

10. PUBLIC REVENUES AND PRODUCTION COSTS

Production costs and outsourcing

The production costs of government are public expenditures on the goods and services which government uses. These costs include compensation for government employees (i.e. wages) and purchases of goods and services (e.g. supplies for schools and hospitals). They do not include government spending that does not involve a purchase of a good or service (e.g. spending on social welfare, unemployment benefits and other transfers). 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 21.6% of GDP across OECD members in 2021 (Figure 10.12). Finland (31.1%) Iceland (30.3%) and Sweden (29.5%) – all Scandinavian countries – spent the largest proportion of GDP on production costs among OECD countries. This reflects both their widespread provision of publicly funded services and their relatively high costs. Mexico (11.8%), Colombia (16.8%) and Chile (16.8%) spent the lowest proportion of GDP on production costs. Government production costs fell in 25 out of 27 countries for which data are available in 2022, by an average of 1.1% of GDP. This fall may be because some public services delivered in response to the COVID-19 pandemic were no longer needed, or because of increasing GDP as countries recovered, or both.

The structure of production costs varies somewhat across OECD countries (Figure 10.13). Average spending on compensation of government employees was 43.2% of total production costs. Most OECD countries (28 out of 37) spent between 40% and 55% of their total production costs on this area. Two countries spent substantially more than average on compensation: Mexico (72.7%) and Costa Rica (70.9%). The countries with the lowest share of spending on compensation were Japan (23.5%) and the Netherlands (29.4%). Wage expenditures are not necessarily related to structure of government. For example, Ireland (47.1%) and Canada (48.8%) spent very similar shares on compensation, even though Ireland has a unitary and centralised government and Canada a federal system. Average spending on purchases of goods and services was 44.1% of total production costs. Most OECD countries (24 out of 37) spent between 30% and 45% of their total production costs in this area.

On average, governments spent 9.5% of GDP on outsourced expenditure in 2021 (Figure 10.14). Of this, 6.2% of GDP was spent on paying non-government actors to provide goods and services used directly by the government. 3.3% of GDP was spent on goods and services provided to the public by non-government contractors, but financed by government. These might include health care, housing, transport and education. In 22 of 27 countries where data are available, outsourcing costs fell notably in 2022, by an average of 0.3% of GDP. Different expenditure structures may reflect differing national decisions as to whether goods and services are provided directly by government or instead outsourced. For example, while both governments are of similar sizes as a share of GDP, the Netherlands spends

much more on financing goods and services provided to the public by outsourced contractors (10.5% of GDP) than does Denmark (1.2% of GDP) (Figure 10.14). Mirroring this, Denmark spends a much greater proportion of production costs on compensation for government employees (53.7%) than the Netherlands (29.4%) (Figure 10.13).

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 C 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 fewer 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 (2022), *OECD Economic Surveys: Finland 2022*, OECD Publishing, Paris, <https://doi.org/10.1787/516252a7-en>.

OECD (2022), *OECD Economic Surveys: Mexico 2022*, OECD Publishing, Paris, <https://doi.org/10.1787/2e1de26c-en>.

Figure notes

Data for Türkiye are not included in the OECD average.

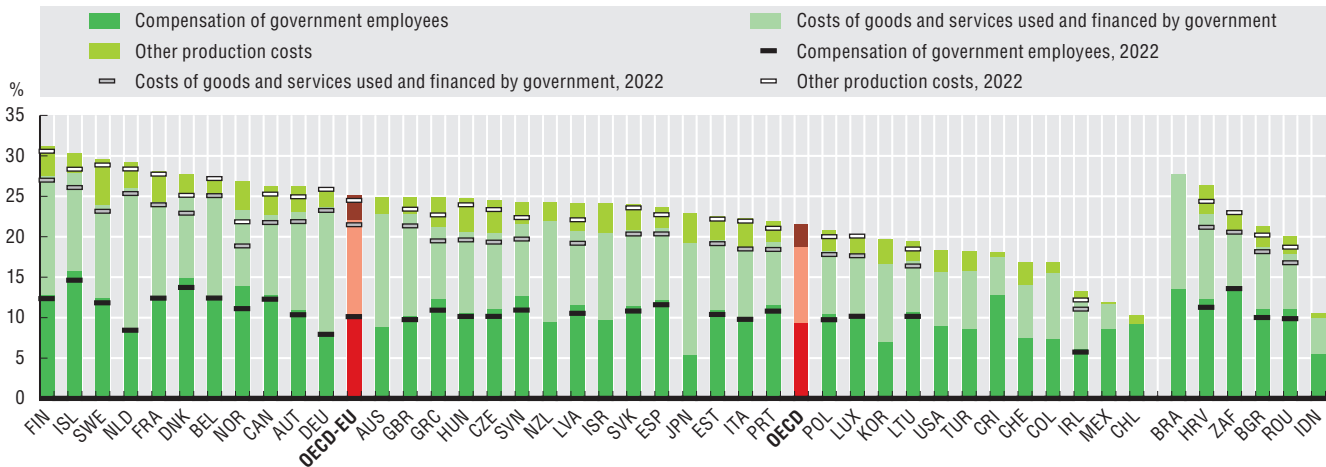
10.12. Data for Chile are not included in the OECD average. Data for Türkiye, Brazil and Indonesia are for 2020 rather than 2021.

10.13. Data for Chile are not available. Data for Türkiye and Indonesia are for 2020 rather than 2021.

10.14. Data for Chile are not available. Mexico, the United States, Indonesia and South Africa do not account separately for goods and services financed by general government in their national accounts. Data for Türkiye, Brazil and Indonesia are for 2020 rather than 2021.

G.5.5 (Structure of general government outsourcing expenditures, 2021) is available online in Annex G.

10.12. Production costs as a percentage of GDP, 2021 and 2022



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://stat.link/hunlod>

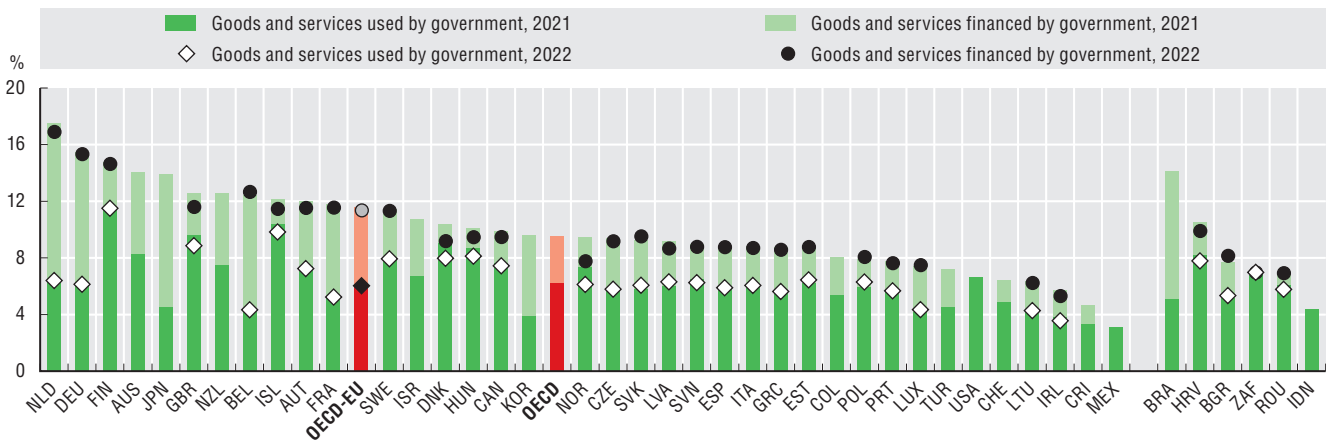
10.13. Structure of production costs, 2021



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://stat.link/tszwq0>

10.14. Expenditures on general government outsourcing as a percentage of GDP, 2021 and 2022



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://stat.link/p5jxof>



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