

GENERAL GOVERNMENT PRODUCTION COSTS

Decisions on the amount and type of goods and services governments 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.

Definition

Governments use a mix of their own employees, capital and outside contractors (non-profit institutions or private sector entities) to produce goods and services. The latter is often referred to as “outsourcing”.

This 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; 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); and, 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.

Comparability

Data are based on the 1993 *System of National Accounts* or on the 1995 *European System of Accounts* so that all countries are using a common set of definitions. However, cross-country differences in how employee pension schemes are funded can impair the comparison of compensation costs. In addition, some countries do not account separately for social transfers in kind via market producers.

Data for Australia, Chile, Korea, New Zealand and the Russian Federation are for 2009 rather than 2010. Data for Mexico are for 2003 rather than 2001. Data for the Russian Federation are for 2002 rather than 2001. The OECD average for production costs as percentage of GDP does not include Chile, Turkey and Japan.

Overview

In 2010, the production costs of government services and goods represented on average almost a quarter of GDP in the OECD, varying significantly countries. For example, production costs of government services and goods as a percentage of GDP in Denmark were roughly three times higher than in Mexico reflecting, in part, the different roles of government in these countries.

On average, production by governments' own employees is still somewhat more prevalent than outsourcing: compensation of employees accounts for 48% 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 government production costs. The Netherlands, Germany and Japan, where over 55% of the value of government goods and services is outsourced, rely comparatively more on corporations and private non-profit institutions to produce goods and services than other OECD member countries.

Total government production costs as a share of GDP increased in all but five OECD member countries (Israel, Poland, the Slovak Republic, Sweden, and Switzerland) between 2001 and 2010. This increase was primarily driven by increases in outsourcing (the costs of goods and services produced by non-government providers rose by 1.4 percentage points) and to a lesser extent by increases in compensation costs of government employees (0.5 percentage points). These increases could reflect that governments are providing more goods and services and/or that input costs have increased.

Sources

- OECD (2012), *Government at a Glance*, OECD Publishing.

Further information

Analytical publications

- OECD (2012), *Corporate Governance, Value Creation and Growth, The Bridge between Finance and Enterprise, Corporate Governance*, OECD Publishing.
- OECD (2008), *The State of the Public Service*, OECD Publishing.

Statistical publications

- OECD (2012), *National Accounts at a Glance*, OECD Publishing.
- OECD (2012), *National Accounts of OECD Countries*, OECD Publishing.

Online databases

- “General Government Accounts: Main aggregates”, OECD National Accounts Statistics.

Websites

- Government at a Glance (supplementary material), www.oecd.org/gov/indicators/govataglance.

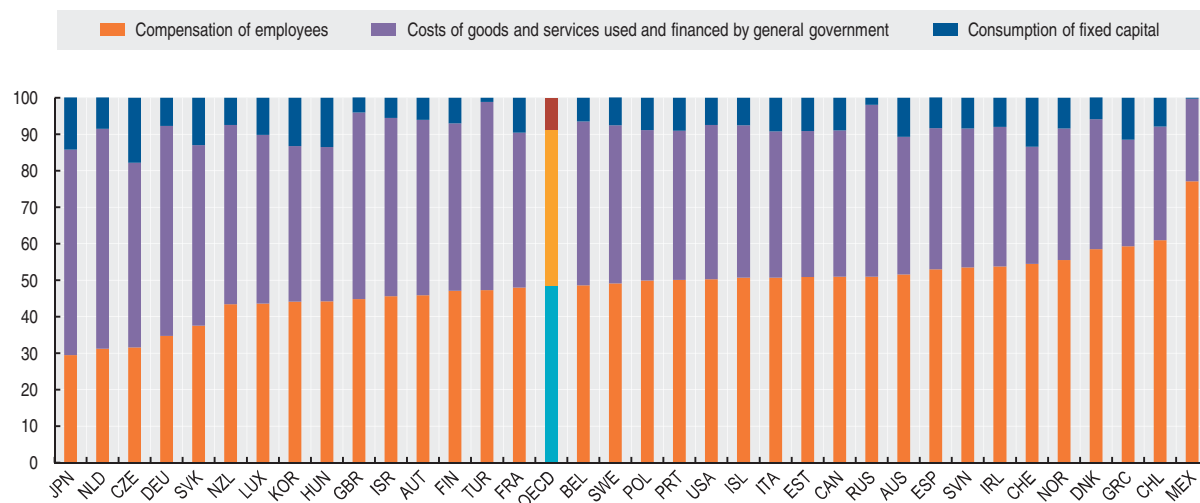
Production costs for general government

As a percentage of GDP

	Compensation of employees		Costs of goods and services used and financed by general government		Consumption of fixed capital		Total	
	2001	2010	2001	2010	2001	2010	2001	2010
Australia	9.4	10.1	6.7	7.4	2.3	2.1	18.4	19.6
Austria	9.8	9.7	9.3	10.2	1.4	1.3	20.5	21.2
Belgium	11.7	12.6	9.8	11.7	1.6	1.7	23.1	26.0
Canada	11.4	12.8	8.7	10.0	1.9	2.2	22.0	25.0
Chile	..	8.7	..	4.4	..	1.1	0.0	14.2
Czech Republic	7.1	7.6	11.5	12.1	4.6	4.3	23.2	24.0
Denmark	17.4	19.0	9.5	11.6	1.9	1.9	28.8	32.5
Estonia	10.2	11.9	9.3	9.4	1.6	2.1	21.1	23.4
Finland	13.0	14.4	9.8	14.1	2.1	2.2	24.9	30.7
France	13.3	13.4	10.1	11.9	2.2	2.7	25.6	28.0
Germany	8.2	7.9	11.5	13.0	1.7	1.7	21.4	22.6
Greece	10.5	12.2	6.3	6.0	2.0	2.4	18.8	20.6
Hungary	11.2	10.9	9.1	10.4	3.8	3.3	24.1	24.6
Iceland	14.7	14.8	10.3	12.2	1.9	2.2	26.9	29.2
Ireland	8.3	11.6	6.7	8.3	1.5	1.7	16.5	21.6
Israel	13.7	11.8	13.8	12.6	1.3	1.4	28.8	25.8
Italy	10.5	11.1	7.5	8.8	1.6	2.0	19.6	21.9
Japan	..	6.2	..	11.8	..	3.0	..	21.0
Korea	6.6	7.6	5.5	7.3	1.7	2.3	13.8	17.2
Luxembourg	7.9	8.0	7.9	8.5	1.7	1.9	17.5	18.4
Mexico	9.1	9.1	2.6	2.7	0.0	0.0	11.7	11.8
Netherlands	9.6	10.0	14.1	19.4	2.4	2.8	26.1	32.2
New Zealand	8.5	10.3	10.2	11.6	1.6	1.7	20.3	23.6
Norway	13.0	13.8	8.8	8.9	1.9	2.1	23.7	24.8
Poland	10.7	10.2	8.0	8.4	2.2	1.8	20.9	20.4
Portugal	13.9	12.2	6.4	10.0	1.9	2.2	22.2	24.4
Slovak Republic	8.9	7.7	9.4	10.2	3.8	2.7	22.1	20.6
Slovenia	11.7	12.7	8.7	9.1	1.5	2.0	21.9	23.8
Spain	10.1	11.9	6.7	8.7	1.5	1.9	18.3	22.5
Sweden	15.6	14.6	12.1	12.9	2.2	2.3	29.9	29.8
Switzerland	8.1	8.1	4.7	4.8	2.2	2.0	15.0	14.9
Turkey	..	8.6	..	9.4	..	0.2	..	18.2
United Kingdom	10.1	11.4	9.7	13.1	0.9	1.0	20.7	25.5
United States	9.8	11.0	7.3	9.2	1.4	1.6	18.5	21.8
EU 27	..	..	..	..	..	..	..	..
OECD	10.8	11.3	8.8	10.1	1.9	2.0	21.5	23.4
Brazil	..	..	..	..	..	..	..	..
China	..	..	..	..	..	..	..	..
India	..	..	..	..	..	..	..	..
Indonesia	..	..	..	..	..	..	..	..
Russian Federation	8.7	11.0	9.4	10.2	0.5	0.4	18.6	21.6
South Africa	..	..	..	..	..	..	..	..

 StatLink  <http://dx.doi.org/10.1787/888932709928>
Structure of general government production costs

Percentage, 2010


 StatLink  <http://dx.doi.org/10.1787/888932709947>



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