

8. Production costs in general government

Decisions on the amount and type of goods and services to produce, as well as on 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 decide to produce the goods and services themselves.

In 2008, the proportion of the economy devoted to producing government services and goods represents on average almost a quarter of GDP, varying significantly among OECD member countries. For example, production costs of government services and goods as a percentage of GDP in Denmark are roughly three times higher than in Mexico reflecting, in part, the different roles for government in these countries.

Governments use a mix of their own employees, capital and outside contractors (non-profit institutions or private sector entities) to produce goods and services. On average among member countries, production by own employees is still somewhat more prevalent than outsourcing: compensation of employees accounts for 49% of the cost of producing goods and services, compared to 43% paid to non-governmental actors for intermediate goods and services or to deliver services directly to households. Consumption of fixed capital represents the remaining 9% of total production costs. The Netherlands and Germany, where close to 60% of the value of government goods and services is outsourced, rely comparatively more on corporations and non-profit institutions to produce goods and services than other OECD member countries.

Total production costs as a share of GDP increased in all but four OECD member countries (Israel, Austria, the Slovak Republic, Australia and Poland) between 2000 and 2009. This increase was primarily driven by increases in the costs of goods and services produced by corporations and non-profit providers (+1.5 percentage points) and to a lesser extent by increases in compensation costs of government employees (+0.8 percentage points). These increases could reflect that governments are providing more goods and services and/or that input costs have increased.

Methodology and definitions

The concept and methodology of production costs builds on the existing classification of public expenditures 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 (and imputed) contributions to social insurance and voluntary contributions paid on behalf of employees. Cross-country differences in how employee pension schemes are funded can impair the comparison of compensation costs.
- Costs of goods and services produced by non-government entities paid for by government (these include goods and services provided to both government and citizens). In SNA terms, this includes intermediate consumption (procurement of intermediate products required for government production such as accounting or information technology services,) and social transfers in kind via market producers (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.

Further reading

OECD (2008a), *The State of the Public Service*, OECD Publishing, Paris.

Pilichowski, E. and E. Turkisch (2008b), "Employment in Government in the Perspective of the Production Costs of Goods and Services in the Public Domain", *OECD Working Papers on Public Governance*, No. 8, OECD Publishing, Paris.

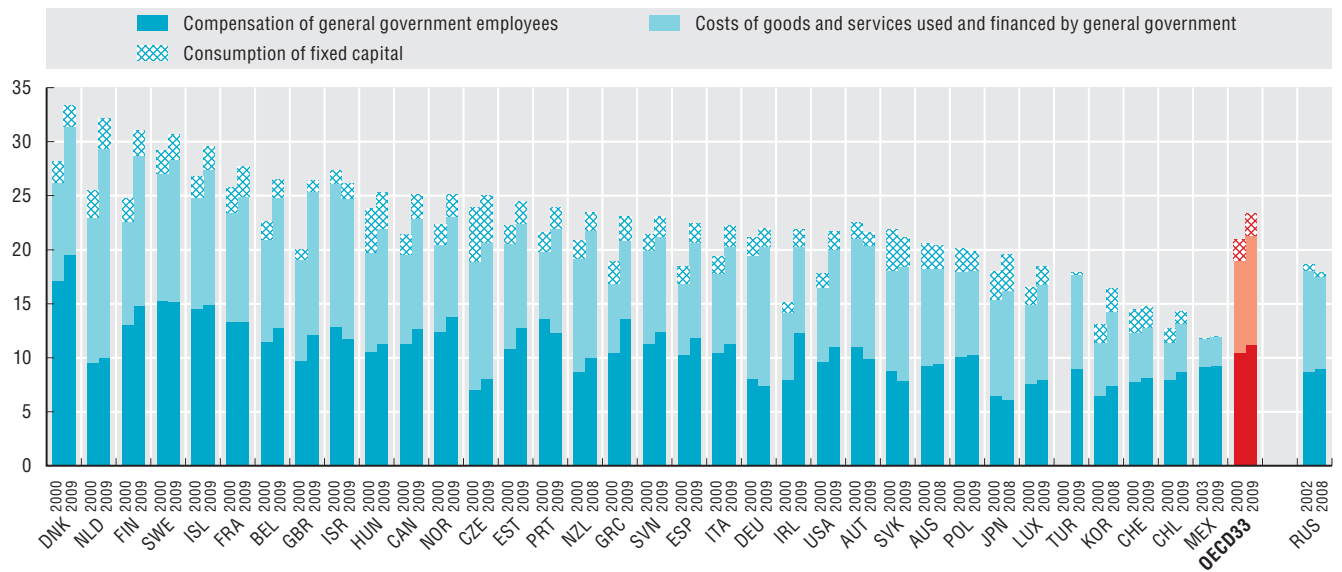
Figure notes

Data for Australia, Japan, Korea, New Zealand and the Russian Federation are for 2008 rather than 2009.

8.1: 2000 data for Turkey are not available and this country is not included in the average (OECD33). Costs of goods and services financed by general government are not available for Chile in 2000. Data for Mexico are for 2003 rather than 2000. Data for the Russian Federation are for 2002 rather than 2000.

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

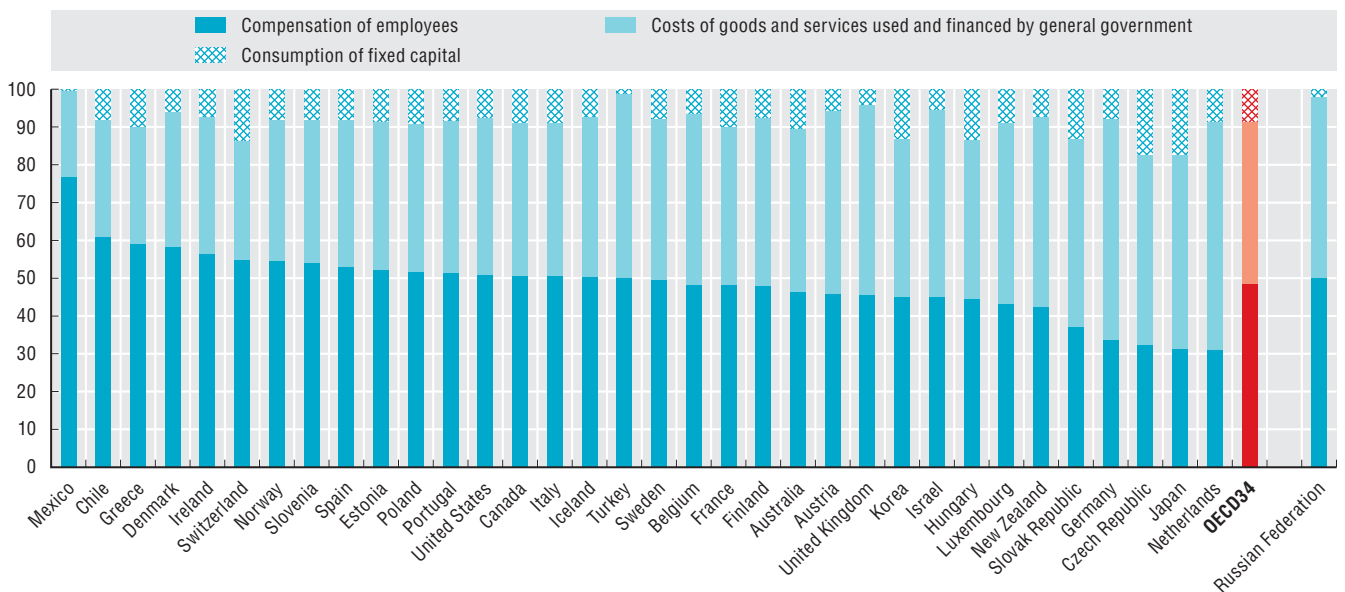
8.1 Production costs as a percentage of GDP (2000 and 2009)



Source: OECD National Accounts Statistics. 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/10.1787/888932390006>

8.2 Structure of production costs (2009)



Source: OECD National Accounts Statistics. 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/10.1787/888932390025>



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