eligible parties can illustrate differences in economic and social policies. Particularly within redistribution programmes (such as unemployment and health assistance), governments can provide benefits in cash (e.g. pensions) or in kind (e.g. food stamps or housing vouchers). OECD member countries spend more money on in-kind goods and services than cash transfers. Cash transfers generally have lower transaction costs, larger multiplier effects in the economy and provide individuals with more choice. However, governments may prefer in-kind transfers because it may be hard to identify eligible individuals, they want to control the delivery process, and/or they want to ensure that individuals receive adequate food, medical services or housing.

In the 13 countries represented, cash transfers range between 30% and 50% of all expenditures, or between 10% and 20% of GDP. Germany, Greece, Austria and Italy provide the largest proportion of expenditures as cash transfers (over 40% of all expenditures are cash transfers in these countries). When scaled to GDP, cash transfers represent over 20% of GDP in Italy, Austria and Germany. Cash transfers are least popular in the Czech Republic, the United Kingdom and Spain.

Government expenditures can also be classified into spending on collective goods (a good that benefits society as a whole, such as defence, and public order and safety) or spending on individual goods (a good that primarily benefits individual citizens, such as social services, health and education). Analysis of country spending on collective *versus* individual goods and services can help illustrate differences in the role of government in each country. Countries that spend a relatively larger proportion of funds on individual goods tend to be considered “welfare states”.

In all 13 countries for which data are available, governments spend more resources on individual goods than on collective goods. On average, countries spend 25% to 35% of GDP on individual goods, compared to 10% to 20% of GDP on collective goods. Only Hungary spends more than 20% of GDP (or approximately 40% of all expenditures) on collective goods. In comparison, Norway spends just over 10 % of GDP (or about 26% of all expenditures) on collective goods.

Methodology and definitions

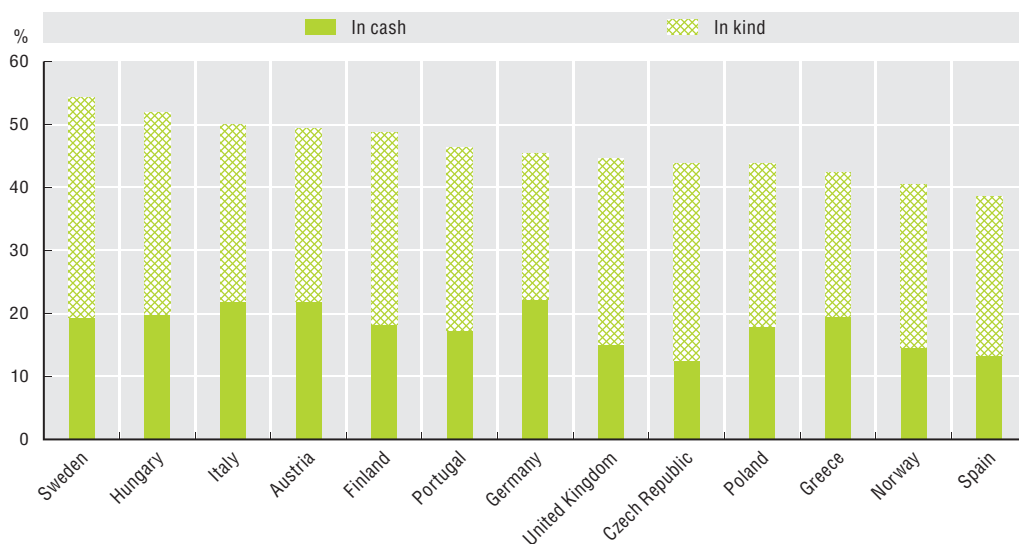
Cash transfers refer to benefits provided to eligible individuals by governments that are not required to be spent on a specific good or service. Examples of cash transfers include pensions, unemployment benefits and development aid. In-kind goods and services mean that the government provides (or contracts for the provision of) goods and services directly or reimburses households for their expenses. Examples of in-kind goods and services include housing vouchers, police, and most health and education services. Collective goods and services benefit the community at large and include expenditures on defence, and public safety and order. Individual goods and services mainly benefit individuals and include education, health and social insurance programmes. In this context, collective and individual goods and services are based on economic concepts. They are more expansive than the categories of collective and individual consumption expenditures contained in the National Accounts data. Gross domestic product (GDP) is the standard measure of the value of the goods and services produced by a country during a period.

Data represent government expenditures in 2006, the latest data available for a majority of OECD member countries at the time of writing. Based on a methodology devised by the OECD called Classification of the Functions of Government (COFOG)-Special, data were broken down into individual and collective goods, and cash and in-kind transfers using second-level COFOG classifications which are currently only available for 13 OECD European member countries. See Annex B for more details on the COFOG-Special methodology.

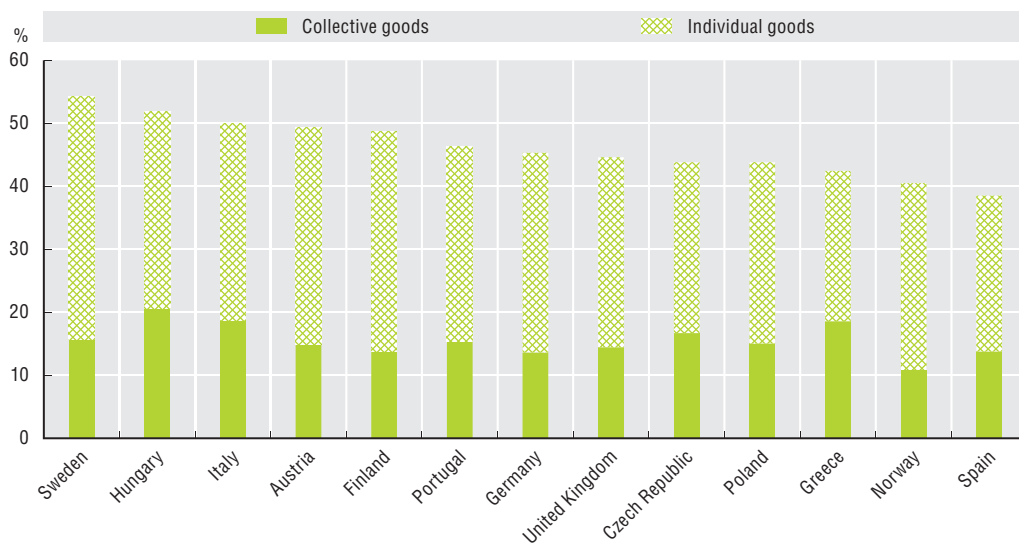
Note

Data are not available for Australia, Belgium, Canada, Denmark, France, Iceland, Ireland, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, the Slovak Republic, Switzerland, Turkey and the United States. Slight differences among 4.1, 5.1, 7.1 and 7.2 in total expenditures as a percentage of GDP are due to the use of different data sources.


7.1 General government expenditures on cash transfers and goods and services in kind as a percentage of GDP (2006)

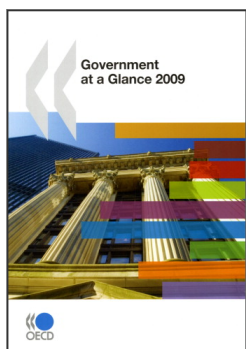


7.2 General government expenditures on individual and collective goods as a percentage of GDP (2006)



Source: Eurostat/OECD National Account Statistics.

StatLink  <http://dx.doi.org/10.1787/723608005173>



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