The Effect of Capitalisation on Medium Term General Government Output

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Governments need to be able to make well informed decisions on their policies, expenditures and operations. Due to the System of National Accounts 2008 concept that non market output is measured as the cost of production, but excluding any capital services beyond depreciation in this calculation, is it possible that a country, through large scale capitalisation within the general government sector could record lower growth even when their labour productivity increases?

If this occurs, governments may make decisions that result in inefficient use of their resources, ignoring innovation and technology rather than risk lower growth by heavily investing in capital stock. If this is the case then this would heighten the argument for additional capital services to be added to the cost of production, representing the greater output that is possible due to the increased capitalisation.

This paper will discuss if there is evidence that lower growth in the economy following large public sector capitalisation may have been due to the national accounts being constrained by this statistical concept rather than real world output diminishing. This paper will also discuss various options that could be considered to improve the accounting of public sector capital services.