

## Public sector outsourcing

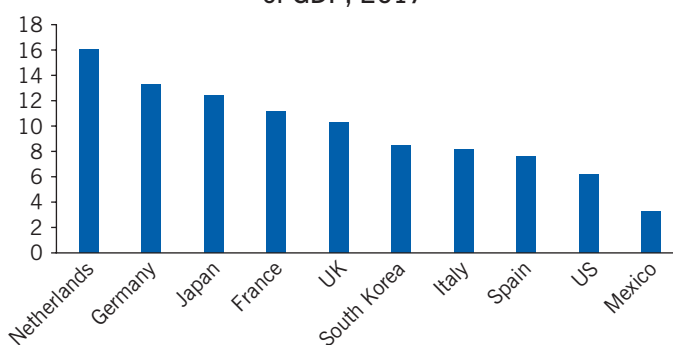
### The desirability of outsourcing the provision of public services depends on their characteristics and market conditions

Keywords: public procurement, vouchers, outsourcing, health care, education

#### ELEVATOR PITCH

The decision to outsource public provision of services is multifaceted and context dependent. Doing so tends to lower labor intensity and increase its efficiency. Costs are usually lower, but quality problems can affect services like health care, though consumer choice has stimulated innovation and quality in both education and health care. Natural monopolies are less suitable for outsourcing, while network services (public transportation) may be outsourced through public tenders. Though some jobs may be lost in the short term, the long-term effects are generally positive for a wide variety of activities.

Public sector outsourcing as a percentage of GDP, 2017



Note: Costs of goods and services used and financed by government.  
Source: Based on Figure 1.

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#### KEY FINDINGS

##### Pros

- + Private service provision is, in general, less costly than public provision.
- + Outsourcing public services can increase quality and expand consumer choice.
- + Competition in service provision stimulates innovation, for example in education and health care.

##### Cons

- Private sector cost minimization efforts risk worsening the quality of public services, depending on the type of service outsourced.
- Some public sector employees may lose their jobs.
- Natural monopolies (e.g. water supply, the electricity grid) cannot be privatized without risking a so-called hold-up problem or price hikes.

#### AUTHORS' MAIN MESSAGE

It is impossible to give uniform policy advice on outsourcing the provision of public services to the private sector. Whether that is desirable depends on the characteristics of the service and on market conditions. For instance, educational voucher systems can increase service quality and decrease costs, though some drawbacks also exist. Natural monopolies are less suitable for outsourcing, and doing so could result in higher prices and lower quality. The best course of action is for local governments to be allowed to make their own decisions based on their specific needs, circumstances, and political preferences.