



IV. INTERSECTION BETWEEN THE PUBLIC AND PRIVATE SECTORS

8. Production costs in general government

For a variety of reasons, including lowering costs, increasing choice, improving access and fostering innovation, many governments have contracted with non-profit and for-profit private entities to produce goods and services that they formerly produced themselves. Outsourcing, co-production and/or public-private partnerships have affected most government sectors, including the development of weapons, care for the elderly, the operation of prisons and the delivery of foreign aid.

This chapter measures the total costs of producing goods and services for government, including those that are produced by government entities and those that are outsourced to non-governmental or private entities. The data allow countries to compare their relative use of outsourcing, and see trends over time. However, production cost data do not indicate the quantity or quality of goods and services produced and therefore are not an indication of efficiency or productivity.

Production costs are a subset of total government expenditures. Compared to total government expenditures, production costs of goods and services exclude government investment (other than depreciation costs), interest paid on government debt, and payments made to citizens and others not in exchange for the production of goods and services (such as subsidies or social benefits like unemployment insurance, family allowances and retirement pensions).

IV. INTERSECTION BETWEEN THE PUBLIC AND PRIVATE SECTORS

8. Production costs in general government

Decisions about the amount and type of goods and services to produce, as well as how best to produce them, are often political in nature and based on a country's social and cultural context. While some governments choose to outsource a large portion of the production of goods and services to non-governmental or private entities, others choose to produce the goods and services themselves.

The proportion of the economy devoted to producing public services and goods varies greatly across OECD members. For example, production costs as a percentage of GDP in Sweden are over double those in Mexico. The Netherlands, the United Kingdom, Germany and Japan rely comparatively more on private entities to produce goods and services than other OECD member countries. Outsourcing is used to a much lesser extent in Mexico and Greece, where over 60% of the value of public services and goods are produced by the government.

Total production costs as a percentage of GDP decreased in most OECD member countries between 1995 and 2007, although this could be attributed to increases in GDP rather than actual decreases in production costs. In countries where production costs as a percentage of GDP rose, the growth was primarily driven by increases in the costs of goods and services produced by private entities. In some countries, such as the Netherlands and Spain, these increases took place in parallel to a relative decrease in the proportion of goods and services produced by government employees, suggesting that some goods and services previously produced by government employees may have been outsourced to private sector entities. In other countries, such as the United Kingdom, Portugal and New Zealand, these increases occurred while the compensation costs of government employees remained relatively stable.

Methodology and definitions

The data use a methodology developed by the OECD Public Employment and Management Working Party that builds on the existing classification of organisations in the System of National Accounts (SNA). Specifically, government production costs include:

- Compensation costs of general government employees, including cash and in-kind remuneration plus all mandatory employer contributions to social insurance and voluntary contributions paid on behalf of employees. It is important to note that cross-country differences in how government employee pension schemes are funded can distort comparisons of compensation costs.

- Costs of goods and services produced by private entities funded by government (these include goods and services provided to both the government and citizens). In SNA terms, this includes intermediate consumption (procurement of intermediate products required for government production such as accounting or information technology (IT) services, including some relatively minor procurement between government-owned organisations) and social transfers in kind via market producers (a proxy for goods and services delivered by private actors directly to citizens, including those that are initially paid for by citizens but are ultimately refunded by government, such as medical treatments refunded by public social security payments).
- Consumption of fixed capital (indicating the level of depreciation of capital). This was originally excluded from the methodology published in OECD Working Paper on Public Government No. 8 and in *The State of the Public Service*.

The data include government employment and intermediate consumption for output produced by the government for its own use, such as roads and other capital investment projects built by government employees. The production costs presented here are not equal to the value of output in National Accounts.

Further reading

OECD (2008), *The State of the Public Service*, OECD, Paris.
Pilichowski, E. and E. Turkisch (2008), "Employment in Government in the Perspective of the Production Costs of Goods and Services in the Public Domain", OECD Working Papers on Public Governance, 8, OECD, Paris.

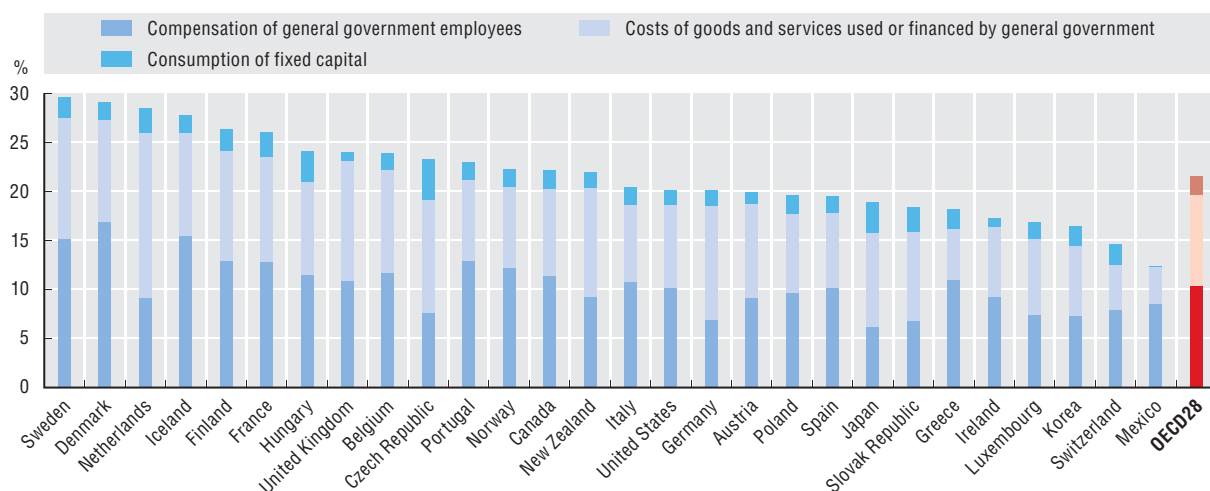
Notes

Data for Mexico are for 2004. Data for New Zealand are for 2005.
Data for Japan, Korea and Switzerland are for 2006.
8.1 and 8.3: Data are not available for Australia and Turkey.
8.2: Data are not available for Australia, Austria, Greece, Hungary, Iceland, Japan, Korea and Turkey.

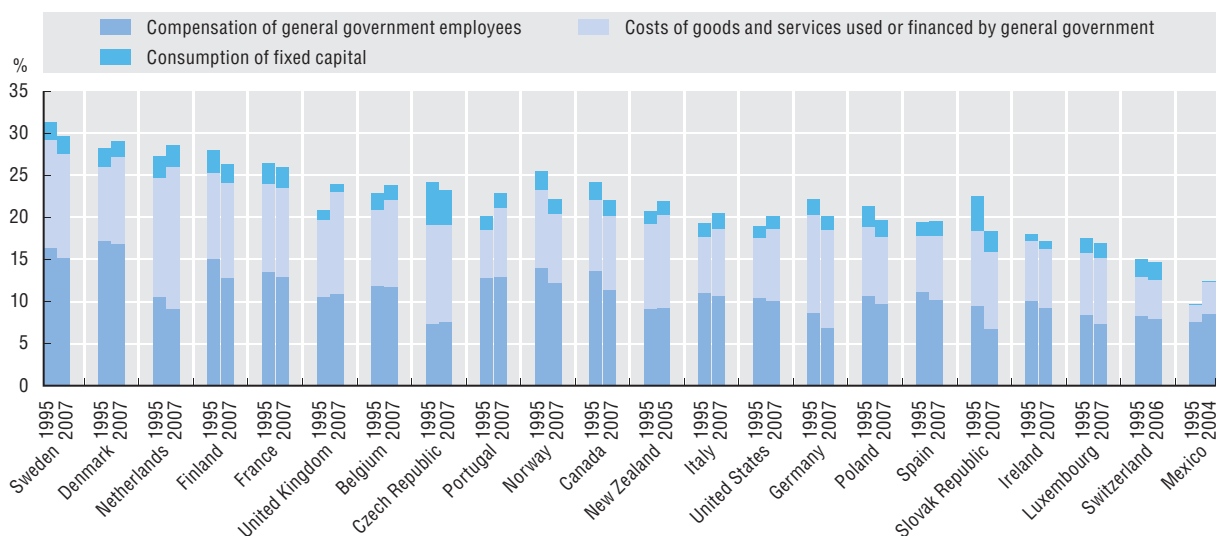
IV. INTERSECTION BETWEEN THE PUBLIC AND PRIVATE SECTORS

8. Production costs in general government

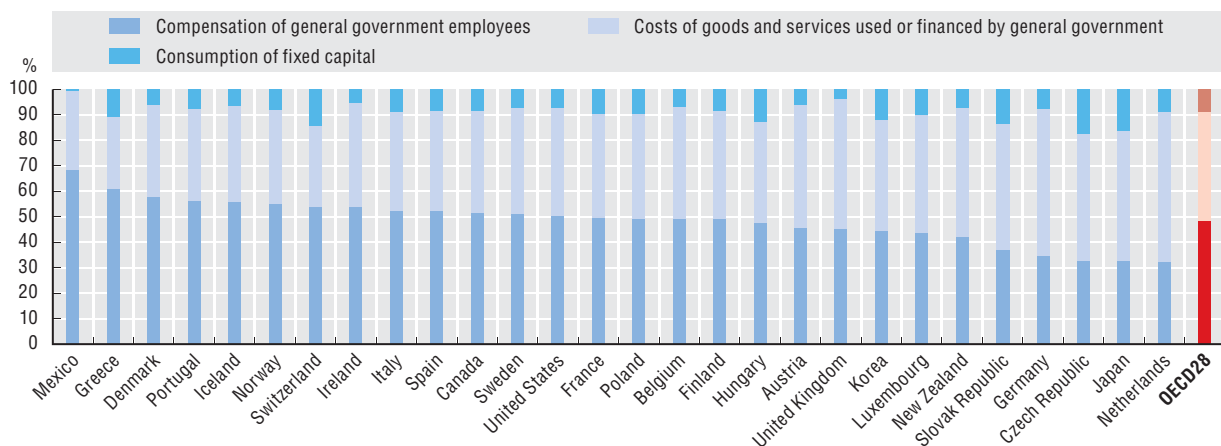
8.1 Production costs as a percentage of GDP (2007)



8.2 Production costs as a percentage of GDP (1995 and 2007)

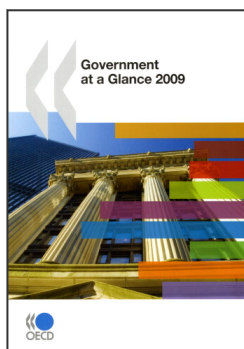


8.3 Structure of production costs (2007)



Source: OECD National Accounts Statistics.

StatLink  <http://dx.doi.org/10.1787/723610442353>



From:
Government at a Glance 2009

Access the complete publication at:
<https://doi.org/10.1787/9789264075061-en>

Please cite this chapter as:

OECD (2009), "Production costs in general government", in *Government at a Glance 2009*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264061651-12-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.