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Government Spending Across the World

How the United States Compares

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Introduction and Summary

Comparisons of how much the governments of different countries spend, and on what, can illuminate the range of fiscal policy options available and provide insight into which approaches work best. They also can tell us what different countries value.

Levels of spending vary greatly across the world. In France the spending of all levels of government accounts for more than half (56.4 percent) of the economy, as measured by gross domestic product (GDP). At the other end of the spectrum is Colombia, where government spending is less than a third (31.9 percent) of GDP. At 38.0 percent, the federal, state, and local governments of the United States rank twenty-fourth among the twenty-nine countries for which recent comparable data are available.[1]

Where countries rank in government spending is mostly driven by how much they spend on "social protection," a category that includes most non-health-care social safety net and social insurance programs (for definitions of spending categories, see Appendix A, "OECD Spending Categories"). Countries that are high spending overall spend a lot on social protection, while countries that are low spending overall spend less. The United States ranks last in social protection spending.

Spending as a share of the economy is, however, just one way of measuring the differences between countries. While it is a good measure of how much countries spend relative to their available financial resources, it is not necessarily a good measure for comparison of the level of service provided by governments. A better measure for that is spending per capita—the amount spent per person. By that measure, the United States ranks closer to the middle overall, though low compared to other wealthy countries and twenty-second in social protection.

By either measure, the United States ranks near the top in military, health care, education, and law enforcement spending. Its military spending is equal to the combined military expenditures of the next seven highest-spending countries combined.[2]

The choices the United States and other countries make regarding how they spend their resources are influenced by many factors. There is no single right choice. The decisions governments make reflect different values and priorities which lead them to different conclusions as to the best way to reach their goals and face their distinctive challenges. Some countries value projecting military power throughout the world.

KEY FINDINGS

24th The United States ranks twenty-fourth in government spending as a share of GDP out of twenty-nine countries for which recent comparable data are available.

The key determinant of where countries rank in overall government spending is the amount spent on social protection. The United States ranks last in spending on social protection as a share of GDP and twenty-second in per capita spending.

The United States ranks at or near the top in military, health care, education, and law enforcement spending.

Measuring government spending by different methods and including tax expenditures does not appear to significantly alter the analysis of United States spending compared to other countries.

Others see military spending as a diversion of resources from more constructive uses that benefit their society and residents. Some countries see universal access to college education as of broad value, while others do not believe one person's tax dollars should pay for another person's college education. Some countries invest heavily in preserving their culture's arts and letters; others are less interested. Some countries see alleviating poverty as a moral imperative; others see spending on the poor as rewarding failure and breeding dependency. The list of choices is almost endless.

The reasons countries make the decisions they make are as varied as the countries themselves, but one common factor is attitudes toward taxation. In the long run, the overall level of spending, with the consequential impact on each category of spending, is related to the level of taxes. Some countries believe that lower taxes are the path to economic success, or they question the morality of taking money from their citizenry, and thus tax and spend relatively little. Other countries believe that public investments in such things as infrastructure and education are the key to economic vitality, and that public spending is the path to a more just, fair, and safe nation. For those countries, drawing taxes from private hands for a greater good is warranted.

Measuring Government Spending

Comparing how governments in different countries spend is not as easy as it might seem. There are multiple ways to measure spending, and governments present their data differently and spend in their own currencies. Also, some countries are so different from each other that comparisons are not illuminating. Comparing U.S. spending to that of the small island nation of Nauru would tell us little about the relative values and convictions of the two countries, as they face enormously different challenges with enormously different assets.

In this paper we address some of these challenges by employing statistics from the Organization for Economic Cooperation and Development (OECD). Using OECD statistics helps in two ways:

- The statistics available from the OECD are presented in a consistent form for most of the countries included, making valid comparisons possible.
- The countries from which the OECD collects and organizes data (member countries of the OECD plus a handful more) are primarily economically developed, democratic, free-market countries with a role in the world economy—criteria which make comparisons mostly "apples-to-apples."[3]

There are some countries, Canada for example, that would be useful to include but that are missing from the OECD statistics because of challenges in collecting recent comparable data. But most countries similar to the United States are included. There are some relatively poor countries in the OECD statistics, but they are not the poorest countries in the world, and the public has a say in their fiscal matters through democratic processes.

Even with the benefit of OECD-compiled data from roughly similar countries, the best way to compare spending among countries depends on the question for which one seeks an answer. We measure spending in three ways: as a share of the economy (spending as a share of GDP); per person; and, solely for military spending, the amount in U.S. dollars (converting from foreign currencies for other countries). Each of these measures has its advantages, which are discussed in the sections where each is used.

One final complication is that some countries, the United States being a prime example, deliver some government spending in the form of targeted tax breaks. For example, while the United States does have housing support programs that are implemented through checks sent to landlords and residences directly built or leased, its most expensive housing support program has been the deduction for mortgage interest on federal and state income tax forms. The data for including these "tax expenditures" in comparisons among countries are extremely hard to come by, but at the end of this paper we investigate whether excluding tax expenditures from our analysis has a significant impact on our conclusions.

Government Spending as a Share of GDP

For the twenty-nine countries for which the OECD reports recent comparable statistics, government spending as a share of GDP ranges from a high of 56.4 percent in France to a low of 31.9 percent in Colombia. The median for the twenty-nine countries in 2017 was 42.4 percent. Table 1 divides these countries into high spending (more than 48 percent of GDP), middle spending (40 percent to 48 percent of GDP), and low spending (less than 40 percent of GDP).[4] Figure 1 shows the same information in graphic format. Governments in the United States—federal, state, and local—spend 38.0 percent of national GDP, placing the country twenty-fourth of the twenty-nine countries.

What does the share of national income devoted to government spending tell us about a country? Overall, it can tell us how much a country values the goods and services that can be provided only through government and the extent to which it believes that other goods and services are most effectively and fairly delivered by government versus the private sector.

Spending as a share of the economy in specific categories can be telling about the values of a country, as it shows how much a country spends toward achieving a goal relative to its capacity to spend. It can be the equivalent of asking a household what shares of its income it puts toward charity, saving for the future, or buying the latest in-home appliances and electronics.

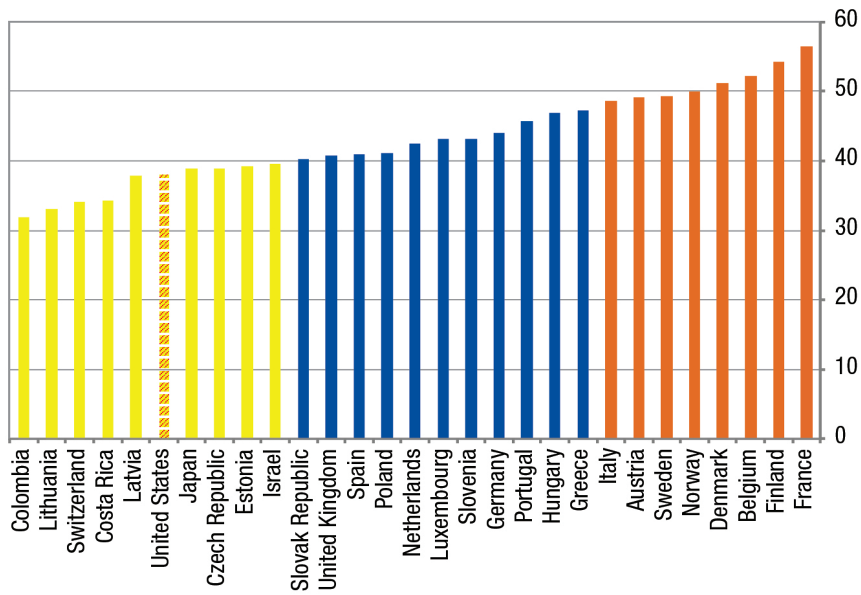
Government spending as a share of the economy is also a statistic

TABLE 1. TOTAL PUBLIC SPENDING AS A SHARE OF GDP, 2017

Low spending (Below 40%)		Medium spending (Between 40% & 48%)		High spending (48% and Above)	
Israel	39.5%	Greece	47.3%	France	56.4%
Estonia	39.3%	Hungary	46.9%	Finland	54.2%
Czech Republic	39.0%	Portugal	45.7%	Belgium	52.1%
Japan	38.9%	Germany	43.9%	Denmark	51.2%
United States	**38.0%**	Slovenia	43.2%	Norway	49.9%
Latvia	37.8%	Luxembourg	43.1%	Sweden	49.3%
Costa Rica	34.3%	Netherlands	42.4%	Austria	49.2%
Switzerland	34.2%	Poland	41.1%	Italy	48.7%
Lithuania	33.1%	Spain	41.0%		
Colombia	31.9%	United Kingdom	40.8%		
		Slovak Republic	40.2%		

Note: High-income countries are in green, middle-income countries purple, lower-income countries red, lowest-income countries darker red. **Source:** OECD, "General Government Spending (Total)," 2019.

FIGURE 1. TOTAL GOVERNMENT SPENDING AS A SHARE OF GDP, 2017



Note: Color coding is by spending level: yellow = low, blue = middle, orange = high.
Source: OECD, "General Government Spending (All)," 2019; and authors' calculations.

about which economists are very interested. One of the most contested questions in public economics is whether governments that choose to allocate a greater share of their economy to taxes and public spending produce better economic outcomes for their people or whether countries are better off when taxes and spending are low.

One might expect that a richer country would spend a smaller share of its income on public services than a poorer country.

After all, just as a rich family that spends 10 percent of its income on food eats better than a poor family that spends 20 percent, a rich country can get more out of government spending that is a smaller percentage of its national income. The data show, however, that many richer countries actually choose to spend a *greater* share of their income through government than do poorer countries, making the choice to use the added income available to provide *superior* public services instead of leaving money in the private sector for individuals or businesses to spend on their own. This policy reflects the assignment of a high value to services that are better provided through the combined efforts of the public, through the instrumentality of government, relative to the value assigned to personal spending for personal benefit. For example, wealthier countries may decide that they value superior public education, universal health care, high-quality public transportation, public parks, drug counseling, poverty reduction, or military dominance more than the types of purchases made individually, such as better or larger houses or automobiles.

There is not, however, a uniform relationship between the wealth of countries and the share of their national income they spend through government. In Table 1 countries are color-coded by whether they are, by the standards of this OECD collection of generally well-off countries, high-income, middle-income, low-income, or lowest-income. The high-income countries (per capita GDP exceeding $44,000) are highlighted in green, middle-income countries (per capita GDP from $35,000 to $44,000) are in purple, low-income countries (per capita GDP less than $35,000 and more than $20,000) are in red, and the lowest-income countries (less than $20,000 per capita) are in darker red.[5] As can be seen in the table, seven of the eight countries in the high *spending* group are wealthy countries. In the middle-spending group, five of the eleven are low-income countries and two are middle income, but there are also four of the richest countries, including the Netherlands (fifth richest) and Germany (eighth). Half the low-spending group are low- or lowest-income countries, but there are also the high-income United States (fourth) and Switzerland (second), and middle-income Japan (fourteenth), Israel (seventeenth), and the Czech Republic (eighteenth).

High- and low-spending countries group together geographically even more than by national income levels. All in the highest-spending group are Western European. The middle group comprises both Western and Eastern European countries. The low-spending group includes European countries but also all the non-European countries. It is perhaps not surprising that countries in geographic proximity, which are more likely to have shared cultural and economic pasts, would make similar choices in value-laden decisions regarding government spending.

The specific spending that drives these overall results tells us about the choices being made. The strongest determinant of whether a country is low or high spending is the amount spent on social protection. Of the 24.5 percent of GDP difference between France and Colombia in overall spending, 15.3 percent is the spending difference in social protection. Of the 18.4 percent of GDP difference in total spending between France and the United States, 16.7 percent is social protection. The nine highest-spending countries overall are also the nine highest-spending in social protection. Of the ten countries in the low-spending group, nine of them are in the bottom ten in social protection spending as well.

Thus, the single biggest explanation for what makes a country higher spending or lower spending is the generosity the country shows to the portion of its population it determines in need of social protection. (Social protection spending is discussed in more detail in the section looking at specific areas of spending.)

Government Spending Per Capita

Spending as a share of countries' economies is a good way to compare their commitment to different types of spending relative to their capacity to spend, but it is a poor measure for comparing the level of services, goods, and investment provided by government. The 8.1 percent of its economy that Costa Rica spends on education provides less funding for education—to pay teachers, buy books, build schools—than the 4.6 percent that the richer United Kingdom spends. For that reason, in this section, we use a measure that gets closer to comparing what residents, collectively, actually receive.

That measure is *per capita spending in U.S. dollars* (converting from native currencies using purchasing power parity), which is the amount spent divided by the total population of the country. Per capita spending does not, of course, measure perfectly the quality or quantity of service provided—countries may operate more or less efficiently, may have different requirements (more or fewer school-age children per capita, for example), and may offer somewhat different services—but it is a strong indicator. If a country is spending 30 percent less per person in a particular category than another country, it is most likely providing much less of that service than the country to which it is being compared.

Table 2 divides the countries by this measure into high spending (more than $24,000 per capita), middle (from $15,000 to $24,000), and low (less than $15,000). Not surprisingly, by this measure richer countries are high spending and poorer countries are low spending, reflecting their different capacities and the fact that when a citizenry has higher income it wants higher quality in both what it buys privately and what it gets through government. The fact that the United States, for example, spends 19 percent more in dollars per capita than the average of the twenty-nine countries—which includes twenty-five countries that are lower income—is not surprising.

Of high-income countries, however, the United States ranks low in this measure—eleventh of the thirteen, spending 14 percent less than the average. Again, social protection spending is a key driver: The United States ranks last among high-income countries in that category and spends less than half the average for the group.

Analysis of Specific Areas of Spending

The prior sections have compared U.S. spending to other countries overall and identified social protection spending as the prime differentiator of national government spending levels. In this section we look at several of the largest areas of public spending and how the United States compares to other countries.

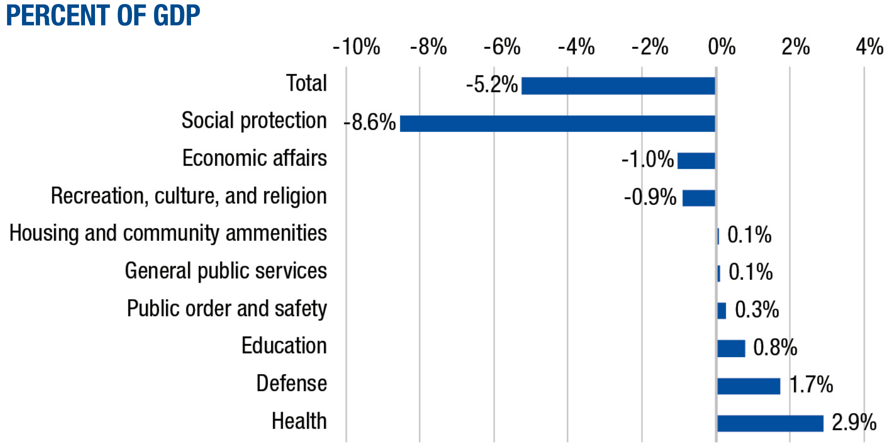
Figure 2 shows the difference as a share of GDP between what the United States spends and the average for the twenty-nine countries for which data are available for

TABLE 2. TOTAL PUBLIC SPENDING PER CAPITA, 2017

Low spending (< $15,000)	Medium spending (Between $15,000 & $24,000)	High spending (> $24,000)
Portugal	Netherlands	Luxembourg
Czech Republic	Germany	Norway
Greece	United States	Denmark
Hungary	Switzerland	Austria
Estonia	Italy	Belgium
Slovak Republic	United Kingdom	Sweden
Poland	Japan	Finland
Lithuania	Spain	France
Latvia	Slovenia	
Costa Rica	Israel	
Colombia		

Note: High-income countries are in green, middle-income countries purple, lower-income countries red, lowest-income countries darker red. **Source:** OECD, "General Government Spending (Total)," 2019; and authors' calculations.

FIGURE 2. U.S. GOVERNMENT SPENDING VERSUS 29-COUNTRY AVERAGE, AS PERCENT OF GDP



Source: OECD, "General Government Spending (All)," 2019; and authors' calculations.

each of the spending categories. Table 3 shows the levels of spending and where the United States ranks for each category. Most notable for the United States, in addition to the low level of spending on social protection, are the high levels of defense and health spending. These will be discussed more fully in the coming sections.[6]

Turning to the per-capita measure, Figure 3 and Table 4 show the percent more or less that U.S. governments spend per person relative to all other countries in the analysis and relative to just high-income countries. Even by this measure that approximates the level of service provided, the United States spends 38 percent less per person in social protection than the average for all countries in the analysis (ranking twenty-first) and 57 percent less than the high-income countries (ranking last). Also notable is that, relative to the twenty-nine-country group, the United States spends:

- Over three times more than the average per person on the military, trailing only Israel.
- Seventy percent more per person on public order and safety, making it the highest-spending country in this category.
- Almost two times more per person on health, also placing it at number one.

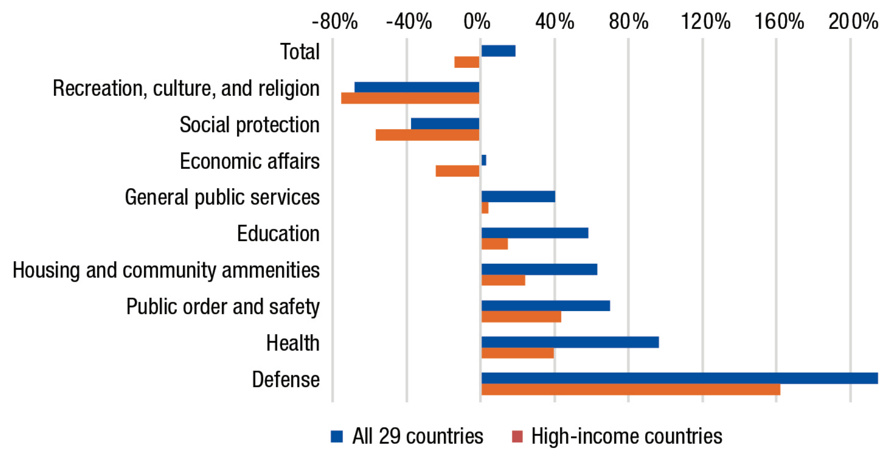
The following sections delve into each spending category in more detail.

TABLE 3. SPENDING AS A SHARE OF GDP, U.S. VERSUS 29-COUNTRY AVERAGE

	Average	U.S.	U.S rank
Total	43.2%	38.0%	24
Social protection	16.2%	7.6%	29
Health	6.4%	9.3%	1
General public services	5.5%	5.6%	12
Education	5.2%	6.0%	6
Economic affairs	4.3%	3.3%	23
Public order and safety	1.7%	2.0%	8
Defense	1.4%	3.2%	2
Recreation, culture, and religion	1.2%	0.3%	28
Housing and community amenities	0.5%	0.6%	9

Source: OECD, "General Government Spending (All)," 2019; and authors' calculations.

FIGURE 3. PERCENT DIFFERENCE IN PER CAPITA SPENDING, U.S. VERSUS 29-COUNTRY AVERAGE AND VERSUS OTHER HIGH-INCOME COUNTRIES



Source: OECD, "General Government Spending (All)," 2019; and authors' calculations.

TABLE 4. GOVERNMENT SPENDING PER CAPITA, U.S. VERSUS 29-COUNTRY AVERAGE AND VERSUS 13 HIGHEST-INCOME COUNTRIES

	29 countries		13 highest-income	
	% difference	U.S. rank	% difference	U.S. rank
Total	+19%	11	-14%	12
Social protection	-38%	21	-57%	13
Health	+96%	1	+40%	1
General public services	+40%	6	+4%	6
Education	+58%	3	+15%	3
Economic affairs	+3%	12	-24%	10
Public order and safety	+70%	1	+44%	1
Defense	+215%	2	+162%	1
Recreation, culture, and religion	-68%	26	-75%	13
Housing and community amenities	+63%	5	+24%	5

Source: OECD, "General Government Spending (Categories)," 2019; and authors' calculations.

Social Protection

By any measure, the United States spends a great deal less than other countries on social protection. Government programs that fall in this category include non-health programs to support those with low incomes and the elderly and disabled—essentially safety net and social insurance programs (for the OECD description, see the listing of category definitions in Appendix A). For example, in the United States, the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) is included, as is Social Security. The United States has long been less fiscally committed to this area of spending than other economically advanced countries.

Spending 7.6 percent of its GDP on social protection, the United States ranks at the very bottom of the category (Table 5). Finland at 24.9 percent and France at 24.3 percent are the highest-spending countries, while the median for all the countries is 16.2 percent.

Social protection is the only spending category for which U.S. spending is greatly lower than other countries. The difference explains how the United States can spend so much more than other countries on its military and health services while still spending so much less than other countries overall.

On a per capita basis (Table 6), the United States spends a third less than the twenty-nine-country average. The next lowest-spending high-income country is the United Kingdom, which spends almost 50 percent more per capita more than United States.

TABLE 5. SOCIAL PROTECTION SPENDING AS SHARE OF GDP, 2017

Low spending (Below 15%)		Medium spending (Between 15% & 19%)		High spending (Over 19%)	
Slovak Republic	14.5%	Luxembourg	18.4%	Finland	24.9%
Hungary	14.0%	Portugal	17.4%	France	24.3%
Switzerland	13.5%	Spain	16.6%	Denmark	22.4%
Estonia	13.0%	Poland	16.4%	Italy	20.9%
Czech Republic	12.0%	Slovenia	16.2%	Austria	20.5%
Latvia	11.7%	Japan	16.1%	Sweden	20.2%
Lithuania	11.2%	Netherlands	15.9%	Norway	19.8%
Israel	11.1%	United Kingdom	15.2%	Belgium	19.5%
Colombia	9.0%			Greece	19.4%
Costa Rica	8.5%			Germany	19.4%
United States	7.6%				

Note: High-income countries are in green, middle-income countries purple, lower-income countries red, lowest-income countries darker red. **Source:** OECD, "General Government Spending (Social Protection)," 2017.

TABLE 6. SOCIAL PROTECTION SPENDING PER CAPITA, 2017

Low spending (< $5,000)	Medium spending (Between $5,000 & $8,000)	High spending (> $8,000)
Poland	United Kingdom	Luxembourg
Slovak Republic	Japan	Norway
United States	Spain	Denmark
Czech Republic	Slovenia	Finland
Estonia	Portugal	Austria
Israel	Greece	France
Hungary		Sweden
Lithuania		Germany
Latvia		Belgium
Costa Rica		Switzerland
Colombia		Netherlands
		Italy

Note: High-income countries are in green, middle-income countries purple, lower-income countries red, lowest-income countries darker red. **Source:** OECD, "General Government Spending (Social Protection)," 2019; and authors' calculations.

Note that the reason the United States spends less on social protection is not a lack of poverty. Although comparing poverty across countries is complicated and controversial because perceptions of acceptable living standards vary so much, OECD measures of poverty in 2017 show the United States having lower poverty than only Costa Rica and Israel of these countries.[7]

Health

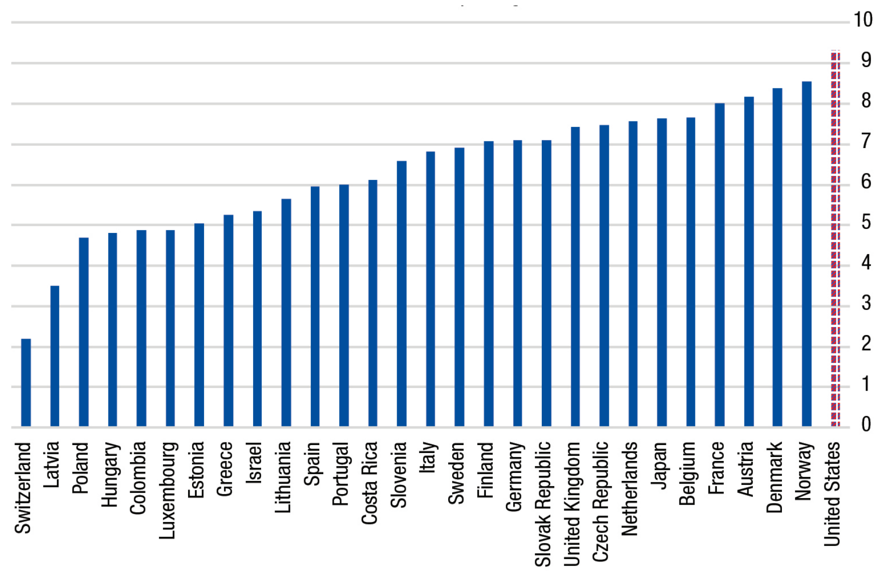
Governments in the United States spend more on health care than governments in any other country as both a share of GDP (Figure 4) and per capita. Indeed, despite being a low-spending country overall, the United States outspends the OECD average by 2.9 percent of GDP in health. In per capita terms, the country spends almost double the average.

The higher spending by U.S. governments is consistent with the very high spending in the United States on health care overall. Counting both public and private health care, the United States spent 17.1 percent of its economy on health care in 2017 while the next closest country, Switzerland, spent 12.3 percent.[8] The high amount U.S. governments spend reflects the high costs in the health market in general.

It is worth nothing that, in most countries, governments provide at least basic health care for all residents while spending by U.S. governments is primarily for the elderly and lower income. A key objective of the Affordable Care Act (ACA) passed in 2010 was to bring U.S. health care spending more in line with the rest of the world. Although health spending slowed initially after passage, it has picked up in recent years. It is still an open question whether, and the extent to which the ACA, will accomplish that goal (assuming it isn't gutted or repealed) and what the impact on the quality of care would be from constraining spending.

It is beyond the scope of this paper to delve into why health care costs are so high in the United States[9] and why, for all this spending, health outcomes are not better than in other countries.[10]

FIGURE 4. GOVERNMENT HEALTH SPENDING AS A SHARE OF GDP, 2017



Source: OECD, "General Government Spending (Health)," 2019; and authors' calculations.

Military

The United States is second only to Israel in military spending as a share of GDP and per capita; by the latter measure it spends over three times the twenty-nine-country average. There is no particular relationship between the wealth of the countries being compared, or their region, and how much they spend in the defense category. Rather, different countries spend more or less based on real or imagined threats, political imperatives, and their desire to project power beyond their borders.

While the amount spent per person or as a share of national income measures how much of a burden defense spending creates for Americans, it does not give a good measure of how calibrated the spending is to the objective. Compared to the other categories of spending, there is a looser connection between the purpose being served by the spending and either the size of the economy or the size of the population. Obviously, both put limits on a country's military prowess, but the threats to a country's safety or territorial integrity are largely independent of the country's economic or demographic size. In addition, the effectiveness at projecting military power is a function of the total amount spent rather than how much is spent relative to the size of the economy or its population. The total amount the United States spends on its military relative to other countries—not as a share of its economy or per person—is why the United States is the dominant military power.

In terms of the total amount spent on the military, the United States spends 50 percent more than all the other OECD countries combined. Of course, since other OECD countries are not the most likely U.S. military adversaries, comparing spending to them is not revealing as to whether the level of U.S. military spending is well-calibrated to its purpose.

Looking more globally, the United States spends more on its military than the next seven countries combined, OECD or not (Figure 5).[11] Worldwide, the United States is responsible for 36 percent of global military spending, though it has 4.2 percent of the world population and accounts for 24 percent of the world's economy.[12]

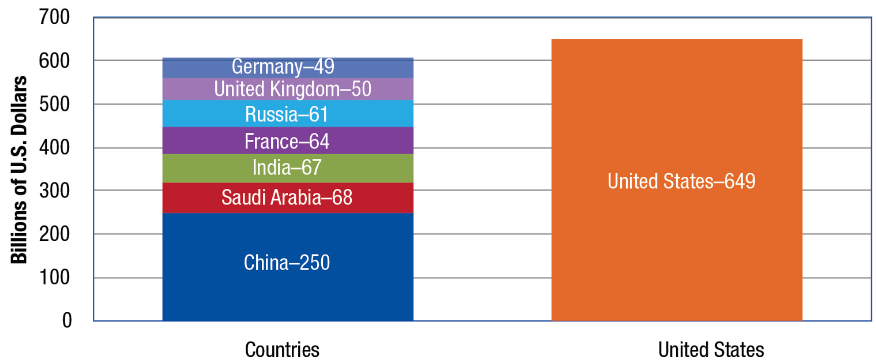
Education

The United States ranks sixth in education spending as a share of GDP relative to the twenty-nine countries for which detailed data are available, 0.8 percent of GDP above the average. It is not surprising that the United States would be somewhat above the level of other countries, as it has a higher share of its population age 5–19 (20 percent) than every country of the twenty-nine except for Israel, Colombia, and Costa Rica.[13] Costa Rica and Israel lead this category in spending as a share of GDP.

Public Order and Safety

This category—law enforcement and fire protection being the most prominent elements—is another area where the United States stands out, ranking first per capita and eighth as a share of GDP. In contrast to other categories, the countries ranking above the United States in spending as a share of GDP are predominantly Eastern European or Latin American and all are lower income. The United States imprisons far more people than other countries, which contributes to the country's high ranking.[14]

FIGURE 5. MILITARY EXPENDITURE BY COUNTRY, 2019



Source: Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, April 2019.

Other Spending Categories

In the remaining categories for which OECD data are available for the United States and the other countries, the United States ranks twenty-third as a share of GDP in economic affairs, a low ranking that may be due to its preference for handling these matters through the tax code (see the tax expenditure section below); twelfth in general public services; ninth in housing and community amenities; and twenty-eighth in recreation, culture, and religion (a small share of spending across the countries).[15]

Tax Expenditures

To all of the above there is a caveat. Governments achieve their spending objectives not just by means of spending money as conventionally conceived and tabulated by the OECD data used here—essentially by writing checks. Governments also achieve spending goals by giving targeted tax breaks, and those "tax expenditures" are not reflected in these data.

Functionally, both approaches are the same. Let's say a government wants to subsidize saving for retirement. There is no difference between the following two policies:

(a) The government matches the first $5,000 per year you put into a retirement savings account with a $5,000 government check into the same account.

(b) The government allows you a 50 percent refundable tax credit on the first $10,000 you put into retirement savings.[16]

A real-life example of a tax expenditure in the United States is the subsidy for buying a home by allowing a tax deduction for interest paid on home mortgages. There are also large tax breaks for retirement savings, health insurance, and many other areas where incentives have been deemed to be of societal value.

There are a number of reasons countries choose to achieve spending goals through the tax system instead of direct spending, including political motivations and simplicity of administration. There are benefits and drawbacks to both approaches—a strong criticism of tax expenditures in the income tax is that they tend to benefit higher-income people more than lower-income people.[17] The U.S. mortgage interest deduction is an example of this. If one were designing a program to assist people in home ownership from scratch it is unlikely that one would design it in a way that helped those with higher incomes more than lower incomes—including many who have no need for a tax break to facilitate owning their own homes. Yet the interaction of the mortgage interest deduction with the rest of the structure of the personal income tax does exactly that.

Does excluding tax expenditures from our analysis distort our findings? The lack of readily available data makes it a difficult question to answer with precision. The OECD did release a study in 2010 that compared the levels of tax expenditures among seven OECD countries, including the United States.[18] The author cautioned against drawing too strong conclusions from his analysis, given the challenges he faced in reconciling different countries' systems (or lack thereof) of accounting for tax expenditures. Nevertheless, for broad comparisons it is helpful.

Of the seven countries—Canada, Germany, Korea, the Netherlands, Spain, the United Kingdom, and the United States—the United States was second to the United Kingdom in the level of income tax expenditures as a share of GDP, at 5.97 percent. The average for the group was 3.65 percent.

In terms of direct spending, among these seven countries the United States ranked sixth. Adding tax expenditures to direct spending, for a measure of total spending for all seven countries, the United States still ranked sixth. In other words, although the United States has high tax expenditures, they are not so high, relative to direct spending, to change the fact that the United States is a relatively low-spending country, at least relative to these six other countries.

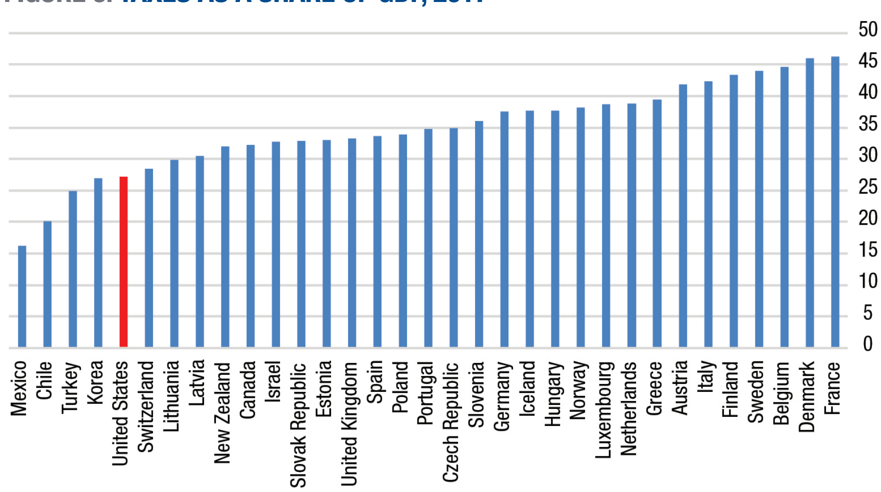
The four areas that contribute most substantially to the United States being high in tax expenditures, relative to five of the other countries, are health, housing, intergovernmental relations, and retirement. U.S. tax expenditures on housing and intergovernmental relations are almost certainly lower now than in the year that the study examined (2008 for the United States), for a number of reasons. First, because of changes in tax law fewer people are itemizing deductions on their tax returns, reducing the use of the home mortgage interest deduction.[19] The tax law also capped the deduction for state and local taxes, reducing tax expenditures in the intergovernmental relations category. The United States is also generous with business-related tax expenditures, but these are also likely lower now as business taxes have been generally lowered in lieu of more targeted tax breaks.

It appears, therefore, that while the choice of using tax expenditures instead of direct spending for some purposes makes the United States look like a lower-spending country than it really is, it is still a low-spending country. The 2010 study suggests this, and changes in U.S. law have probably reduced the impact of tax expenditures since then.[20]

Taxes

Lastly, we briefly compare the tax levels available from OECD data. Not surprisingly the United States ranked low in taxes—twenty-ninth of the thirty-three countries for which data are available—with only Korea, Turkey, Chile, and Mexico ranking lower (Figure 6). The United States may move even further down the list after the tax law changes of 2017 become evident in the data. The lower ranking in taxes than in spending reflects a relatively high level of government borrowing.

FIGURE 6. TAXES AS A SHARE OF GDP, 2017



Source: OECD (2019), Tax revenue (Total); and authors' calculations.

Conclusion

The differences between how much countries spend are a reflection of both intentional choices and accidental inefficiencies. There is no single right answer. But the bottom line of this analysis is that the United States is a low-tax, low-spending country relative to the other countries examined, particularly when compared to its fellow higher-income countries.

What is true of the overall level of spending is true of the levels for each spending category—decisions are made and accidents happen. The United States has been, rightly or wrongly, intentional in its high level of spending on the military and low spending on social programs. How the United States has ended up with the highest level of government spending on health care, and yet is among its most fractured providers, is a much more complicated story.

The purpose of this report is not to decide these issues but to put them on the table in the context of worldwide norms. No country has a monopoly on fiscal wisdom, but looking to other countries offers the opportunity to assess the merits of different approaches to address the shared and distinctive challenges that all countries face.

Endnotes

1. Ranking is for 2017. Note that Ireland is excluded from the ranking because of problems related to the measurement of its GDP arising from tax avoidance schemes in which multinational corporations shift ownership of their intellectual property to their Irish subsidiaries. See "Irish GDP Up by 26.3% in 2015?" (Paris: Organization for Economic Cooperation and Development (OECD), 2016), http://www.oecd.org/sdd/na/Irish-GDP-up-in-2015-OECD.pdf.

2. This ranking includes countries for which comparisons are not otherwise made in this report because, for other purposes, they are not meaningfully comparable.

3. "Report of the Chair of the Working Group on the Future Size and Membership of the Organisation to Council: Framework for the Consideration of Prospective Members" (Paris: OECD, 2017), http://www.oecd.org/mcm/documents/C-MIN-2017-13-EN.pdf.

4. The breakpoints for high, middle, and low are somewhat arbitrary. They are chosen at points of discontinuity in the spending levels of countries and roughly divide the list in thirds.

5. The breakpoints for high, middle, low, and lowest income are somewhat arbitrary. They are chosen at points of larger gaps in the incomes between countries and split the list into four groups. Note also that, by global standards, these twenty-nine countries are skewed heavily toward wealthier countries. Thus, "middle-income" countries on this list are quite high income by global standards.

6. Note that the OECD environmental protection spending category is excluded from Figures 2 and 3 and Tables 3 and 4. U.S. spending in this category is not reported separately and is included in other categories. Among the twenty-nine countries median spending on environmental protection is low, at 0.6 percent of GDP.

7. "Poverty Rate (Total)" (Paris: OECD, 2019), doi: 10.1787/0fe1315d-en, https://data.oecd.org/inequality/poverty-rate.htm. The OECD measure sets the poverty line at half the median household income of the total population for the country. This is, thus, a relative measure. Many of those who are classified as poor in the United States by this measure have a higher quality of life than some who are above poverty in countries that are significantly poorer overall than the Unites States.

8. OECD Stat, "Global Health Expenditures Database" (Paris: OECD, 2019), https://stats.oecd.org/BrandedView.aspx?oecd_bv_id=health-data-en&doi=data-00349-en. Switzerland also has a system that is ostensibly even more private than that of the United States, but it is highly regulated: all residents are required to have private insurance, coverage offered by that insurance is set by the government, and insurance providers' profits on basic insurance are restricted.

9. "U.S. Health Care Spending Highest Among Developed Countries" (Baltimore, MD: Bloomberg School of Public Health, Johns Hopkins, 2019), https://www.jhsph.edu/news/news-releases/2019/us-health-care-spending-highest-among-developed-countries.html.

10. OECD Stat, "Health Status: Mortality, Life Expectancy" (Paris: OECD, 2019), https://stats.oecd.org/BrandedView.aspx?oecd_bv_id=health-data-en&doi=data-00349-en.

11. "U.S. Defense Spending Compared to Other Countries," Peter G. Peterson Foundation, 2019; "World Military Expenditure Grows to $1.8 Trillion in 2018" (Stockholm International Peace Research Institute, 2019), https://www.sipri.org/media/press-release/2019/world-military-expenditure-grows-18-trillion-2018.

12. Databank, "GDP" (Washington DC: World Bank, 2019), https://data.worldbank.org/indicator/ny.gdp.mktp.cd.

13. “Demographic Yearbook 2017” (New York: NY: United Nations, 2018), https://unstats.un.org/unsd/demographic-social/products/dyb/dyb_2017/.

14. “World Prison Brief” (London: Institute for Criminal Policy Research, 2019), https://www.prisonstudies.org.

15. The low ranking in the last “catch-all” category could be due to a variety of factors, including the separation of church and state in the United States and the low level of government spending on public broadcasting and sports.

16. A refundable tax credit is one in which the excess of the credit amount over the pre-credit tax liability is paid out to the taxpayer.

17. Jacob Funk Kirkegaard, “The True Levels of Government and Social Expenditures in Advanced Economies” (New York, NY: Peterson Institute for International Economics, 2015), https://www.piie.com/publications/pb/pb15-4.pdf; “2010 *Tax Expenditures in OECD Countries* (Paris: OECD, 2010), https://doi.org/10.1787/9789264076907-2-en.

18. “*2010 Tax Expenditures in OECD Countries* (Paris: OECD, 2010).

19. Jim Tankersley and Ben Casselman, “As Mortgage Interest Deduction Vanishes, Housing Market Shrugs” *New York Times,* Aug. 4, 2019, https://www.nytimes.com/2019/08/04/business/economy/mortgage-interest-deduction-tax.html.

20. Note that there is another OECD resource on tax expenditures—the Social Expenditure Database—but, for reasons explained in Appendix B, it does not afford useful information to the question at hand.

21. “OECD Social and Welfare Statistics” (Paris: OECD, no date), https://doi.org/10.1787/socwel-data-en.

Appendix A

OECD Spending Categories

Defense: Military defense; civil defense; foreign military aid; research and development (R&D) in defense; and defense not elsewhere classified (n.e.c.).

Economic affairs: General economic, commercial, and labor affairs; agriculture, forestry, fishing, and hunting; fuel and energy; mining, manufacturing, and construction; transport; communication; other industries; R&D in economic affairs; and economic affairs n.e.c.

Education: Pre-primary and primary education; secondary education; post-secondary nontertiary education; tertiary education; education not definable by level; subsidiary services to education; R&D in education; and education n.e.c.

Environmental protection: Waste management; waste water management; pollution abatement; protection of biodiversity and landscape; R&D in environmental protection; and environmental protection n.e.c.

General public services: Executive and legislative organs, financial and fiscal affairs, external affairs; foreign economic aid; general services; basic research; R&D in general public services; general public services n.e.c; public debt transactions.

Health: Medical products, appliances, and equipment; outpatient services; hospital services; public health services; R&D in health; and health n.e.c.

Housing and community amenities: Housing development; community development; water supply; street lighting; R&D in housing and community amenities; housing and community amenities n.e.c.

Public order and safety: Police services; fire-protection services; law courts; prisons; R&D in public order and safety; and public order and safety n.e.c.

Recreation, culture, and religion: Recreational and sporting services; cultural services; broadcasting and publishing services; religious and other community services; R&D in recreation, culture, and religion; recreation, culture, and religion n.e.c.

Social protection: Sickness and disability; old age; survivors; family and children; unemployment; housing; social exclusion n.e.c.; R&D in social protection; and social protection n.e.c.

Source: “Government at a Glance 2017,” Annex C, OECD 2017.

Appendix B

Options for analyzing international tax expenditures

Another relevant OECD resource on tax expenditures is its Social Expenditure Database.[21] This database contains data on social spending in both the public and private sectors and includes the effects of tax expenditures. It shows the United States as ranking higher on a broad measure of social spending (broader than the social protection category used here) than our analysis, but for what we are examining here it is not useful: the data are presented in a way that do not allow isolating government spending (inclusive of tax expenditures) from private spending for social purposes (e.g., private health insurance) or the impact of taxes on public benefits (e.g., income tax imposed on social security payments). The purpose of our report is to examine how *governments* differently spend the funds they raise from taxes, fees, and borrowing. Thus, this database is not helpful.

As an aside, we are unconvinced that netting out taxes paid on social benefits or including private spending for social purposes is the most illuminating way to examine social spending. Because the United States does not have broad-based consumption taxes offsetting social spending, it ranks higher in this database. But residents of other countries are getting public services beyond social spending in return for those higher taxes, so they are not necessarily receiving reduced benefits because of taxes, as the database implies. With respect to including private social spending, including some forms of compensation (employer provided health insurance, for example) also makes the United States rank higher in this database, but the provision of these benefits privately instead of through government has important implications, especially on how those benefits are distributed, that should not be blurred. And attributing some forms of compensation to social purposes but not others (e.g., wages that pay for food, clothing, and shelter) has an arbitrary quality to it. See Jacob Funk Kirkegaard, "The True Levels of Government and Social Expenditures in Advanced Economies" (New York, NY: Peterson Institute for International Economics, 2015) for a somewhat different perspective.

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