

### Production costs and outsourcing of general government

Government expenditures distinguish between what government pays to its personnel and what it purchases from the private sector, which together with other costs – such as depreciation of capital – make the total production costs of government. This distinction helps identify the extent to which government outsources production, either by directly purchasing inputs from the private sector or by delegating to the private sector (for instance to a non-profit organisation) the delivery of goods or services to the users.

Production costs vary across OECD countries, from 31% of GDP in Finland to 12.6% of GDP in Mexico, averaging 20.9% of GDP in 2015. Compensation to employees represents, on average across OECD countries, 9.5% of GDP for 2015, ranging from 16.1% of GDP in Denmark to 5.5% of GDP in Japan. Goods and services used and financed by the government averaged 8.7% of GDP in 2015, varying from 16.6% of GDP in the Netherlands to 3.2% of GDP in Mexico. For other major economies such as Brazil or China, compensation to employees in 2015 represented 12.8% and 6.4% of GDP respectively.

Between 2007 and 2015, production costs increased across OECD countries by an average of 0.7 p.p., reaching 20.9% of GDP in 2015. During this period the largest increases occurred in Norway (+5 p.p.), Estonia (+4.9 p.p.) and Finland (+4.5 p.p.), while the largest decrease was in Ireland (-4.5 p.p.), mostly driven by the change in compensation to government employees. In Norway, compensation of employees increased the most, by 2.8 p.p., followed by Chile (2.4 p.p.) and Estonia (2.1 p.p.) whereas the lowest decrease was recorded in Ireland (-2.7 p.p.).

The structure of production costs across OECD countries is mostly concentrated in compensation to government employees (45.3%) and costs of goods and services used and financed by governments (41.7%), as other production costs represent 13.1% of total production costs. Costs related to the compensation of government employees range from 74% of total production costs in Mexico to 25.7% in Japan.

Government outsourcing is composed of all goods and services used, and financed, by the government in a given year. Total outsourcing reached 8.7% of GDP in 2015 on average among OECD countries, from 16.6% in Netherlands to 3.2% in Mexico. Most OECD countries have a higher share of outsourced expenditures in goods and services used by government with respect to goods and services financed by government. In Denmark and Latvia, over 80% of their outsourcing spending is allocated for goods and services used by government whereas countries such as Belgium, Japan, Germany, and the Netherlands rely more the non-government sector to deliver services to the community (over 60% of total outsourcing spending).

#### Methodology and definitions

The concept and methodology of production costs builds on the classification of government expenditures in the *System of National Accounts (SNA)*. The updated 2008 SNA framework has been now

implemented by all OECD countries (see Annex A for details on reporting systems and sources). In detail, government production costs include:

Compensation costs of 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 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 services).

The goods and services financed by 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).

Other production costs, which include the remaining components of consumption of fixed capital (depreciation of capital) and other taxes on production less other subsidies on production.

The data include government employment and intermediate consumption for output produced by the government for its own use. The production costs presented here are not equal to the value of output in the SNA. Figure 2.56, Structure of government outsourcing expenditures, 2015 and 2016, is available online in Annex F.

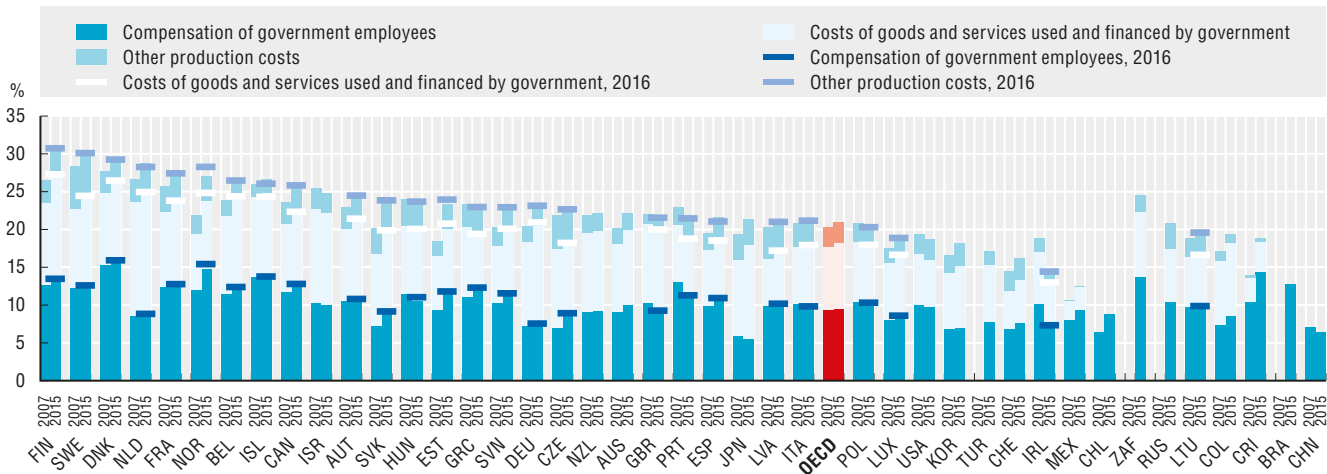
#### Further readings

- OECD (2015), *National Accounts at a Glance 2015*, OECD, Paris, [http://dx.doi.org/10.1787/na\\_glance-2015-en](http://dx.doi.org/10.1787/na_glance-2015-en)
- 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, No. 8, OECD, Paris, <http://dx.doi.org/10.1787/245160338300>

#### Figure notes

- Data for Chile and Turkey are not included in the OECD average because of missing time series or main non-financial government aggregates.
- Data for Costa Rica, Russia and South Africa are for 2014 rather than 2015.
- 2.53: Data for Brazil are for 2014 rather than 2015.
- 2.55: Iceland, Mexico, the United States and South Africa do not account separately for goods and services financed by general government in their National Accounts.
- Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

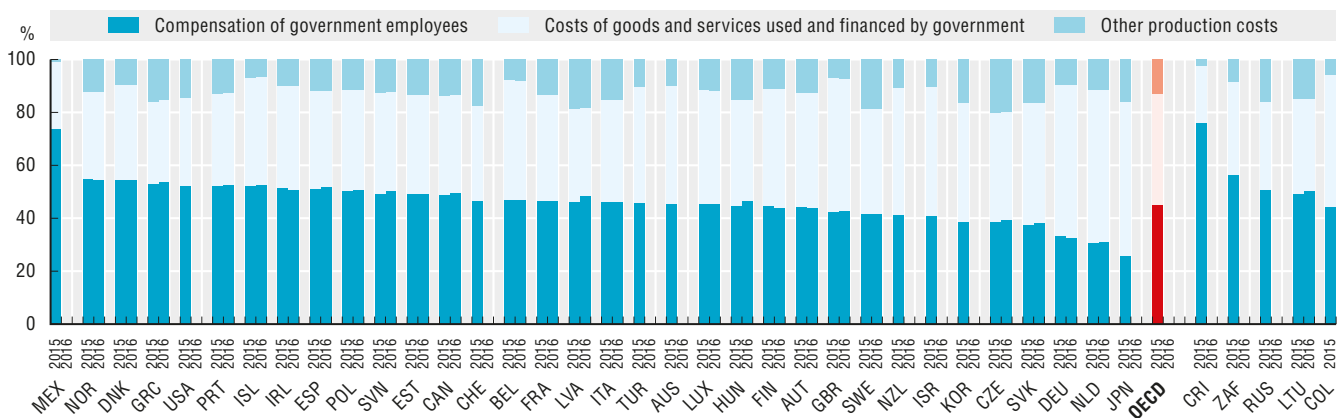
2.53. Production costs as a percentage of GDP, 2007, 2015 and 2016



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

StatLink <http://dx.doi.org/10.1787/888933531991>

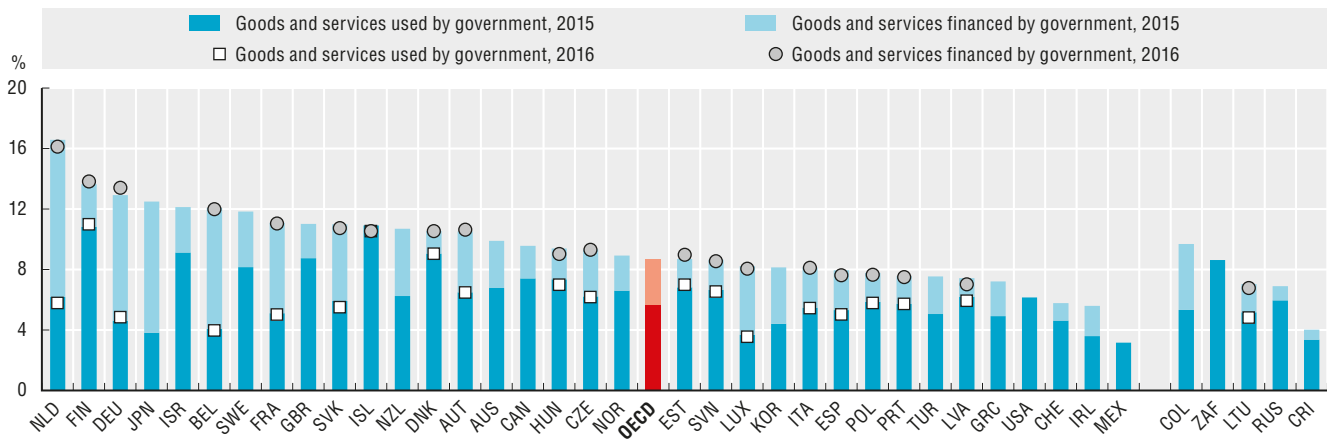
2.54. Structure of production costs, 2015 and 2016



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

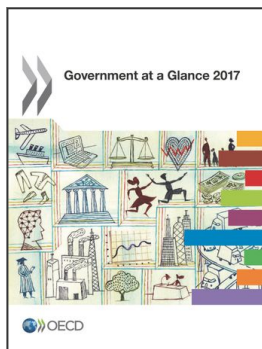
StatLink <http://dx.doi.org/10.1787/888933532010>

2.55. Expenditures on general government outsourcing as a percentage of GDP, 2015 and 2016



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

StatLink <http://dx.doi.org/10.1787/888933532029>



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