

Production costs and outsourcing of general government

Governments use a mix of their own employees, capital and outside contractors to produce goods and services. Production costs are computed as the share of government expenditures dedicated to the production of goods and services. While some governments choose to outsource the production of most goods and services, others produce the goods and services themselves. Outsourcing can take place in two ways. Governments can either purchase goods and services to be used as inputs, or they can pay a non-profit or private entity to provide the goods and services directly to the end user.

In 2013, the production costs of goods and services represented on average a 21.3% of GDP. However a large variation is observed across OECD countries, ranging from 32.2% in Finland to 12.3% in Mexico. Between 2007 and 2013, production costs as a share of GDP increased on average by 1.1 p.p. across OECD countries. This increase was primarily driven by increases in the cost of goods and services produced by private and non-profit agencies (0.7 p.p.). Few countries experienced a reduction of production costs over the same period. In Israel (0.7 p.p.) and Greece (0.1 p.p.) the decline took place mainly through a lower share of costs of goods and services used and financed by government, while for Hungary (0.6 p.p.), Poland (0.3 p.p.) and Portugal (0.1 p.p.) it took place through a lower share of compensation for government employees. Countries such as Greece, Portugal and the United Kingdom also experienced a reduction of production costs over the period 2007-14.

Compensation of general government employees represented on average 45.2% of the production costs across OECD countries in 2013. A lower share (41.9%) corresponded to outsourcing, while the remaining 12.9% was represented by other production costs. Differences among countries in terms of share of production costs dedicated to compensation of government employees ranged from 74.8% in Mexico to 27.5% in Japan. Between 2013 and 2014, compensation of employees reduced in countries such as Portugal, Slovenia and Ireland (more than 1 p.p.), while increased the most in countries like Greece and Hungary (almost 1 p.p.).

In 2013, government outsourcing represented, on average, 8.9% of GDP. This share varied greatly across OECD countries, ranging from 17.1% in the Netherlands to 3.0% in Mexico. Among OECD countries, Belgium, Japan, Germany and the Netherlands dedicated the largest shares (over 60%) of their resources to outsourcing goods and services through direct third party provision. In contrast, Denmark, Israel and Switzerland spent the majority of outsourcing in intermediate consumption.

Methodology and definitions

The concept and methodology of production costs builds on the classification of government expenditures in the *System of National Accounts* (SNA). There have been revisions in the SNA framework and most of the OECD countries have partly or entirely implemented the updated SNA 2008 methodology (see Annex A for details).

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. Tables 2.54, Change in production costs as a percentage of GDP, 2009 to 2013 (and 2014) and 2.55, Structure of government outsourcing expenditures, 2013 and 2014, are available on line (<http://dx.doi.org/10.1787/888933248582>; <http://dx.doi.org/10.1787/888933248593>).

Further reading

Blöchliger, H. (2008), *Market Mechanisms in Sub-Central Public Service Provision*, OECD Working Papers on Fiscal Federalism, No. 6, OECD, Paris, www.oecd.org/ctp/federalism/40693328.pdf.

Figure notes

Data for China, Colombia and Russia are for 2012 rather than 2013.

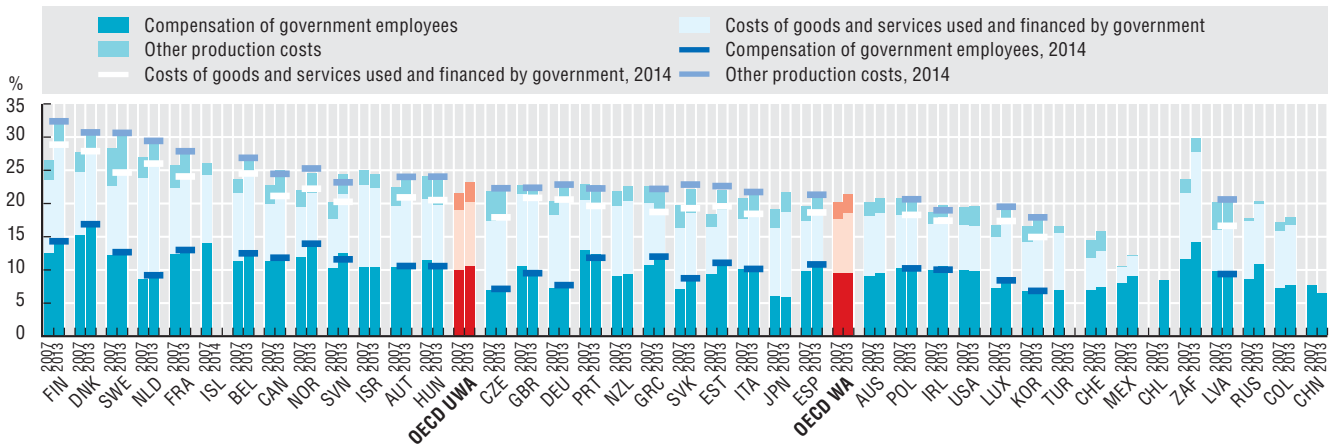
2.52 and 2.53: Data for Chile and Turkey are not available.

2.51: Data for Turkey are not included in the OECD average due to missing time-series. Data for Chile and China are available for compensation of employees only (Chile not included in the OECD average). Data for Chile are for 2012 rather than 2013.

2.53: Canada, Iceland, Mexico, the United Kingdom, 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>.

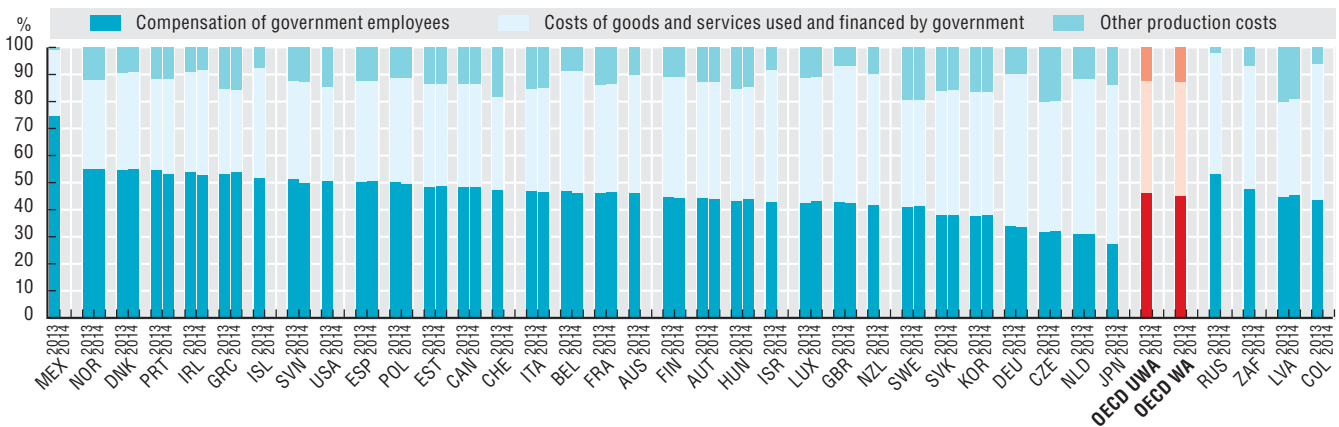
2.51. Production costs as a percentage of GDP, 2007, 2013 and 2014



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/10.1787/888933248552>

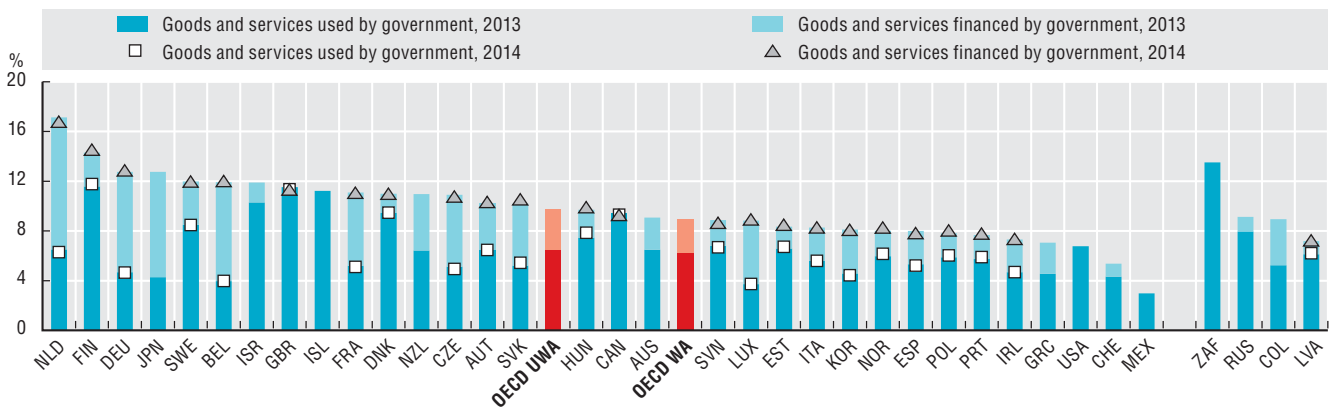
2.52. Structure of production costs, 2013 and 2014



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/10.1787/888933248567>

2.53. Expenditures on general government outsourcing as a percentage of GDP, 2013 and 2014



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/10.1787/888933248576>



From:
Government at a Glance 2015

Access the complete publication at:
https://doi.org/10.1787/gov_glance-2015-en

Please cite this chapter as:

OECD (2015), "Production costs and outsourcing of general government", in *Government at a Glance 2015*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/gov_glance-2015-21-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.