

Government investment spending

Public investment can enhance productivity and promote economic growth as well as foster societal wellbeing. Many types of government expenditure constitute investment: purchases of transport and energy infrastructure, school and hospital buildings, IT systems, defence systems, and intangible assets. Government investment often includes purchases needed to implement long-term policies, such as investment in green energy infrastructure to support action on climate change.

Government investment spending averaged 3.3% of GDP across OECD countries in 2019, ranging from 1.3% of GDP in Mexico to 6.3% of GDP in Hungary. Five out of the ten governments spending the largest proportion of GDP on investment were Eastern European countries, partly as a result of EU structural funds. Hungary's high levels of government investment in 2019 were driven by both EU structural funds and by nationally funded investment projects in transport and telecommunications. In 2020, government investment relative to GDP increased in 25 of the 26 OECD countries for which data are available (Figure 2.32). This may reflect investment in response to COVID-19, or it may be the result of GDP falling more quickly than investment in 2020.

Government investment as a share of government expenditures has been falling, and this trend appears to have accelerated in 2020. On average across OECD countries, government investment fell from 9.3% of government expenditure in 2007 to 8.1% in 2019. Over that period, investment's share of government expenditures shrank in 21 of 36 OECD countries. In 2020, in the 26 countries with data available, government investment as a share of government expenditure fell in 19 of them (Figure 2.33). However, this should not necessarily be interpreted as meaning governments are actively cutting public investment. Rather, it reflects the very rapid growth in current government expenditures in 2020, on income support schemes and other COVID-19 responses.

The proportion of investment expenditure which was managed by central government increased between 2019 and 2020 in 20 of 27 OECD countries for which data are available. The distribution of investment expenditure across levels of government varies widely, and is different for federal and non-federal countries. In 2019, on average across OECD countries, 40% of government investment was carried out by national governments, and roughly 30% each by state and local governments. However, only 9 out of 37 OECD members have state governments which spent on investment. In 20 of 35 OECD countries, central government accounted for more than 50% of government investment. In general, government investment in more centralised countries (e.g. Turkey, Hungary, the United Kingdom) is primarily managed by national government, in countries with more decentralised structures (e.g. Canada, Belgium, Mexico and Spain) it is primarily managed by state and local governments (Figure 2.34).

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 A for details). General government investment includes gross capital formation and acquisitions, less disposals of non-produced nonfinancial assets. Gross fixed capital formation (also called fixed investment) is the main component of investment. For government, it mainly consists of transport infrastructure but also includes infrastructure such as office buildings, housing, schools and hospitals. In the SNA 2008 framework, expenditures in research and development have also been included in fixed investment. Government investments together with capital transfers constitute the category of government capital expenditures. Government consists of central, state and local governments and social security funds. State government is only applicable to the nine OECD countries that are federal states: Australia, Austria, Belgium, Canada, Germany, Mexico, Spain (considered a quasi-federal country), Switzerland and the United States.

Further reading

Fournier, J. (2016), "The positive effect of public investment on potential growth", *OECD Economics Department Working Papers*, No. 1347, OECD Publishing, Paris, <https://doi.org/10.1787/15e400d4-en>.

OECD (2019), *OECD Economic Surveys: Hungary 2019*, OECD Publishing, Paris, https://doi.org/10.1787/eco_surveys-hun-2019-en.

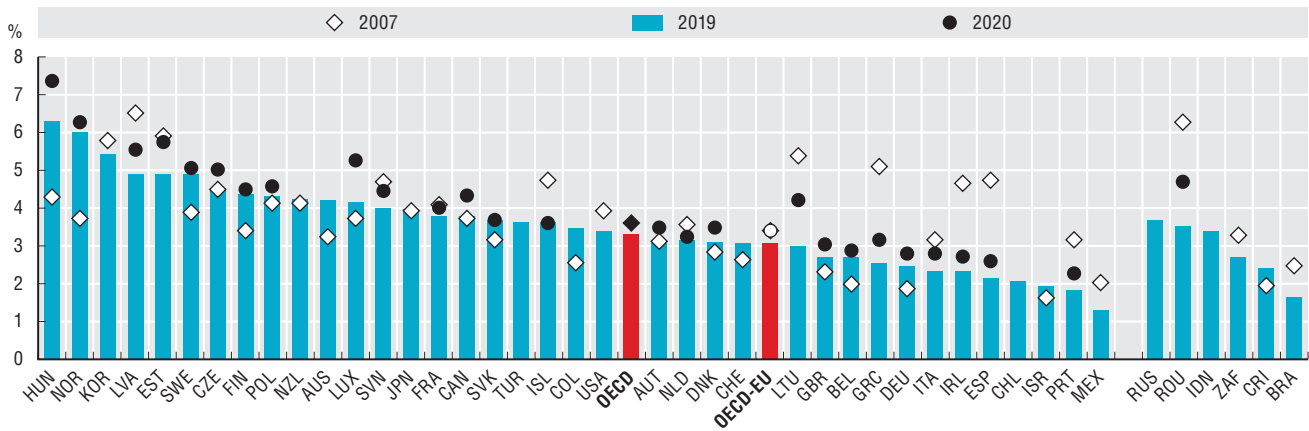
Figure notes

2.32 and 2.33. Data for Chile and Turkey are not included in the OECD average because of missing time series. Data for Japan, Brazil and Russia are for 2018 rather than 2019.

2.34. Data for Chile and Colombia are not available. Data for Turkey are not included in the OECD average due to missing time series. 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 Ireland, New Zealand, Norway, the United Kingdom and the United States. Data for Japan are for 2018 rather than 2019.

G.23. (Government investment as a share of total investment) and G.24. (Structure of general government investment by function) are available online in Annex G.

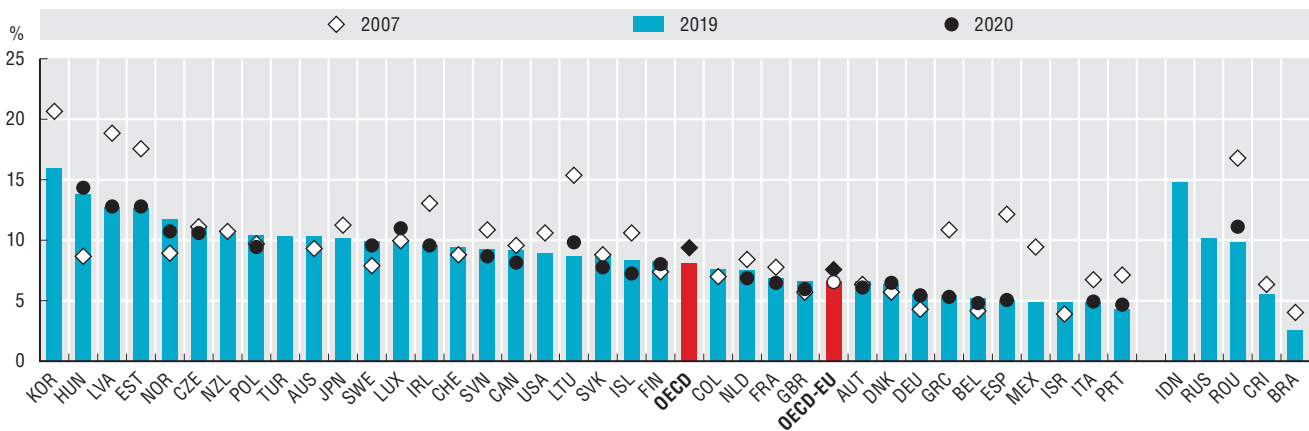
2.32. Government investment as a percentage of GDP, 2007, 2019 and 2020



Source: OECD National Accounts Statistics (database).

StatLink <https://doi.org/10.1787/888934257223>

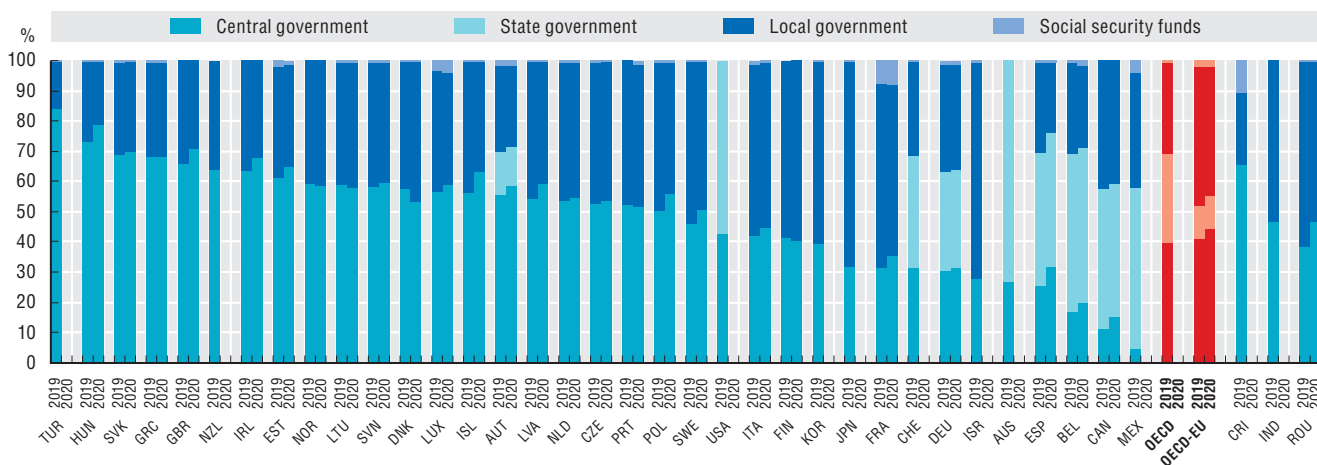
2.33. Government investment as a share of total government expenditures, 2007, 2019 and 2020



Source: OECD National Accounts Statistics (database).

StatLink <https://doi.org/10.1787/888934257242>

2.34. Distribution of investment spending across levels of government, 2019 and 2020



Source: OECD National Accounts Statistics (database).

StatLink <https://doi.org/10.1787/888934257261>



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