

Production costs and outsourcing of general government

Production costs are the share of government expenditures dedicated to the production of goods and services. While some governments produce most goods and services themselves, others outsource a large portion of the production to non-profit or private entities. There are two ways by which outsourcing can take place. Governments can either purchase goods and services to be used as inputs (goods and services used by government, i.e. intermediate consumption), or they can pay a non-profit or private institution to provide the goods and services directly to the end user (goods and services financed by government, i.e. social transfers in kind via market producers).

Government decisions on the amount and type of public goods and services to produce, and how to best produce them, influence how they are delivered to citizens. Outsourcing has been used as a way of gaining external expertise and delivering goods and services more cost-efficiently, though the actual results may vary. In addition, the use of outsourcing enhances the role of the government as a source of demand and employment in the non-government sector. Government outsourcing is measured by the size of expenditures on goods and services purchased by central, state and local governments.

In 2011, the production costs of government goods and services represented almost a quarter of GDP on average across OECD member countries, ranging from 32% in Denmark and the Netherlands to 12% in Mexico. Between 2001 and 2011, the share of government production costs in GDP increased on average by 1.6 percentage points across OECD member countries. However, this trend reverted after 2009, resulting in a 1 percentage point contraction. Around 56% of the adjustment took place through a lower share of compensation of general government employees.

In terms of the structure of production costs, almost half (47%) accounted for compensation of government employees in 2011, while a lower share (44%) corresponded to outsourcing (goods and services used and financed by general government). The remaining 9% of production costs represented consumption of fixed capital.

In 2011, government outsourcing represented on average 10% of GDP in OECD member countries. However, its importance varies greatly, from 2.8% and 5.4% in Mexico and Switzerland to 14.2% and 19% in Finland and the Netherlands, respectively. In the cases of Belgium, Japan and Germany, less than 40% of the expenditures correspond to intermediate consumption, implying that resources are mainly spent as provision delegated to third parties. In contrast, Switzerland, Denmark, Finland and Estonia spent over 80% of outsourcing resources in intermediate consumption and thus government remains in charge of direct provision.

Methodology and definitions

The concept and methodology of production costs builds on the existing classification of government expenditures in the *System of National Accounts* (SNA). In SNA terminology, general government consists of central, state and local government, and social security funds.

In detail, government production costs include:

- Compensation costs of general government employees including cash and in-kind remuneration plus all mandatory employer (and imputed) contributions to social insurance and voluntary contributions paid on behalf of employees.
- The goods and services used by general government, which are the first component of government outsourcing. In SNA terms, this includes intermediate consumption (procurement of intermediate products required for government production such as accounting or information technology [IT] services).
- The goods and services financed by general government, which are the second component of government outsourcing. In SNA terms, this includes social transfers in kind via market producers paid for by government (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 (depreciation of capital).

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 the SNA. Table 3.48, Change in production costs as percentage of GDP (2009 to 2011), is available on line at <http://dx.doi.org/10.1787/888932943362>. Figure 3.49, Structure of general government outsourcing expenditures (2011), is available on line at <http://dx.doi.org/10.1787/888932942127>.

Further reading

OECD (2013), *National Accounts at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/na_glance-2013-en.

Figure notes

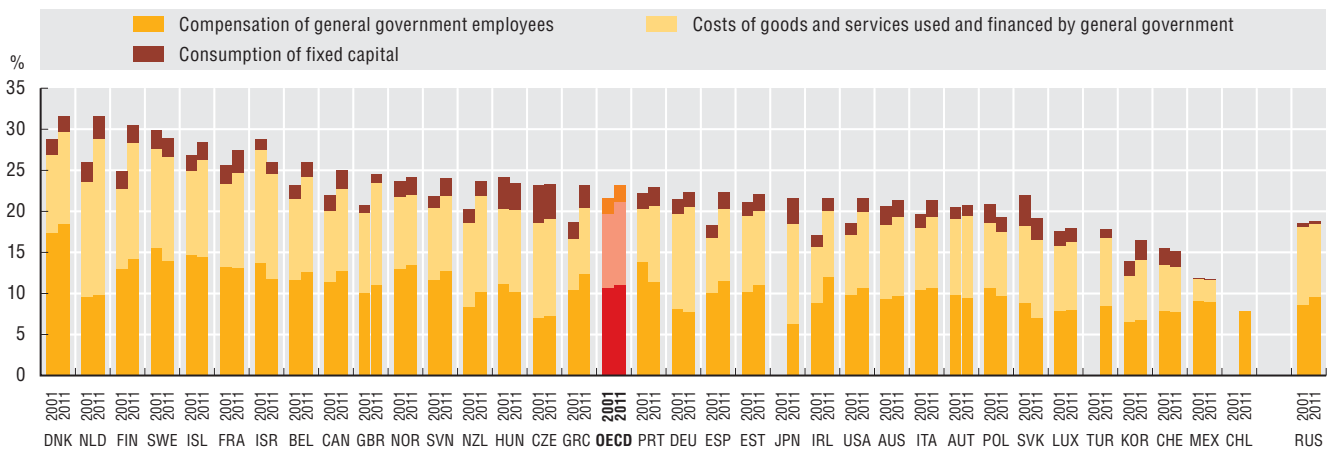
Data for Canada, New Zealand and the Russian Federation are for 2010 rather than 2011. Data for Mexico are for 2003 rather than 2001. Data for the Russian Federation are for 2002 rather than 2001. Canada, Iceland, Israel, Mexico, the United Kingdom and the United States do not account separately for goods and services financed by general government in their National Accounts.

3.45: Data for Japan and Turkey for 2001 are not available and these countries are not included in the OECD average. Data for Chile are available for 2010 rather than 2011 and for compensation of employees only (not included in the OECD average).

3.46 and 3.47: Data for Chile are not available.

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

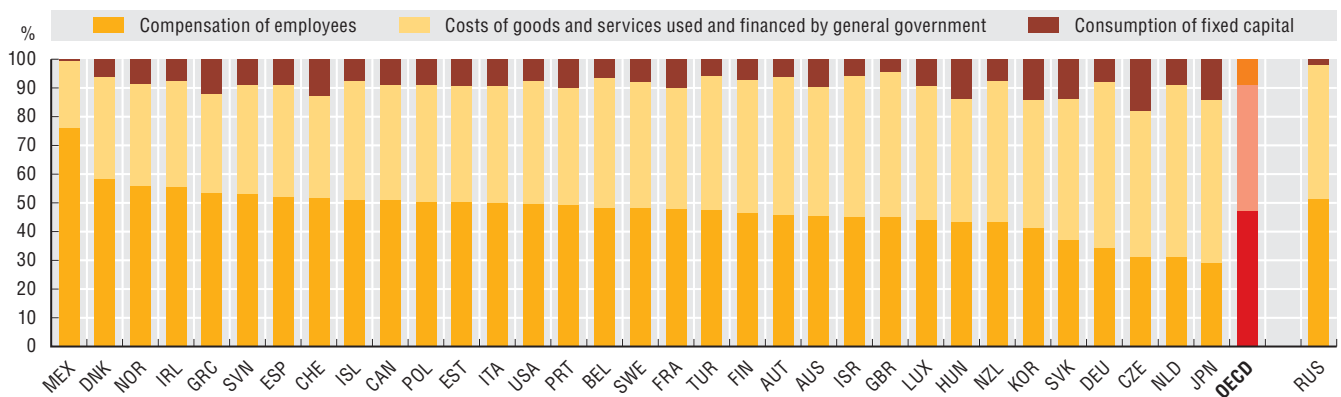
3.45. Production costs as a percentage of GDP (2001 and 2011)



Source: OECD National Accounts Statistics (database). Data for Australia are based on a combination of Government Finance Statistics and National Accounts data provided by the Australian Bureau of Statistics.

StatLink <http://dx.doi.org/10.1787/888932942070>

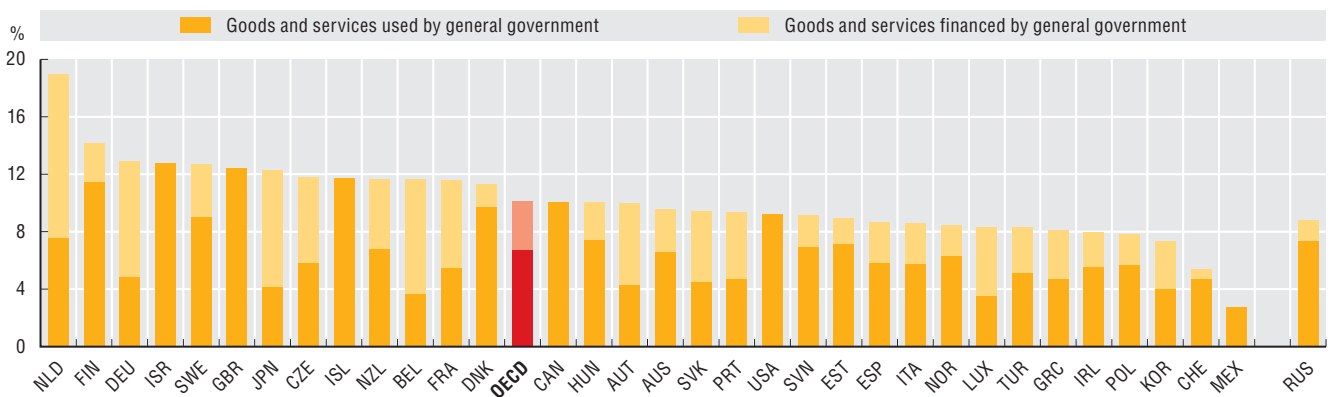
3.46. Structure of production costs (2011)



Source: OECD National Accounts Statistics (database). Data for Australia are based on a combination of Government Finance Statistics and National Accounts data provided by the Australian Bureau of Statistics.

StatLink <http://dx.doi.org/10.1787/888932942089>

3.47. Expenditures on general government outsourcing as a percentage of GDP (2011)



Source: OECD National Accounts Statistics (database). Data for Australia are based on a combination of Government Finance Statistics and National Accounts data provided by the Australian Bureau of Statistics.

StatLink <http://dx.doi.org/10.1787/888932942108>



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