

Outsourcing of Services and Productivity Growth in Goods Industries

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Abstract

Outsourcing refers to the process of replacing in-house services, such as legal, advertising, accounting, and related business services with services purchased from outside the firm. If these services have lower productivity growth rates than the production of goods, then outsourcing will increase measured productivity growth within the goods industries. To analyze this we reduce service inputs to their constituent elements of labor, capital, and goods inputs, circumventing their problem of measurement. Total factor productivity growth amounts $1.3 - 0.2 = 1.1$ percent a year over the period 1947-82 where the second term accounts for the service drag. Two thirds of the drag can be ascribed to an increase of service inputs (outsourcing) and one third to the negative productivity growth within the service sectors. The service drag was concentrated in 1977-82. Goods sectors which have rapid rates of standard total factor productivity growth have, on average, been successful in outsourcing sluggish services, but this source of sectoral productivity growth dried up in the last subperiod.