

Subnational government investment

In most OECD countries, subnational governments (SNGs) have a key role in public investment. In 2014, they carried out around 59% of public investment in the OECD area. This ratio tends to be higher in most federal countries where it combines investments by the states and by local governments. In 2014, more than 70% of public investment was made by SNGs in Germany, Australia, Mexico, Japan, Belgium, up to 95% in Canada (Figure 3.9).

SNG investment represented 1.9% of gross domestic product (GDP) in the OECD in 2014 (total public investment was around 3.2% of GDP) a share that was above 2.8% of GDP in Korea, Japan and Canada and less than 1% of GDP in Chile, Greece, Ireland, the Slovak Republic, the United Kingdom and Portugal (Figure 3.9).

Per capita SNG investment averaged around USD 730 in 2014, compared to USD 510 for the central government and social security sectors. It ranges from USD 57 in Chile to almost USD 1 490 in Canada, with high values of SNG investment per capita (above USD 1 000) found also in Australia, Japan, Switzerland, Norway and Luxembourg (Figure 3.10).

In federal countries, local government investment per capita tends to be smaller than those of state governments, except in Austria and Germany where it is more balanced (there is no breakdown data for the United States and Australia). In unitary countries, the local government role in public investment is a little less pronounced than in federal countries, in particular in countries such as Chile, Greece, Estonia or the Slovak Republic. There are, however, several countries, such as Japan, France and the Czech Republic where local governments played a crucial role in public investment in 2014 with a share of SNG investment in public investment above the OECD average.

In many OECD unitary countries, and typically in the least-decentralised countries, investing is the main function of local governments. In fact, having little competencies in key current spending areas, they tend to implement major national investment projects. Investment accounts for more than 25% of local government expenditure in Hungary, Turkey, Slovenia, Luxembourg and New Zealand, as compared to 11% on average in the OECD.

In a great number of countries, SNG investment was particularly robust in the early years of the global financial crisis due to the involvement of SNG in stimulus plans and strong support from national governments. However, the deepening of the social and economic crisis, as well as the adoption from 2010 onwards of national and subnational budget consolidation measures put severe strain on SNG finance. In a majority of countries, public investment was cut back. Used as a budgetary adjustment variable, investment ultimately declined steeply across OECD countries. The fall

stopped in 2013 but the investment has not recovered since and has even slightly declined in the OECD in 2014. Between 2007 and 2014, SNG investment decreased in the OECD (average of -0,5% per year in real terms, totalling -3,7% over the period). It contracted sharply in Ireland, Iceland, Turkey (2007-11), Spain and Greece. However, not all OECD countries followed this trend (Figure 3.11).

Economic affairs were the priority sector for SNG investment in 2013, accounting for 39% of SNG investment on average in the OECD. Under this heading are transport, communications, economic development, energy, construction, etc. Transport systems and facilities make the bulk of investment in this category (around three-quarters). It comprises construction of roads, railways, water transport, air transport and airports, pipeline and other transport systems such as funiculars, cable cars, etc. In Greece, Japan, Portugal and Ireland, investment in economic affairs represented more than 45% of SNG investment in 2013 (Figure 3.12).

The second priority sector for SNG investment in 2013 was education: 22% of SNG investment was made in education for new construction and major building improvements of elementary, secondary and high schools, universities, adult vocational training centres, lodging and transport for pupils and students, etc. SNG educational infrastructure investment was above 25% in Norway, Luxembourg, Israel and the United States, up to 53% in the United Kingdom.

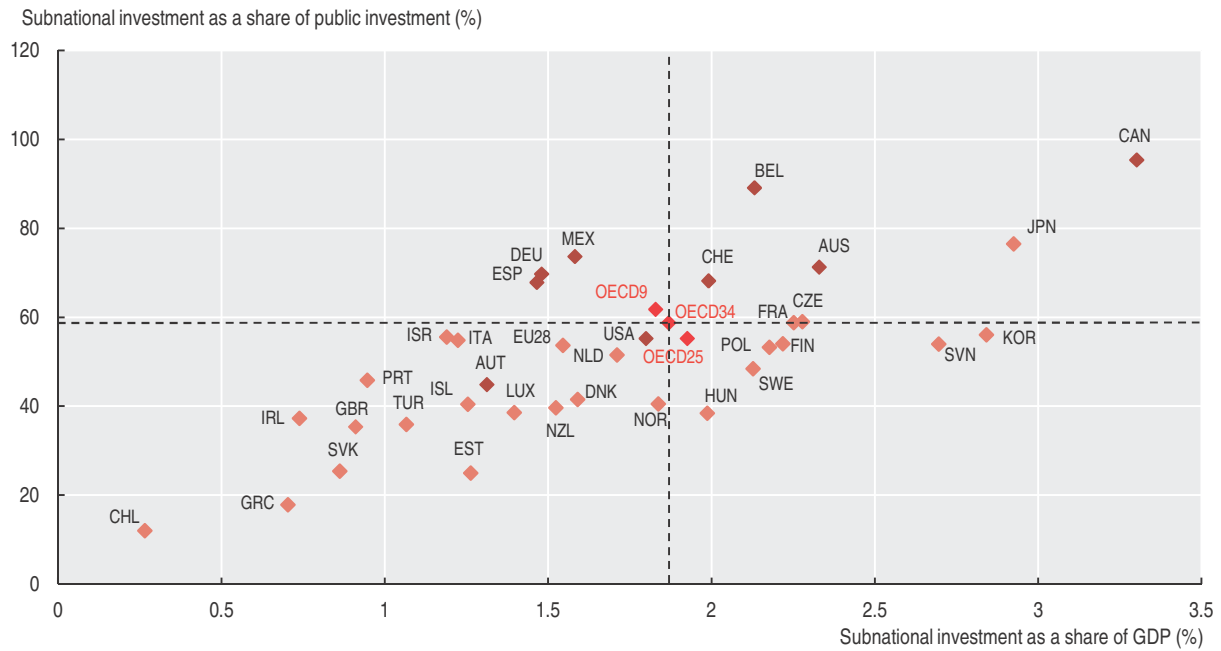
Infrastructure in general public services represented 9% of SNG investment in 2013 but more than 25% in Sweden, Hungary, Switzerland and Belgium. This category comprises mainly construction and improvement of public buildings.

The fourth priority area of SNG investment in 2013 was housing and community amenities which represented almost 9% of SNG investment. This sector comprises construction and remodelling of housing, including acquisition of land, potable water supply, street lighting, etc. Investment in that area exceeded 14% in Slovenia, France, Italy, Ireland and up to 29.5% in the Slovak Republic in 2013.

Environmental infrastructure reached almost 7% of SNG expenditure on average in the OECD in 2013. The share is above 15% in 9 countries and exceeded 20% in Slovenia and Hungary.

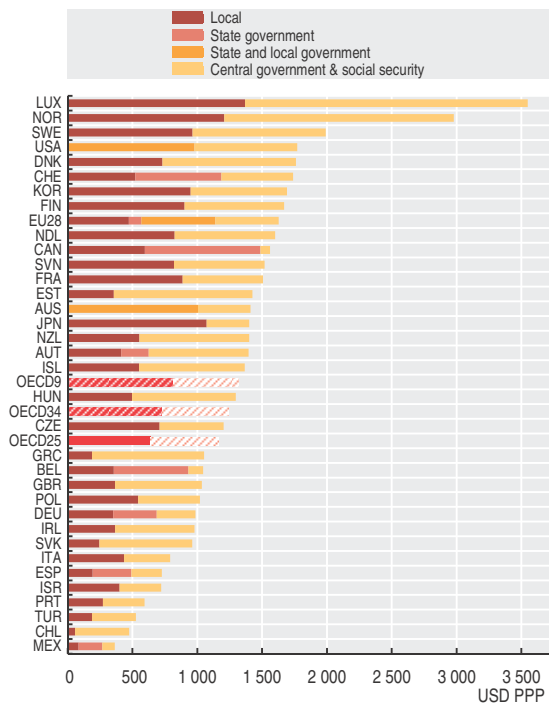
The “other” category represented around 15% of SNG investment in 2013. It comprises investment in recreation and culture facilities, theatres, museums, concert and exhibitions halls, libraries, heritage, zoological and botanical gardens, provision of facilities for religious and other community services etc.

3.9. Subnational government investment as a % of GDP and public investment, 2014



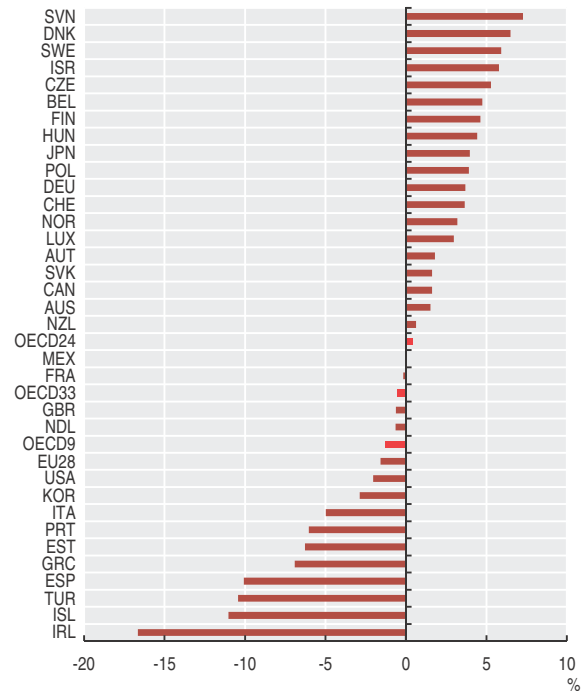
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3.10. Public investment by level of government, 2014 (USD PPP per capita)



StatLink <http://dx.doi.org/10.1787/888933363672>

3.11. Annual average change in subnational government investment between 2007 and 2014



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Healthcare investment (hospitals, local health centres, specialised medical and paramedical service centres, maternity and nursing centres, heavy medical equipment) are particularly significant in Denmark and Sweden while investment in public order and safety (mainly police and fire protection facilities) are sizable in the United Kingdom, Austria, Switzerland and Germany.

Finally, investment in the social welfare sector (institutions for disabled persons, retirement homes for elderly persons, social services centres) represented a small share of SNG investment on average in the OECD but significantly more in Iceland, Norway, Belgium and Denmark.

Definition

General government includes four sub-sectors: central/federal government and related public entities; federated government (“states”) and related public entities; local government i.e. regional and local governments and related public entities; and social security funds. Data are consolidated within the four sub-sectors. Subnational government is defined as the sum of state governments and local/regional governments.

Capital expenditure is the sum of capital transfers and investment. Gross fixed capital formation is the main component of investment (see Annex B for a detailed definition).

Investment by economic function follows the Classification of the ten Functions of Government (COFOG): general public services; defence; public order and safety; economic affairs; environmental protection; housing and community amenities; health; recreation, culture and religion; education; social protection.

The OECD averages are presented as the weighted average of the OECD countries for which data are available, unless otherwise specified (i.e. unweighted average, arithmetic mean, OECD UWA). Data in USD use Purchasing Power Parities.

Source

OECD (2016), *National Accounts Statistics* (database), <http://dx.doi.org/10.1787/na-data-en>.

OECD (2015), “Subnational Government Structure and Finance”, *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/05fb4b56-en>.

See Annex B for data sources and country-related metadata.

Reference years and territorial level

2014: National Economic Accounts; levels of government.
2013: COFOG data not available for Australia, Canada, Chile, Mexico, New Zealand and Turkey. For the United States, data showed in function “housing and community amenities” include the “environment protection” function data.

Further information

OECD (2016), “Subnational Governments in OECD Countries: Key data” (brochure), www.oecd.org/gov/regional-policy/Subnational-governments-in-OECD-Countries-Key-Data-2016.pdf.

OECD (2013), *Investing Together: Working Effectively across Levels of Government*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264197022-en>.

OECD (2015), *Recommendation on Effective Public Investment Across Levels of Government – Implementation Toolkit*, www.oecd.org/effective-public-investment-toolkit/.

Figure notes

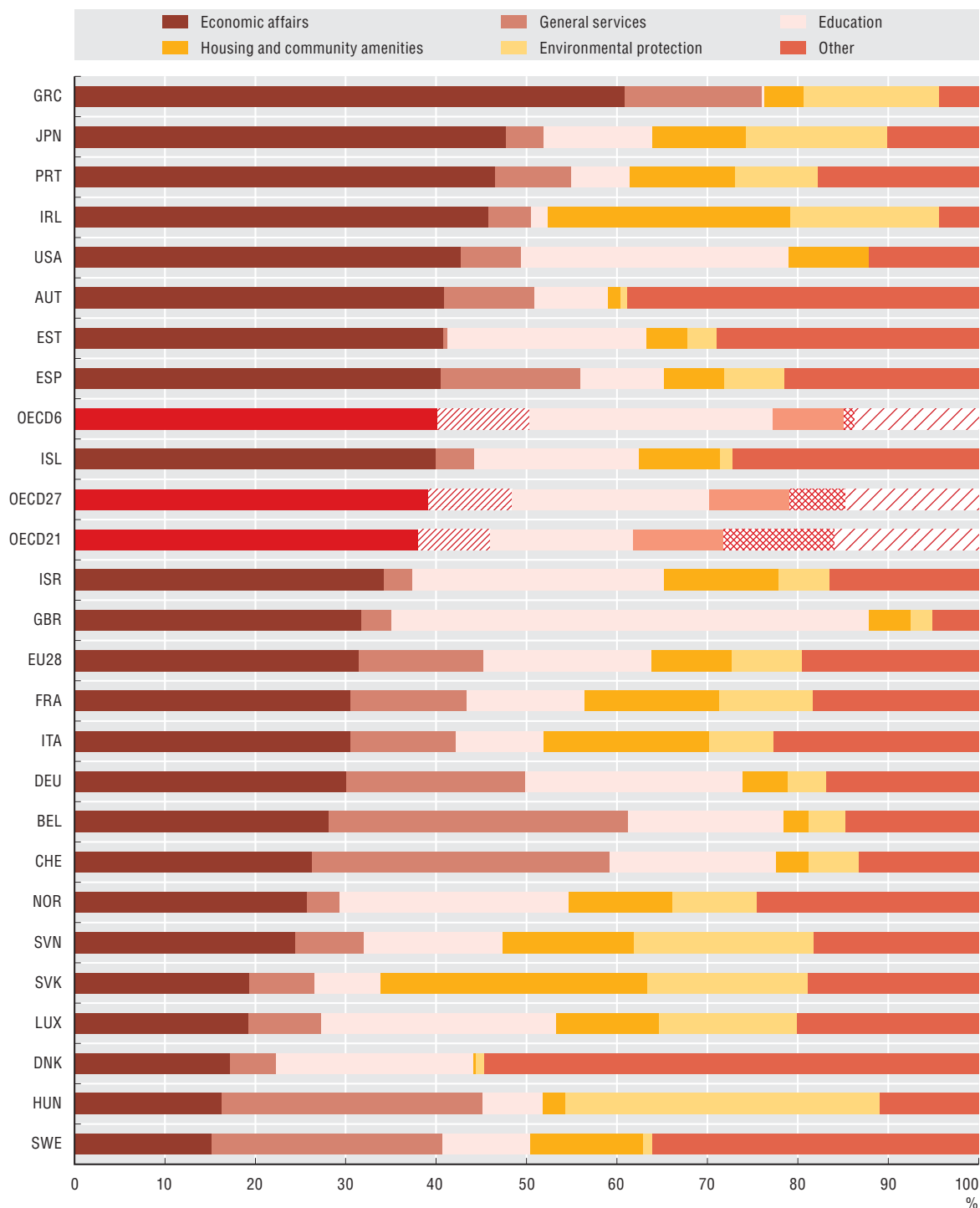
3.11: New Zealand 2013; Turkey 2011. No data for Chile. Per cent change in real terms.

3.12: Other: defence; public order and safety; health; recreation, culture and religion; social protection. Poland, Finland, the Netherlands and the Czech Republic are not represented on the graph because of negative values in some sectors.

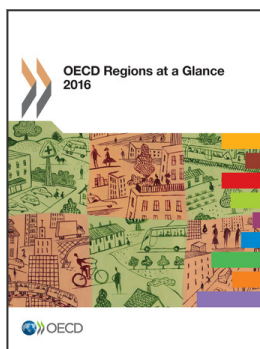
OECD6 and OECD21 refer to federal and unitary countries, respectively.

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

3.12. Breakdown of SNG investment by economic function % of total SNG investment, 2013



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