

Production costs and outsourcing of general government

Governments use a mix of their own employees, capital and purchasing from non-profits or private entities to produce goods and services delivered to citizens. There are two ways to outsource: by purchasing goods and services to be used as inputs (i.e. intermediate consumption), or by contracting out the provision of goods and services to private or non-profit providers.

The production costs of government accounted for 20.6% of GDP in 2017 across OECD countries. Compensation of employees is the largest component (9.2%), followed by costs of goods and services used and financed by government (8.7%). These proportions remained relatively stable when compared to 2007. Scandinavian countries such as Sweden (30.0%), Finland (29.7%) and Denmark (28.1%) have the highest production costs in terms of GDP reflecting generalised provision of publically funded services as well as relatively high costs. In turn, Mexico spent the least in the OECD explained (11.8%), among other factors, by comparatively fewer and lower quality public services and wealthiest segments of the population opting for private service providers.

While production costs in terms of GDP increased by 0.4 p.p. on average in the OECD between 2007-17, compensation of employees has decreased (0.2 p.p.). The largest reductions in compensation costs were observed in Ireland (3.1 p.p.) and Portugal (2.2 p.p.). Since 2008, Ireland and Portugal implemented compensation reforms such as reductions of remuneration for all staff, reduction or abolishment of allowances, reduction of performance-related pay/bonuses and pay freezes. Ireland also implemented a remuneration reform specifically directed at the top level. Compensation costs increased in Norway (3.1 p.p.) during the same period, as public employment grew between 2007-17.

The structure of production costs varies across OECD countries. On average compensation of employees amounted to 44.8% of total costs in OECD countries in 2017; goods and services used and financed by government represented 42.3%; and other production costs amounted to 12.9%. However, for example in Mexico, compensation of employees represented 71.5%, goods and services used and financed by government represented 27.5% and other production costs came to 1.0%. In turn, the cost allocation in Japan is substantially different from the OECD average: goods and services used and financed by government amounted to 58.7%; 25.5% were for compensation costs and 15.7% for other costs.

On average in 2017, across OECD countries, goods and services used by government represented 5.7% of GDP, and those financed for private provision to citizens represented 3.0%. In the Netherlands, services financed by the government represented 10.2% of the country's GDP (the highest in OECD countries) driven mainly by a health system managed by the government but supplemented by private insurers. Reaching 8.8% of GDP, the second-highest share among OECD countries spent on financing goods and services privately provided is in Japan, where only 3.7% of GDP is spent in intermediate consumption. Such low value reflects a model where the provision of services is largely

left to the private sector while the government retains the primary roles of regulating and partially funding goods and services.

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 2008 SNA framework has been implemented by all OECD countries (see Annex A for details).

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).

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.

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.

Further reading

OECD (2012) *Competitive Neutrality: Maintaining a Level Playing Field between Public and Private Business*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264178953-en>.

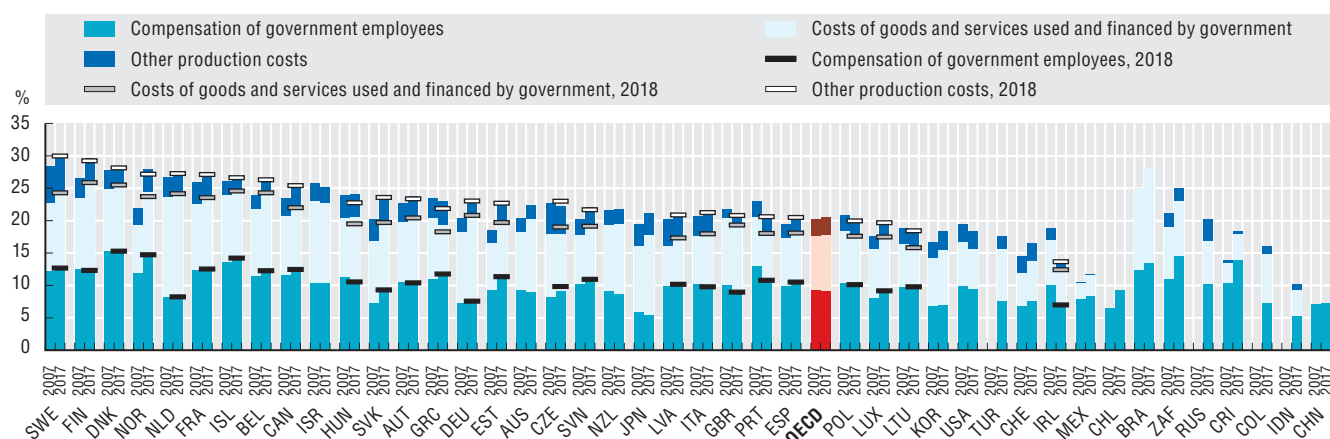
Figure notes

Iceland, Mexico, United States, South Africa and Indonesia do not account separately for goods and services financed by general government in their national accounts. Data for Chile are not available. On data for Israel, see <http://doi.org/10.1787/888932315602>. Data for Turkey are not included in the OECD average because of missing time series.

Data for Brazil and Indonesia are for 2016 rather than 2017; data for Russia are for 2015 rather than 2017.

2.55. (Structure of government outsourcing expenditures, 2017 and 2018) is available online in Annex F.

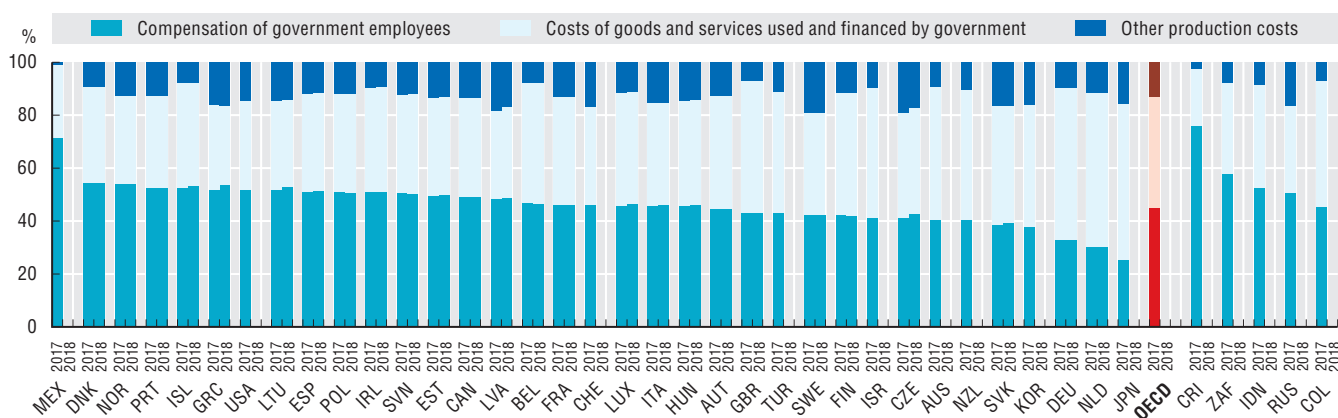
2.52. Production costs as a percentage of GDP, 2007, 2017 and 2018



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 <https://doi.org/10.1787/888934031902>

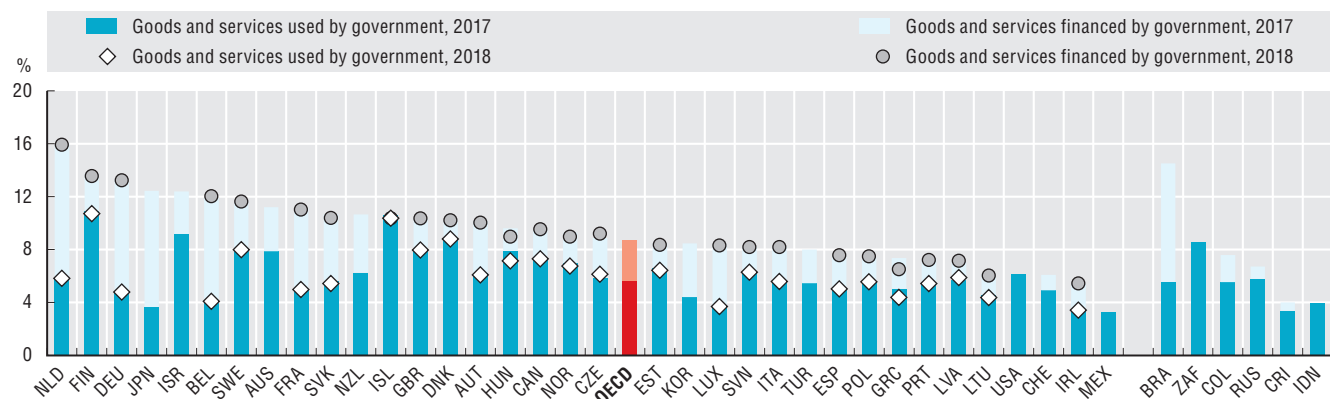
2.53. Structure of production costs, 2017 and 2018



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 <https://doi.org/10.1787/888934031921>

2.54. Expenditures on general government outsourcing as a percentage of GDP, 2017 and 2018



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 <https://doi.org/10.1787/888934031940>



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