48. Government outsourcing

Governments have turned to outsourcing as a way of accessing external expertise and delivering services more cost-effectively. Government outsourcing is measured as the size of expenditures on goods and services purchased by central, state and local governments. The level of total government outsourcing shows the role of governments in creating demand and, indirectly, employment in the non-government sector.

Governments can outsource the delivery of government services in two ways. First, they may purchase goods and services from the non-government sector in order to *use* them as inputs into their own supply chain (termed "intermediate consumption"). For example, this can occur when governments use private contractors to provide support services or perform back-office functions. Secondly, governments may decide to pay a firm to deliver goods or services *directly* to the end user (termed "social transfers in kind via market producers"). This may include the outsourcing of "mainline" functions previously conducted by government. Home care provided by the corporate sector or non-profit institutions is an example of this kind of outsourcing.

In 2009, government outsourcing represented on average 10% of GDP in OECD member countries. Its importance, however, varies significantly across countries, ranging from 2.7% of GDP in Mexico to 19.4% of GDP in the Netherlands. From 2000 to 2009, the share of outsourcing in GDP increased on average 1.5 percentage points in member countries, with the Netherlands and Finland showing the largest increases during this period. On average this increase is due slightly more to the increase in the goods and services financed by government, although this varies across the OECD. For instance, in the Netherlands, there was an increase of about 4 percentage points in this component. Relatively higher expenditures in the goods and services financed by government in the Netherlands could be due, in part, to the country's system of scholastic grants as well as the country's mandatory health insurance system whereby the government subsidises individuals' purchase of coverage from private providers. The total size of government outsourcing as a share of GDP decreased slightly in Israel, Estonia, Australia and Poland between 2000 and 2009.

In general, Nordic countries, as well as Switzerland and Estonia, rely less on non-profits or private institutions to provide services directly to end users. In these countries, over 75% of expenditures on outsourcing are for intermediate consumption. On the contrary, Belgium, Japan and Germany rely more on the non-government sector to deliver services directly to households. In these three countries, this share of outsourcing ranged between 64% and 67% of total outsourcing expenditures in 2009.

Methodology and definitions

Data are derived from the *OECD National Accounts Database* based on the *System of National Accounts* (SNA), a set of internationally agreed concepts, definitions, classifications and rules for national accounting. In SNA terminology, general government consists of central, state and local governments, and social security funds.

The goods and services used by general government are the intermediate consumption component of government outsourcing, and include the procurement of intermediate products required for government production such as accounting or information technology (IT) services. The goods and services financed by government reflect 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).

Further reading

OECD (2010), *National Accounts at a Glance 2010*, OECD Publishing, Paris.

Figure notes

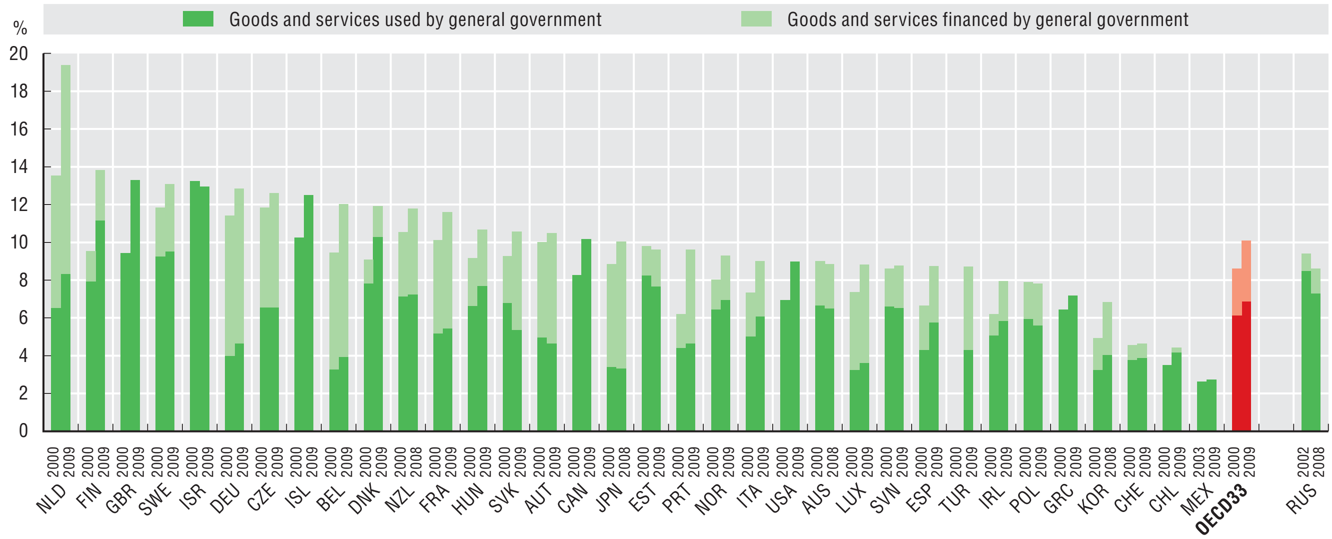
Canada, Greece, Iceland, Israel, Mexico, the United Kingdom and the United States do not account separately for goods and services financed by general government in their National Accounts.

48.1: 2000 data for Turkey are not available. OECD33 does not include Turkey. Data for Australia, Japan, Korea, and New Zealand are for 2008 rather than 2009. Data for Mexico are for 2003 rather than 2000. Data for the Russian Federation are for 2008 rather than 2009, 2002 rather than 2000.

48.2: Data for Australia, Japan, Korea, New Zealand and the Russian Federation are for 2008.

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

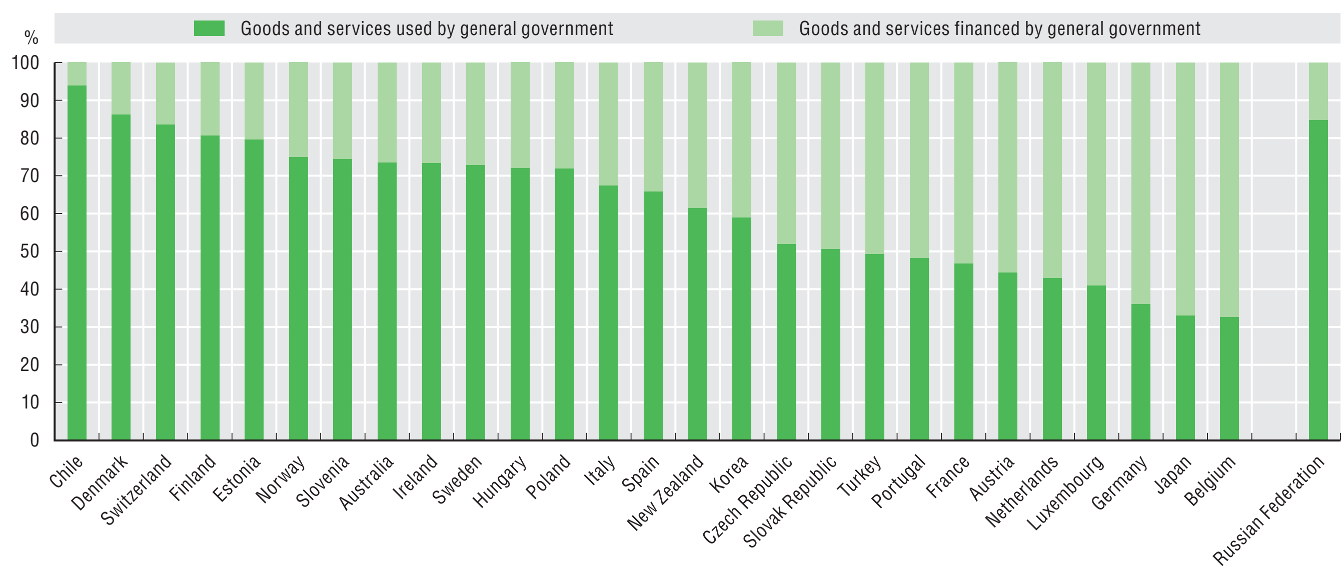
48.1 Expenditures on general government outsourcing as a percentage of GDP (2000 and 2009)



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.

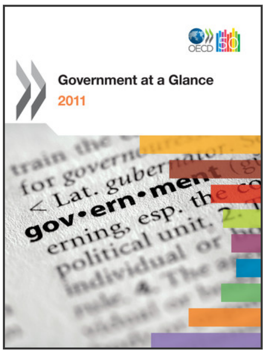
StatLink http://dx.doi.org/10.1787/888932391260

48.2 Structure of general government outsourcing expenditures (2009)



Source: *OECD National Account 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/10.1787/888932391279



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