

Production costs and outsourcing of general government

The production costs of government are public expenditures on the goods and services which government uses, primarily wages and purchases of goods and services. Government spending that does not involve a purchase – for example, social welfare, unemployment benefits and other transfers – is not a production cost. Outsourcing is the portion of government production costs which is used to buy goods and service from entities outside of government, i.e. government purchases from private companies and other agencies.

Government production costs averaged 20.6% of GDP across OECD members in 2019. Sweden (29.7%), Finland (29.6%) and Norway (28.8%), all Scandinavian countries, have the highest production costs in terms of GDP, reflecting both the widespread provision of publicly funded services and relatively high costs. Mexico spent the least in the OECD (11.8%). Among other factors, this is explained by relatively fewer services, and the wealthiest segments of the population opting for private service providers. Government production costs were largely stable in most countries from 2007 to 2019. However, they rose in all 26 countries for which data are available for 2020, with spending increases on both employee compensation and goods and services. The largest rise was in the United Kingdom (3.9 p.p. of GDP). This was driven primarily by expenditure on goods and services increasing by 2.6 p.p. (Figure 2.35).

The structure of production costs varies across countries. In 25 of 36 OECD countries, employee compensation made up the largest share in 2019, averaging 44.5% of production costs, or 9.2% of GDP. Wage expenditures are not necessarily related to either the average wage levels in a country or the structure of the government. Denmark (54.6%) and the Netherlands (29.8%) spent very different shares of production costs on employee compensation, despite having nearly identical GDP per capita. Ireland (48.4%) and Canada (48.8%) spent almost identical shares, even though Ireland has a highly centralised government and Canada a federal system. Purchases of goods and services used and financed by government are the second largest element of production costs in 25 of 36 OECD members. They averaged 42.7% of production costs, or 8.8% of GDP, in 2019 (Figure 2.36).

On average, governments spent 8.8% of GDP on outsourced expenditure in 2019 (Figure 2.37). Of this, 65% was spent contracting non-government economic actors to provide goods and services used directly by the government (e.g. government IT systems) and 35% on providing goods and services to citizens (Online Figure G.25). These may include health care, housing, transport or education. Outsourcing costs increased notably in 2020. All 26 countries with data available increased expenditure as a percentage of GDP on both categories of outsourcing in 2020 (Figure 2.37).

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.

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).

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 (2020), *OECD Economic Surveys: United Kingdom 2020*, OECD Publishing, Paris, <https://doi.org/10.1787/2f684241-en>.

OECD (2019), *OECD Economic Surveys: Sweden 2019*, OECD Publishing, Paris, <https://doi.org/10.1787/c510039b-en>.

Figure notes

Data for Japan, Brazil and Russia are for 2018 rather than 2019.

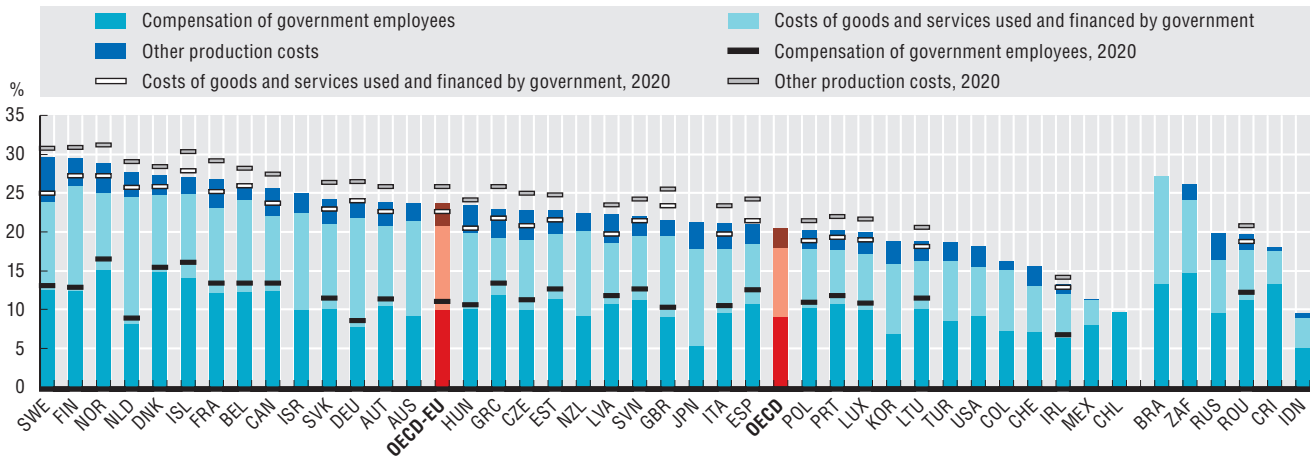
2.35. Data for Chile and Turkey are not included in the OECD average because of missing time series or main non-financial government aggregates.

2.36 and 2.37. Data for Chile are not available. Data for Turkey are not included in the OECD average because of missing time series.

2.37. Iceland, Mexico, the United States, Indonesia and South Africa do not account separately for goods and services financed by general government in their national accounts.

G.25. (Structure of government outsourcing expenditures, 2019) is available online in Annex G.

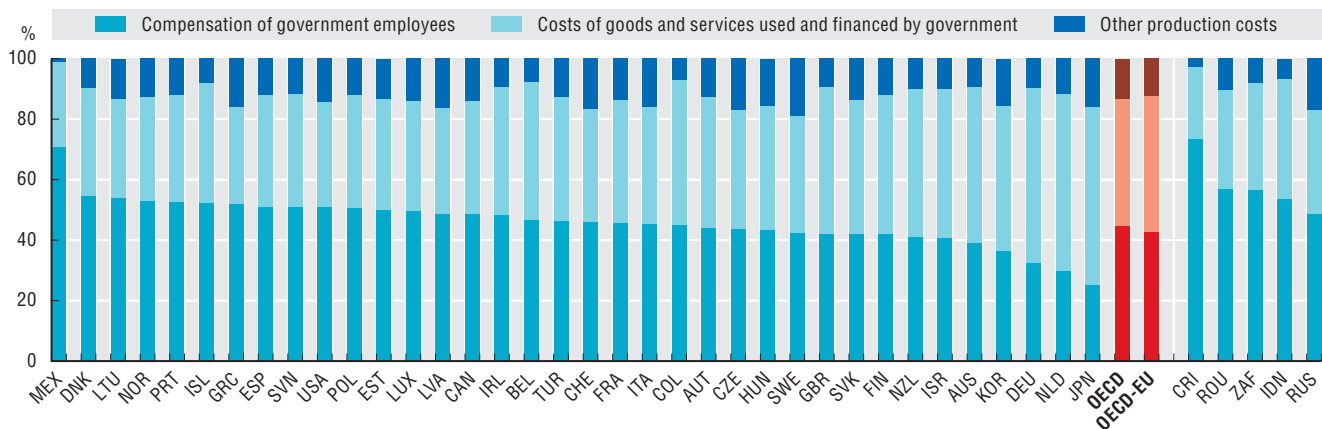
2.35. Production costs as a percentage of GDP, 2019 and 2020



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/10.1787/888934257280>

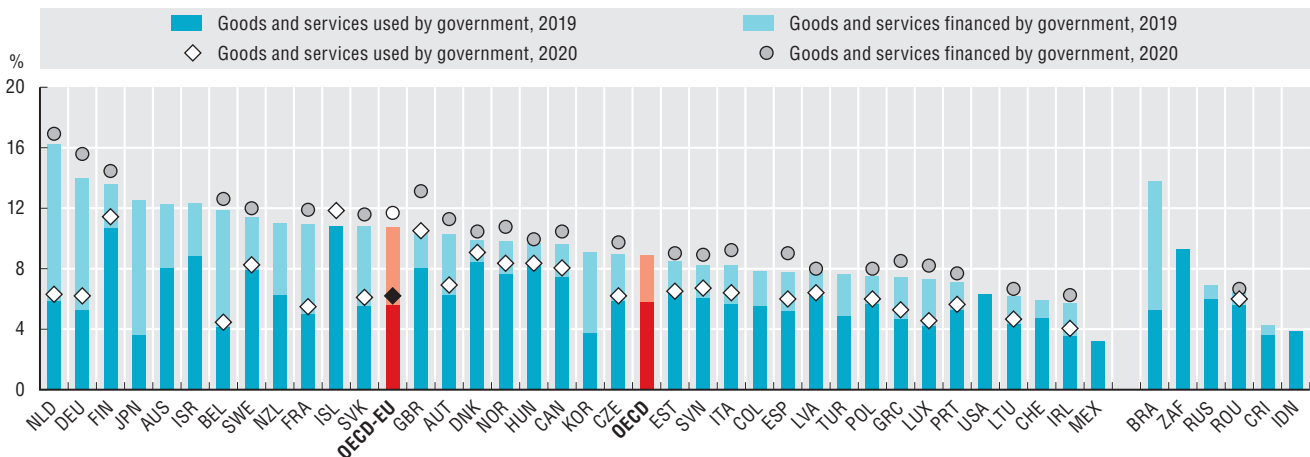
2.36. Structure of production costs, 2019



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/10.1787/888934257299>

2.37. Expenditures on general government outsourcing as a percentage of GDP, 2019 and 2020



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/10.1787/888934257318>



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